

SOUTH KESTEVEN DISTRICT COUNCIL

Annual internal audit report 2021/22

Draft

16 March 2022

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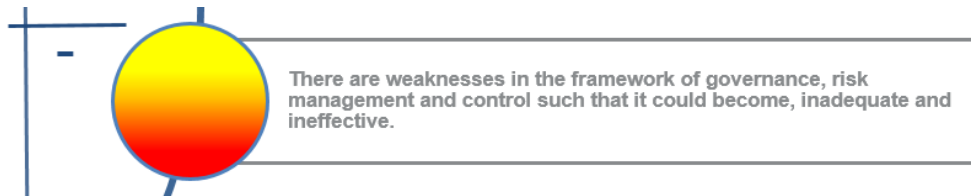


THE ANNUAL INTERNAL AUDIT OPINION

This report provides an annual internal audit opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. The opinion should contribute to the organisation's annual governance reporting.

The opinion

For the 12 months ended 31 March 2022 the Head of Internal Audit opinion for South Kesteven District Council is as follows:



Please see appendix A for the full range of annual opinions available to us in preparing this report and opinion.

It remains management's responsibility to develop and maintain a sound system of risk management, internal control and governance, and for the prevention and detection of material errors, loss or fraud. The work of internal audit should not be a substitute for management responsibility around the design and effective operation of these systems.

Scope and limitations of our work

The formation of our draft opinion is achieved through a risk-based plan of work, agreed with management and approved by the Governance and Audit Committee, our opinion is subject to inherent limitations, as detailed below:

- Internal audit has not reviewed all risks and assurances relating to the organisation;
- The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. The assurance framework is one component that the Council takes into account in making its Annual Governance Statement (AGS);
- The opinion is based on the findings and conclusions from the work undertaken, the scope of which has been agreed with management;
- Where strong levels of control have been identified, there are still instances where these may not always be effective. This may be due to human error, incorrect management judgement, management override, controls being by-passed or a reduction in compliance;
- Due to the limited scope of our audits, there may be weaknesses in the control system which we are not aware of, or which were not brought to our attention; and
- Our internal audit work for 2021/22 has continued to be undertaken through the operational disruptions caused by the Covid-19 pandemic. In undertaking our audit work, we recognise that there has been some impact on both the operations of the organisation and its risk profile; and our annual opinion should be read in this context.

FACTORS AND FINDINGS WHICH HAVE INFORMED OUR OPINION

Governance

We have taken into consideration the governance and oversight related elements of each of the reviews undertaken as part of the 2021/22 internal audit plan.

There is a sound governance framework in place, and we have observed that the Governance and Audit Committee is effective in monitoring and challenging management and holding them to account.

Risk Management

Our risk management opinion is informed by our observation of risk management systems and processes throughout the course of all audits within the Audit Plan.

The Strategic Risk Register contains those risks which may impact achievement of the Council's strategic objectives, detailing the risk driver, the effect if the risk is not managed and the risk appetite. There are seven strategic risks and for each one there is a summary of why they are a strategic risk, current circumstances, effects of risk realisation, existing controls and actions to be taken to enhance or expand those controls. The risks are discussed and reviewed by Corporate Management Team and a biannual report is presented to the Governance and Audit Committee

Internal Control

We undertook five internal audit reviews in 2021/22 which resulted in an assurance opinion. There were two reviews (40%) from which the Council could take substantial assurance, one review (20%) from which the Council could take reasonable assurance, two reviews (40%) from which the Council could take partial assurance.

During the year we raised a total of 73 management actions across assurance, advisory and follow up reviews. Of the 73 actions raised: six (8%) were 'high' priority, 26 (36%) were 'medium' priority, 35 (48%) were 'low' priority and six (8%) were 'not classified'. A total of 17 of these came from our three Continuous Assurance Visits. These controls are deemed as non-negotiable areas of compliance, that management require assurance on throughout the year on their functionality and effectiveness.

Details of the reviews where either reasonable or partial assurance could be taken are as follows:

Local Authority Searches (5.21/22) – reasonable assurance

This review identified that controls were adequately designed and operating effectively.

At the time of the audit however, the average time taken on searches was 22 working days with the government target set at 10 working days. This control was tested as part of the Continuous Assurance reviews and improvements had been identified in this turnaround time since this review was conducted.

A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

Housing Compliance – Gas, Electrical, Legionella, Asbestos and Fire Safety (7.21/22) – partial assurance

Although this review confirmed the Council had strengthened their control framework over the prior 12 months since the no assurance opinion was issued in 2020/21, significant gaps still remained in the design and adherence to controls.

The high risk areas related to delivery of training and the backlog of the electrical testing programme

Income and Banking (9.21/22) – partial assurance

This review identified gaps in the design and adherence to controls in place.

The high risk areas related to the absence of controls around reconciling cash collections, security of cash taken from markets and safe storage of cheques at the Council.

Topics judged relevant for consideration as part of the Annual Governance Statement (AGS)

There were two areas (Housing Compliance, and Income and Banking), as detailed in Appendix B where only partial assurance could be taken over the effectiveness of controls in place. The AGS should therefore include appropriate detail regarding the weaknesses identified and any actions that have already been taken by the Council to address the issues identified as part of audits where no, or partial assurance had been provided.

The AGS should also consider the current COVID19 pandemic and its impact on the operations of the Council.

THE BASIS OF OUR INTERNAL AUDIT OPINION

As well as those headlines previously discussed, the following areas have helped to inform our opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

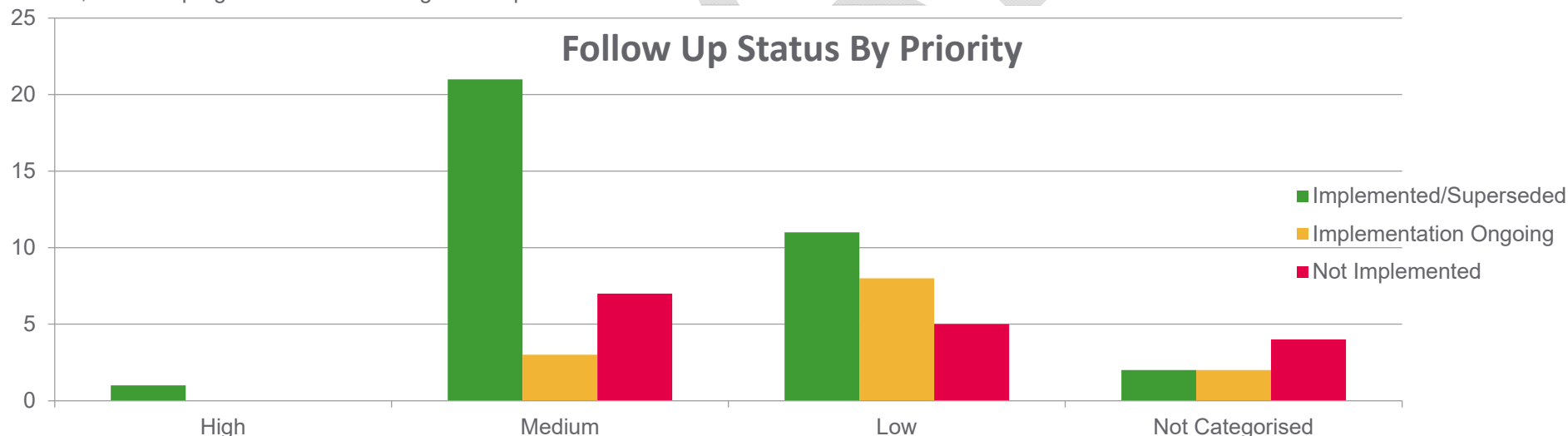
Acceptance of internal audit management actions

Management have agreed actions to address most of the findings reported by the internal audit service during 2021/22. This is with the exception of two findings raised as part of the Income and Banking review where management did not consider there to be a risk and therefore no action was deemed necessary. These related to receiving and processing of cheques, and the safe storage of cheques. In forming our opinion we have not placed any direct reliance on other assurance providers.

Implementation of internal audit management actions

Where actions have been agreed by management, these have been monitored by management through the action tracking process in place (4Action). During the year progress has been reported to the Governance and Audit Committee, with the validation of the action status confirmed by internal audit through four follow up reviews.

Our follow up of the actions agreed to address previous years' internal audit findings shows that the Council had made reasonable progress in three of the reviews, and little progress in the remaining follow up.



Working with other assurance providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

OUR PERFORMANCE

Conflicts of interest

RSM has not undertaken any work or activity during 2021/22 that would lead us to declare any conflict of interest.

Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2021 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF), and the Internal Audit Code of Practice, as published by the Global Institute of Internal Auditors (IIA) and the Chartered IIA, on which PSIAS is based.

The external review concluded that RSM 'generally conforms*' to the requirements of the IIA Standards' and that 'RSM IA also generally conforms with the other Professional Standards and the IIA Code of Ethics. There were no instances of non-conformance with any of the Professional Standards'.

* The rating of 'generally conforms' is the highest rating that can be achieved, in line with the IIA's EQA assessment model.

Quality assurance and continual improvement

To ensure that RSM remains compliant with the PSIAS framework we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews are used to inform the training needs of our audit teams.

Resulting from the programme in 2021/22, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

In addition to this, any feedback we receive from our post assignment surveys, client feedback, appraisal processes and training needs assessments is also taken into consideration to continually improve the service we provide and inform any training requirements.

Performance indicators

Delivery

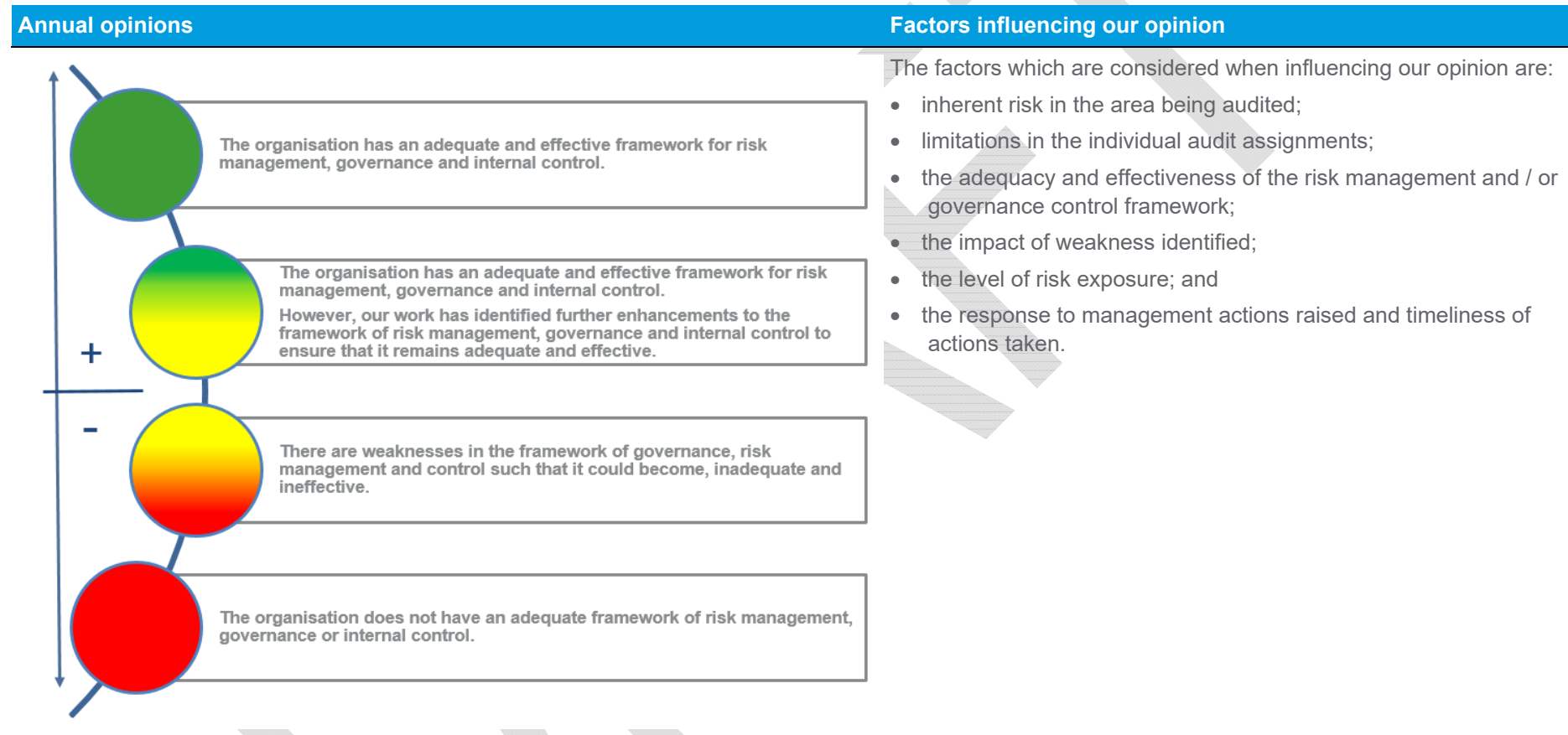
Quality

	Target	Actual		Target	Actual
Audits commenced in line with original timescales*	Yes	Yes	Conformance with PSIAS and IIA Standards	Yes	Yes
Draft reports issued within 10 days of debrief meeting	100%	6	Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit	Yes	N/A
Management responses received within 10 days of draft report	100%	14	Response time for all general enquiries for assistance	2 working days	Yes
Final report issued within 3 days of management response	100%	1	Response for emergencies and potential fraud	1 working day	N/A

* This takes into account changes agreed by management and the Governance and Audit Committee during the year; reflecting our 'agile' / 'flexible' approach to our service delivery.





APPENDIX A: ANNUAL OPINIONS


The following shows the full range of opinions available to us within our internal audit methodology to provide you with context regarding your annual internal audit opinion.



APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2021/22

All of the assurance levels and outcomes provided above should be considered in the context of the scope, and the limitation of scope, set out in the individual assignment report.

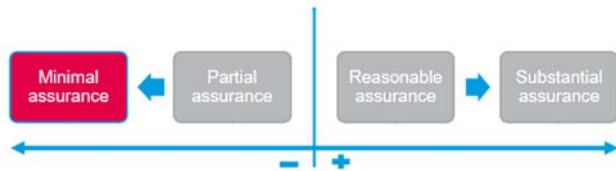
Assignment	Executive lead	Assurance level	Actions agreed			
			L	M	H	N/A
Disabled Facilities Grants (2.21/22)	Director of Finance		0	0	0	0
Follow Up (3.21/22)	Director of Finance	Reasonable Progress	2	1	0	6
Continuous Assurance Visit 1 (4.21/22)	Director of Finance	No opinion provided for Continuous Assurance	2	3	0	0
Local Authority Searches (5.21/22)	Deputy Chief Executive		1	2	0	0
Follow Up 2 (6.21/22)	Director of Finance	Reasonable Progress	1	3	0	0
Housing Compliance – Gas, Electrical, Legionella, Asbestos and Fire Safety (7.21/22)	Director of Housing and Property		0	4	2	0
Continuous Assurance Visit 2 (8.21/22)	Director of Finance	No opinion provided for Continuous Assurance	6	2	1	0
Income and Banking (9.21/22)	Director of Finance		5	2	3	0
Council Owned Companies (10.21/22)	Director of Finance	Advisory Review	3	2	0	0

Assignment	Executive lead	Assurance level	Actions agreed			
			L	M	H	N/A
Medium Term Financial Plan (11.21/22)	Director of Finance		2	0	0	0
Follow Up 3 (12.21/22)	Director of Finance	Little Progress	3	6	0	0
Follow Up 4 (14.21/22)	Director of Finance	Reasonable Progress	7	0	0	0
Continuous Assurance 4 (15.21/22)	Director of Finance	No opinion provided for Continuous Assurance	3	0	0	0

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APPENDIX C: OPINION CLASSIFICATION

We use the following levels of opinion classification within our internal audit reports, reflecting the level of assurance the board can take:



Taking account of the issues identified, the board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.

Urgent action is needed to strengthen the control framework to manage the identified risk(s).



Taking account of the issues identified, the board can take partial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.

Action is needed to strengthen the control framework to manage the identified risk(s).



Taking account of the issues identified, the board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk(s).



Taking account of the issues identified, the board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

YOUR INTERNAL AUDIT TEAM

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of South Kesteven District Council, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM UK Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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