

# Internal Audit Annual Report 2022/23



## South Kesteven District Council

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This report has been prepared solely for the use of Members and Management of South Kesteven District 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 on 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. The report will include:

- 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 ending 31 March 2023, the council's arrangement for governance and risk performed adequately.

It has been another challenging year for the Council operating in times of economic pressure locally and nationally.

Based on the work internal audit delivered and wider information obtained from other assurance sources, the HIA's opinion on the adequacy and effectiveness of the Council's arrangements for governance, risk management and control are deemed as:

### Governance



### Performing Adequately–

Some improvements identified over the Council's Governance, Risk and Control framework to manage medium risks across the Council

### Risk



### Performing Adequately –

Some improvements identified over the Council's Governance, Risk and Control framework to manage medium risks across the Council

### Internal Control



### Performing Adequately –

Some improvements identified over the Council's Governance, Risk and Control framework to manage medium risks across the Council

### Financial Control



### Performing Inadequately

Improvement required to manage a significant governance issue or high risk in a specific business area or medium risk across the Council



*"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.

To achieve good governance, each Council should be able to demonstrate that its governance structures comply with the Chartered Institute of Public Finance Accountants (CIPFA) Delivering Good Governance in Local Government Framework, published in April 2016, and the Governance Risk and Resilience Framework 2021.

The internal audit service conducted a review of the governance framework that included identifying and gathering of key policies, strategies, processes and discussion with key staff.

From this work the audit service deemed that the Council is in the process of making significant improvements to its governance processes. These include an update to its constitution and close alignment with the CIPFA Good Governance Framework and Governance Risk and Resilience Framework.

Audit found that the Council's governance and decision-making arrangements align with the CIPFA Good Governance Framework and Governance Risk and Resilience Framework.

There is recognition that the Council is continuing with the improvements demonstrated throughout the year.

Further time is required for the new arrangements to become embedded, and the Council has action plans in place to support this which have arising from other external reviews.

Identified examples of good practice include:

- The publication of key information to meet the requirements of the Transparency Code.
- Consultation work with stakeholders including Community Governance Review for Grantham and the Food Waste Trial.
- A risk management framework with quarterly interaction between the risk management group and senior leadership.
- The Council's Constitution provides clarity over the Councils decision-making process with the flexibility to adjust work plans to address emerging issues.

The internal audit service identified some areas where arrangements could be strengthened. These include the design, agreement and publication of an IT strategy and a communications strategy. The website will be updated to include the most recently approved version of strategies, policies and frameworks.



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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 and report these in its Annual Governance Statement. This is in the interests of accountability and transparency.

The 2022/23 Annual Governance Statement (AGS) had not been finalised at the time of writing this report.

The 2021/22 Internal Audit Annual Report identified the following points for inclusion in the 2022 Annual Governance Statement:

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

*There were two areas (housing compliance, and income and banking), 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.*

Internal audit can confirm that these actions are referenced but not explicitly recorded as

measurable actions in the 2022 Annual Governance Statement.

It is important that significant governance issues raised by internal audit and recommended for inclusion in the AGS are fully included, recorded and monitored.

The Governance and Audit Committee have a key role to play in maintaining oversight of these actions and recommendations made by internal audit.

The External Audit completion review, reported to Governance and Audit Committee in March 2022, is work in progress but it raises no significant issues against risk or value for money.

**Assurance Lincolnshire are recommending that significant governance issues raised by Internal Audit are specifically included in the Annual Governance Statement action plan. Such issues should be regularly reported upon and action plans updated for the Governance and Audit Committee.**

# Governance



*"Achieving the intended outcomes while acting in the public interest at all times"*

"

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

The Grant Thornton Lessons Learned From Public Interest Reports, part two, issued in September 2022, highlights several key themes that are common to councils experiencing significant governance failings. One of these themes is an ineffective Audit Committee.

Internal audit found that the programme of work and reports presented to the Governance and Audit Committee reflects the terms of reference and are well managed.

It is the opinion of the internal audit service that behaviours displayed during 2022/23 are seen as high risk. It is observed and noted that during meetings the focus on governance and risk matters can be impacted by the behaviour of some members in attendance.

The meetings held in June, September and November 2022 and January 2023 were each disrupted by members of the Committee and non-members of the Committee interrupting each other and interrupting officers. There were instances of arguing with each other in the public meetings and using disrespectful language. It is internal audit's view that this conduct went

beyond the bounds of robust discussion and challenge.

Such exhibited behaviours at the meetings is detrimental to the core business and remit of the Committee. The remit and core business is to provide oversight and support on the governance, risk and control environment.

**Internal Audit are recommending that training for members of the Governance and Audit Committee includes a focus on conduct and best practice in what makes an effective committee.**

**The Council and Chairman should review the attendance for any non-committee members and consider whether their involvement at the committee supports or impairs the effectiveness of carrying out its remit. The training and review should be reported within the Annual Governance Statement Action Plan.**

## Governance assurance



**Assessed as  
Performing Adequately**

# Risk



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

A key indicator for good governance and assurance on the Council's delivery for corporate aims, service delivery and project management is having effective risk management systems in place, considering the organisational risk appetite.

Good risk management supports effective decision making and is a key part of both service delivery and achieving the Council's strategic priorities. A systematic and consistent approach to risk management will help ensure a culture of 'no surprises' minimising the effect of threats.

Overall, audit found that risk management is appropriately managed and that the relevant processes currently in place are operating effectively to reduce the impact of risk. This is supported through several areas of good practice including:

- A documented and Committee approved, Risk Management Framework which covers the period 2021-2023.
- A maintained Strategic Risk Register which contains key risks that could directly affect achievement of the Council's strategic objectives.
- The strategic risks are reviewed bi-annually by the Corporate Management Team (CMT) and the Governance and Audit Committee. This ensures oversight and awareness of risks.
- There is regular risk reporting to the Governance and Audit Committee with updates providing assurance on the effectiveness of the Council's arrangements.

- The strategic risks and controls are tracked using software which provides real time presentation.

Internal Audit identified some improvements to the risk process which included work to further embed the discussion of risk within Committee meetings and to include risk training as part of the induction process.

Fraud risk is prevalent across all Local Authorities and as part of good risk management practice a regular review of fraud risk and associated mitigations should be undertaken and subject to oversight at the Corporate Management Team(CMT) and Governance & Audit Committee.

**We are recommending that an up-to-date fraud risk register is presented to the Governance and Audit Committee and forms part of the regular reporting and overview of risk management.**

## Risk Management Assurance



**Assessed as Performing Adequately**

# Internal Control



We take account of the outcome of our audit work during the 2022/23 year. The assurance levels give insight into the Council's control environment.

Our opinion is based on the outcome of our internal audit work and the combined assurance work as well as other sources.

During the year 2022/23 we reviewed the following areas:

- Good Governance – Substantial Assurance
- Risk Management - Substantial Assurance
- Cyber Security – Substantial Assurance
- Health and Safety – Substantial Assurance
- Programme Management – Consultancy
- Housing Voids issues Substantial Assurance
- Housing Voids performance – Limited Assurance

The limited assurance awarded to housing voids performance was determined by the service reporting that they were missing performance targets and that planned improvements had not had time to fully embedded.

Internal audit made 94 high, medium and low priority recommendations for improvement. 66 actions were agreed to address these. The difference in number is due to some management actions covering more than one audit recommendation.

As of September 2023, of the 66 management actions referred to above, **53%** had been implemented. Internal audit will continue to monitor the outstanding actions and report results within future progress reports.

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

The outcome of our internal audit work, the self-assessment of the combined assurance work and intelligence gathered through reviewing further documents provided by the Council and within the public domain has been considered in the Head of Internal Audit's opinion on internal control.

## Internal Control Assurance



**Assessed as Performing Adequately**



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

Our work provides an important assurance element to support the External Auditor's opinion on the Council's Statement of Accounts.

During the year internal audit reviewed the following finance services -

- Capital Programme - Substantial
- Accounts Payable – Substantial
- Accounts Received – Low Assurance

Arising from the accounts receivable assurance review, a number of issues were identified. These included:

- No internal policy for management of sundry debts.
- Limitations in enabling segregation of duties.
- A lack of approval process, checking and monitoring of credit notes.
- No reporting, monitoring or checking of bad debt write-offs.
- Breach of financial procedure rules in respect of approving the writing off for bad debts.
- Weaknesses in the processes for setting up and approving new customers.
- Lack of monitoring and reporting of refunds.
- Inaccurate performance monitoring data.

**Internal audit are recommending that the Annual Governance Statement's action plan is updated to include the details of finding and actions arising from the accounts receivable. And that the Governance and Audit Committee receive regular action plan updates.**

CIPFA's Financial Management Code (FM Code) sets out the minimum standards of financial management councils should achieve.

Management have carried out a self assessment against the FM Code and identified several areas for improvement.

An action plan to address these was reported to the Governance and Audit Committee in January 2022. It stated that six monthly progress reports would be provided to monitor progress against actions. Internal audit could not evidence that any further reports had been provided to the Governance and Audit Committee to enable the committee to monitor progress made in line with the action plan. This lack of formal reporting relating to financial controls, has impacted upon the Head of Internal Audit's opinion for financial controls.

Management have confirmed the action plan is due to form part of the 2023/24 Governance and Audit Committee work plan to allow commencement of oversight and monitoring of improvement action from the previous financial year.

Information seen by the internal audit service, after it had been released to the public, demonstrated that financial controls had not been sufficient to identify concerns operating within the market service operations. The lack of transparency around the inadequacies of financial controls has impacted upon the Head of Internal Audit's opinion for financial controls.

# Financial Control



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

Our work provides an important assurance element to support the External Auditor's opinion on the Council's Statement of Accounts.

The external auditors report for 21/22 was not finalised at the time of writing this report. This is due to nationwide ongoing delays through the external audit process. The interim report was shared with the Governance and Audit Committee in November 2022.

Although not complete the report indicated no significant issues and anticipating an unqualified audit opinion on the financial statements.

## Financial Control Assurance



**Assessed as  
Improvement Needed**

## 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

Internal audit's risk-based delivery plan was prepared considering the critical activities and key risks to support the basis of the head of Internal Audit's annual opinion. The plan has remained flexible to enable audit to respond to any emerging risks or provide assurance on activities that increase in priority.

The Governance and Audit Committee approved the 2022/23 original audit plan of 142 days in March 2022. The internal audit service delivered 97% of the revised plan. More details on the plan can be found in appendix 1.

## Restriction on Scope

During 2022-23, when carrying out internal audit work no unexpected restrictions to the scope of our work were identified.

During 2023-24, when collating and reviewing information to inform the Internal Audit Annual Report, documentation requested was withheld from the Head of Internal Audit. A subsequent report and action plan were placed into the public domain. Internal audit were, at this point, able to consider the report and actions in the Annual Audit Opinion from this point. As a result of the publication timings, this did not restrict the assessment on the adequacy of governance, risk and internal control.

There were changes made to the planned audits throughout the year. These included postponing the Housing Income and HRA Building Programme reviews. Management have requested that housing income is included in the 2023/24 plans.

## 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 audit staff have worked with the Council to develop the assurance mapping process. Auditors have met with managers to map the Council's critical areas, projects, risks and partnerships.

Internal audit will look to further develop the process, with management support, to ensure that effective assurance and risk oversight strengthen the monitoring of governance and control.

During the assurance work, the following areas were self-assessed as having a low assurance:

### **Culture and Leisure service**

- Street lighting
- Wyndham Park Visitor Centre, facilities and volunteers.

### **Planning and Economic Development service**

- Building Control.

### **Operations and Public Protection service**

- Workshop / fleet maintenance.

### **Key Projects**

- St Martins Park



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.

## Quality Assurance

Audit's commitment to quality begins with the recruitment, development and deployment of appropriately skilled and knowledgeable professionals to undertake your audits.

The internal audit service is fully compliant with the Public Sector Internal Audit Standards. To ensure compliance with the Standards we deliver training across the team and have plans in place to monitor expected improvements within our audit quality and delivery.

During 2022/23 Assurance Lincolnshire continued to build upon the strong focus on developing the next generation of audit and risk professionals. To achievement this the service has:

- Recruited new audit officers and seniors for our audit team.
- Enrolled six colleagues on an IIA approved apprenticeship where they are working towards a professional audit qualification.
- Realigned our team's client coverage to strengthen client understanding and liaison.

Current audit practice includes ongoing quality reviews for each of our assignments. These reviews examine the work undertaken, from initial planning through to evidence sufficiency and quality reporting. Internal performance indicators have been specified which include the

assignment being completed on time, within budget and to the required quality standard.

Assurance Lincolnshire continues to reassess the approach to planning and understanding risk with the intention of improving work quality and timeliness of delivery.

All public sector internal audit services are required to measure how well they conform to the UK Public Sector Internal Audit Standards. An External Quality Assessment must be undertaken every 5 years; Assurance Lincolnshire's second external assessment was undertaken in February 2022. They concluded that:

*"the Assurance Lincolnshire Partnership's 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".*

No significant improvement recommendations were made. The final report from the External Quality Assessment was shared with the Committee.

## 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 quality assurance framework helps us to maintain a continuous improvement plan, which comprises of the following:

- **Workforce strategy** – building capacity and growing our own talent in both leadership and professional skills
- **Improving the audit process** - working with client senior management to improve progress and delivery of audits in a remote (hybrid) working environment
- **Continuing professional development** - around new and emerging practice guidance
- **Enhance digital capabilities** - in line with our digital strategy, including data analytics

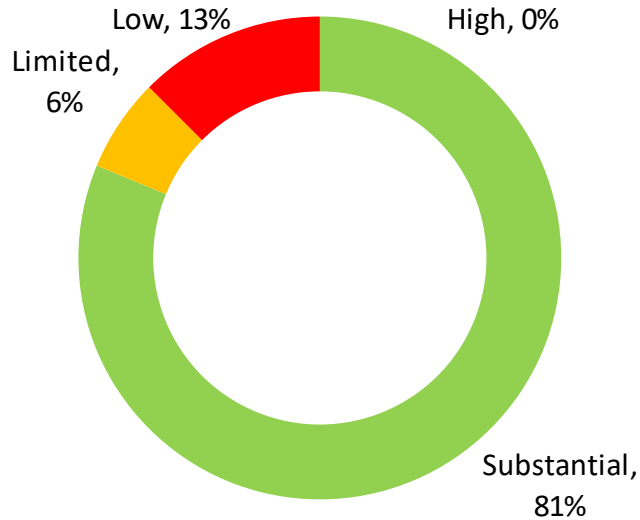
## External Audit

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 closely together. Where possible, external audit may use the results of internal audit work where it is appropriate.

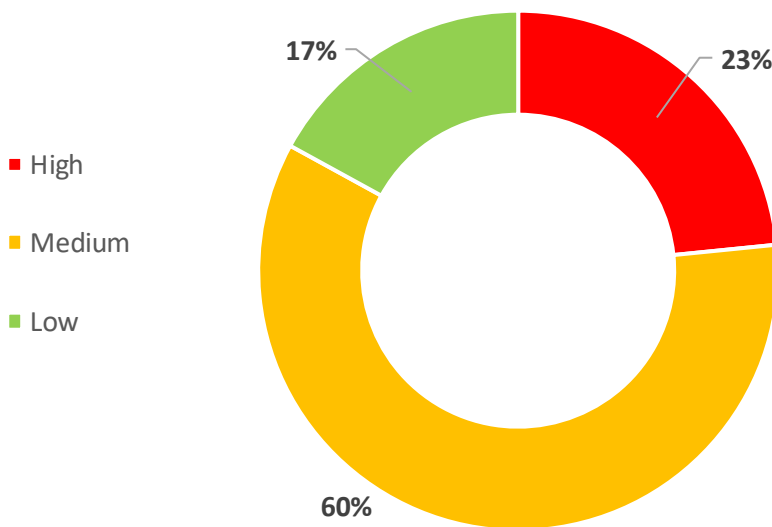


The assurance levels and type of recommendations give an insight on the application of the Council's control environment and forms part of the evidence that helped inform the overall annual opinion.

## Assurances



## Recommendations



Further details can be found at appendix 1



Internal Audit's performance is measured against a range of indicators. The table at 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 delivery of the revised plan and the added value of our work.

### Performance on Key Indicators

**100%**

Of revised  
plan delivered

**53%**

Of agreed  
actions  
implemented

**100%**

Of key financial  
systems  
delivered



The audit plan originally agreed by the Audit & Governance Committee was for 142 days. A small number of audits were removed from the original audit plan leaving 130 days in the revised plan. This was due to re-prioritising audit resources to those areas of highest risk.

Below are the areas that were removed from the original plan:

- Housing Income
- HRA Building Programme

The annual audit plan remains flexible with a process to postpone and change audits. This means we can adapt our plan to support emerging risks and priority changes whilst maintaining control and transparency. All changes must be approved by management and the Governance and Audit Committee.

## Performance on Key Indicators

Performance Indicator	Annual Target	Actual
Percentage of plan completed (based on revised plan)	100%	97%
Percentage of recommendations agreed	100%	100%
Percentage of recommendations implemented	100% or escalated	53%
<b>Timescales:</b>		
Draft Report issued within 10 days of completion	100%	50%*
Final Report issued within 5 days of management response	100%	67%*
Draft Report issued within 2 months of fieldwork commencing	80%	50%**

\*Capacity within the Audit Team resulted in three draft reports and two final reports not being turned around as quickly as expected.

\*\*The reasons include capacity within the Audit Team (2), client delays (1). The other was a consultancy piece of work.

**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).