



## **East Lindsey District Council Internal Audit Annual Report & Opinion – 2023/2024**

The Head of Internal Audit is responsible for delivering an annual opinion and report to inform the Annual Governance Statement, concluding on the adequacy and effectiveness of the Council's governance, risk and control framework.

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# 1. Role of Internal Audit

The Council is required by the Accounts and Audit (England) Regulations 2015, to:

*‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.’*

In fulfilling this requirement, the Council should have regard to the Public Sector Internal Audit Standards (PSIAS), as the internal audit standards set for local government. In addition, the Statement of on the Role of the Head of Internal Audit in Public Service Organisations, issued by CIPFA, sets out best practice and should be used to assess arrangements to improve audit quality and governance arrangements.

The role of internal audit is best summarised through its definition within the Standards, as an:

*‘Independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes’.*

East Lindsey District Council (ELDC) is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising ELDC that these arrangements are in place and operating effectively.

ELDC’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives.



Figure 1 International Professional Practice Framework (2017)

## 2. Internal Audit Approach

To enable effective outcomes, internal audit delivers a combination of assurance and consulting activities. Assurance work involved assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary. A full range of internal audit services is provided in forming the annual opinion.

As the Head of Internal Audit, I review the approach to each audit, considering the following key points:

- Level of assurance required.
- Significance of the objectives under review to the organisation's success.
- Risks inherent in the achievement of objectives.
- Level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the council on the framework of internal control, risk management and governance in operation and to stimulate improvement.

The internal audit team maintain an agile approach to auditing, seeking to maximise efficiencies and effectiveness in balancing the time and resource commitments with the necessity to provide comprehensive, compliant and value adding assurance.

Many aspects of routine audit delivery feed into the annual audit plan, which in turn support the formation of an annual opinion.

Figure 2 shows the main aspects that fed into the plan and were considered as part of the wider formation of that opinion. As Head of Internal Audit, I placed reliance on appropriate external assurance and third party assurance work which may contribute to the development of the audit plan and, by relationship between the two aspects, into the annual opinion. The International Professional Practice Framework (IPPF) provides guidance for the reliance upon such material, and this was followed in application.



Figure 2



### 3. Internal Audit Coverage

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement. Work was planned and performed to obtain sufficient evidence to provide reasonable assurance that the internal control system was operating effectively.

The 2023-2024 internal audit plan was considered by the Audit Committee periodically throughout 2023/24 to complement our approach to flexible planning. It was informed by internal audit’s own assessment of risk and materiality in addition to consultation with senior leadership to ensure it aligned to key risks facing the organisation. The plan remained fluid throughout the year to support the maintenance of effective focus and ensure that it continued to provide assurance, as required, over new or emerging challenges and risks that management need to consider, manage, and mitigate. All non-consultancy internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. The assurance opinions are categorised as follows:

<b>Substantial Assurance</b>
<p>There is a sound framework of control operating effectively to mitigate key risks, which is contributing to the achievement of business objectives.</p> <ul style="list-style-type: none"> <li>• No individual audit engagement classed as limited or no assurance.</li> <li>• Occasional medium rated risks identified in individual audit engagements although mainly low weaknesses.</li> <li>• Internal audit has confidence in management’s attitude to resolving identified issues.</li> </ul>
<b>Adequate Assurance</b>
<p>The control framework is adequate and controls to mitigate key risks which are operating effectively, although some controls need to improve to ensure business objectives are met.</p> <ul style="list-style-type: none"> <li>• Medium risk rated weaknesses identified in individual audit assignments.</li> <li>• Isolated high rated risks identified for isolated issues.</li> <li>• No critical rated risks identified through the audit programme.</li> <li>• Internal audit is broadly satisfied with management’s approach to resolving identified issues.</li> </ul>
<b>Limited Assurance</b>
<p>The control framework is not operating effectively to mitigate key risks. A number of key controls are absent and/or are not being applied to meet business objectives.</p> <ul style="list-style-type: none"> <li>• A significant number of medium and/or high rated risks identified in individual audit assignments.</li> <li>• Isolated critical and/or high rated risks identified that are not systemic.</li> <li>• Internal audit has concerns about management’s approach to resolving identified issues.</li> </ul>
<b>Low Assurance</b>
<p>A control framework is not in place to mitigate key risks. The Council is exposed to abuse, significant error or loss and/or misappropriation. Objectives are unlikely to be met.</p> <ul style="list-style-type: none"> <li>• Serious systemic control weaknesses identified through aggregation of individual audit engagements.</li> <li>• Significant number of high and/or critical rated risks identified for isolated issues.</li> <li>• Internal audit has serious concerns about management’s approach to resolving identified issues.</li> </ul>

## 4. Internal Audit Opinion

As Head of Internal Audit, I am responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform their annual governance statement. The annual opinion concludes on an independent audit opinion broken into three key areas, governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be provided, I have used the following to aid my opinion:

- ✓ Written reports on all internal audit work completed during the year (assurance and consultancy).
- ✓ Results of any follow up work undertaken in respects of previous years' internal audit work.
- ✓ The results of work from other review bodies where appropriate.
- ✓ The extent of the resources available to deliver the internal audit work.
- ✓ The quality and performance of the internal audit service and the extent of compliance with the Standards; and
- ✓ The proportion of the Council's audit need that has been covered within the period.

### Annual Audit Opinion 2023/2024

I am satisfied that sufficient assurance work has been carried out to allow me to form a conclusion on the adequacy and effectiveness of the internal control environment.

In my opinion the frameworks of governance, risk management and management controls are **adequate** and audit testing has demonstrated controls to be working in practice.

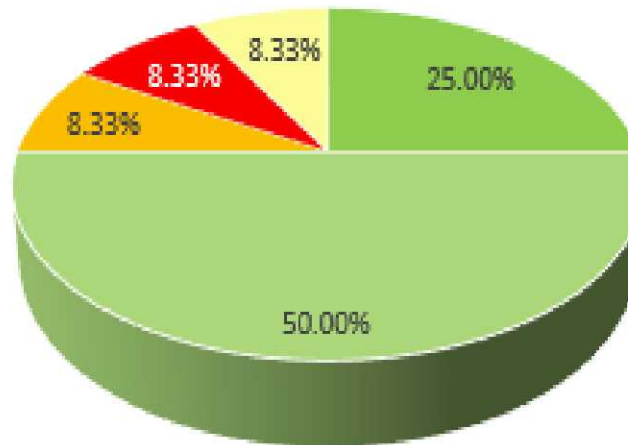
Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions within an appropriate timescale for improvement.

## 5. Key Observations on Governance, Risk & Control

### Assurance Opinion From 2023-24 Reviews

Significant findings from our reviews have been reported to the Audit Committee throughout the year and a summary of the assurance opinions is outlined below.

ELDC Audits 2023/24



■ Substantial ■ Adequate ■ Limited ■ No Assurance ■ n/a

N/A relates to consultancy work, resulting in a written report but no applicable assurance rating.

## Governance

Every assurance assignment contains a review of governance elements. Governance arrangements are considered during the planning and scoping of each review and in most cases, the scope of our work includes an overview of:

- the governance structure in place, including respective roles, responsibilities, and reporting arrangements.
- relevant policies and procedures to ensure that they are in line with requirements, regularly reviewed, approved, and appropriately publicised and accessible to officers and staff.

Based on the work completed during the year and observations through our attendance at a variety of management and governance meetings, in my opinion the governance frameworks in place across the Council are robust, fit for purpose and subject to regular review. There is also appropriate reporting to the Audit Committee to provide the opportunity for independent consideration and challenge. **There was no in year Audit Committee update and review of the Annual Governance Statement and its action plan.** Including this as a specific agenda item on the forward plan in 2024/25 will support improved governance oversight.

The audit committee plays a key role in promoting good governance, this year a self-assessment was completed, highlighting training needs. Training plans are being developed for 2024/25 to further support members to be an effective committee. Where no or limited assurance reviews were reported, the committee took a proactive role in understanding the key issues. Through early discussions with internal audit, senior management and by inviting the relevant managers to attend committee to give assurance and answer questions. This approach, from a relatively new committee membership demonstrated a robust response, in line with the committees terms of reference and good governance principles.

## Risk Management

The risk management arrangements in the Council were audited in 2023/24, covering ICT high risks, strategic risks, and fraud risks, which resulted in a substantial assurance opinion. The evidence obtained during the review demonstrated that risk management arrangements were sound, documented and embedded within the Council. Additional work has been undertaken by the councils' risk team to further develop and refine and update the risk strategy. A new partnership wide strategic risk register has been created and the risk team report their delivery and progress quarterly to the Audit Committee.

In accordance with the constitution, the Audit Committee play a key role in monitoring the effective development of risk management. This has been supported through the Committee's overview and application of the risk management strategy and of the strategic risk register which have as a regular agenda item throughout the year.



The risk registers are key documentation that is considered during the development of our risk based internal audit plan. The information in the risk registers is taken into account when scoping each review in detail to ensure that our work is appropriately focussed. In my opinion the risk framework in place across the council is fit for purpose and subject to regular and appropriate review and supports the delivery of the Council's objectives.

## **Control**

In general, internal audit work found there to be a sound control environment in place across most review areas included in the 2023/24 plan and that they worked effectively to support the delivery of corporate objectives. There was one no assurance review reported, this generated an appropriate response from management to address the issues raised. Follow up work on this review will be completed in early 2024/25, to provide assurance to the audit committee that improvements have been made.

The assurance mapping exercise provided a generally robust management view that services were operating well. Several key areas were raised by managers as requiring more assurance focus, including staffing and capacity, alignment across the partnership and resources to deliver Towns Fund and Levelling Up projects.

Across the council services, audit work found that officers and staff to be aware of the importance of effective control frameworks, and open to our suggestion for improvements or enhancements as needed. Management actions agreed as a result of each review are monitored to completion to ensure that the identified risks and issues are addressed. The key areas of challenge identified or confirmed through audit work are outlined below:

### **Procurement Cards (P- cards) No Assurance**

South Eastern Lincolnshire Council Partnership (SELCP) Senior Management requested a review of P-card controls including policy and processes after an isolated incident of suspected fraudulent activity was identified at South Holland District Council. A separate investigation was undertaken in respect of the suspected fraud incident and did not form part of the internal audit review.

The review found that whilst there were sufficient processes in place for the use of P-cards, they were not followed by all card holders and their managers. The noncompliance with procedure left the partnership exposed to an increased risk of fraudulent use or misuse of P-cards and potential financial loss through unclaimed VAT. The root cause to the noncompliance was a lack of robust monitoring of expenditure.

Actions have been implemented jointly across PSPS and the Council to address control gaps and associated risks. A new system was implemented to provide improved controls and increase manager awareness. All P-card holders and managers received refresher training.

### **Payroll Reconciliation Follow Up Review – Limited Assurance.**

The focus of this review was to follow up evidence and evaluate the implementation of management actions on outstanding recommendations from the limited assurance audit report issued in 2022.

Progress had been made but at the time of the audit (November 2023). The review found that several key management actions, arising from the previous audit review have not been implemented. This meant the risks and control gaps identified previously had remained unchanged with the Council continuing to be exposed to error and a lack of timely payroll reconciliation.

Actions have been agreed to address the findings from the review. With additional resources in place these actions can now be implemented. The revised actions will be revisited during 2024/25 to review implementation progress.

## 6. Additional Observations

### **Management Actions**

Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers. Progress is reported to the Audit Committee throughout the year through the internal audit progress reports, with high focus on areas receiving negative assurance ratings.

### **Anti-fraud and Anti-corruption**

ELDC is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image.

The Council maintains a suite of strategies and policies to support the effective management of the prevention, detection and investigation of possible fraud and corruption. During 2023/24 the audit team led on the creation of initial fraud risk registers and advised on the development of fraud risk, to be taken on as business as usual by the in-house risk team. Audit also provided advice on the updating and review of the Council's counter fraud policies.

### **Senior Leadership Team - Governance Meetings**

Every month the senior leadership team meet to review key governance issues. With a set agenda covering governance, finance, performance, risks, and the control environment. A representative from internal audit attends every meeting and has a standing item on the agenda. The meetings support management to maintain an effective oversight on governance issues and facilitates direct access to the senior leadership team for internal audit, a key element of an effective audit function.

## 7. Quality Assurance, Improvement & Performance

The Standards require the Head of the Internal Audit to develop and maintain a Quality Assurance and Improvement Programme (QAIP) to enable the internal audit service to be assessed against the Standards (2017) and the Local Government Application Note (2019) (LGAN) for conformance.

The QAIP must include provision for both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An 'External Quality Assessment' of Lincolnshire County Council's Internal Audit Service was undertaken by CIPFA in May 2022. In considering all sources of evidence the external assessment team concluded: ***'It is our opinion that the Assurance Lincolnshire Partnership's (now known as LCC Internal Audit Service,) self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.'***

### Disclosure of Non-Conformance

There are no disclosures of Non-Conformance to report. In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm that Lincolnshire County Council conforms to the definition of Internal Auditing; the Code of Ethics and the Standards.

### Quality Control

The Internal Audit Service continues to provide a service that is responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2023-2024 through the following internal processes:

- Implementation and delivery of specific training needs for all internal auditors.
- Reviewed and updated internal systems and processes covering all aspects of delivery and quality assurance.
- Development of an overarching quality assurance framework to inform future training and support needs.
- Separation of the counter fraud and internal audit functions to enable appropriate skill alignment and collaborative working opportunities to respond to risks, demands and opportunities.



## Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

<b>Lincolnshire County Council – Performance Measures</b>	
<b>Audit Management</b>	<b>Performance Measure</b>
Annual Plan presented to Audit Committee by 31 <sup>st</sup> March.	Yes
Annual Internal Audit Report presented to Audit Committee by 30 <sup>th</sup> June.	Yes
Completion of Annual Audit Plan	95%
<b>Individual Assurance Assignments</b>	
Timescales	
<ul style="list-style-type: none"> <li>• Draft report issued within 10 working days of completing audit.</li> </ul>	100%
<ul style="list-style-type: none"> <li>• Final report issued within 10 working days of closure meeting/receipt of management responses.</li> </ul>	80%
<ul style="list-style-type: none"> <li>• Individual audit assignment in timescales delivered as agreed in the latest internal audit plan.</li> </ul>	95%
Percentage of recommendations agreed.	100%
Client feedback on Audit	Excellent

## Acknowledgement

I would like to take this opportunity to give my genuine thanks to all those staff and officers throughout the Council with whom internal audit have made contact in the year. Our relationships has been positive, and management fully responsive to the comments we made, both informally and through our formal reporting.

**Appendix 1:**

Summary of assurance reviews throughout 2023/2024

<b>Substantial Assurance: A reliable system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.</b>
<ul style="list-style-type: none"><li>• Building Control</li><li>• Decision Making</li><li>• Peer Review</li></ul>
<b>Adequate Assurance: There is a generally reliable system of governance, risk management and control in place. Some issues of non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.</b>
<ul style="list-style-type: none"><li>• ICT High Risks Review</li><li>• Precepts</li><li>• Budget Setting</li><li>• Recruitment and Retention</li><li>• Uniform System</li><li>• Section 106 Follow Up</li></ul>
<b>Limited Assurance: Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.</b>
<ul style="list-style-type: none"><li>• Payroll Reconciliation Follow Up</li></ul>
<b>No Assurance: Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks in the achievement of the objectives for the area audited.</b>
<ul style="list-style-type: none"><li>• Procurement Cards</li></ul>