



SOUTH
KESTEVEN
DISTRICT
COUNCIL



Governance and Audit Committee

26 September 2023

Report of the Leader of the Council

Management Response to the Internal Audit Annual Report 2022/23

Report Author

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Purpose of Report

This report has been prepared to respond to the Internal Audit Annual Report 2022/23 that is scheduled to be presented to Governance and Audit Committee.

Recommendations

- 1. Governance and Audit Committee is asked to note the contents of this report in conjunction with the Internal Audit Annual Report 2022/23.**

Decision Information

Does the report contain any exempt or confidential information not for publication?

No

What are the relevant corporate priorities?

High performing Council

Which wards are impacted?

All

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance and Procurement

1.1 There are no specific financial comments arising from this report.

Completed by: Alison Hall-Wright, Assistant Director of Finance

Legal and Governance

1.2 As set out in Article 9 of Part 2 of the Constitution, one of the functions of the Governance and Audit Committee is to receive the annual report and opinion of the Head of Internal Audit. The Governance and Audit Committee is therefore invited to consider and note the content of the report by the Head of Internal Audit, attached separately as part of this agenda item.

1.3 Additionally, the Committee is invited to consider the content of this report which sets out responses on behalf of the Council's senior management to the Head of Internal Audit's report.

Completed by: Graham Watts, Assistant Director of Governance and Monitoring Officer

Risk and Mitigation

1.4 It is important that Internal Audit Annual Report reflects accurately the Council's governance, risk, and control framework.

Completed by: Tracey Elliott, Governance and Risk Officer

2. Background to the Report

2.1 Each year the Council receives an annual audit report from the appointed internal auditors that provides an opinion on the adequacy and effectiveness of the Council's systems of internal control, governance and risk management and the body of evidence to support the opinion. The overall purpose being:

- Provide the Head of Internal Audit annual internal audit opinion which is based on an objective assessment of the framework of the Council's governance, risk management and control. This opinion is an integral part of the Council's

governance framework, providing assurance to inform the Annual Governance Statement, and identifying improvement opportunities.

- Summarise the activities of internal audit for the period under review.
- Highlight any areas of significant risk exposure requiring improvement to enhance the internal control framework.
- Consider the performance and contribution of the Internal Audit service

Annual Report

Appendix 1 of the Annual Report details that during the last financial year eight assurance reviews were undertaken of which six received positive assurance and two were classified as lower assurance opinions.

In overall terms the Annual Report is welcomed by senior management and the report captures the positive work undertaken during the last financial year to strengthen and maintain the governance framework. However, there has been an ongoing difference of opinion between senior management and Assurance Lincolnshire (AL) since the report was produced in respect of the financial control assurance. A draft annual report was received on 1 June 2023 (although incomplete as awaiting completion of the Accounts Receivable (Debtors) report) and officers immediately requested a meeting with AL to discuss the contents of the report.

A meeting took place with AL on 7 June 2023 in which concerns were raised by senior management on the accuracy and contents of the draft report. A final version was received on 21 July 2023 with only minor changes and no changes to the areas of concern.

Specifically, concerns were expressed by senior management regarding the overall rating awarded to the financial control assurance 'assessed as improvement needed'. It is considered that the rating given is not proportionate to the overall findings of the three specific internal audits that were undertaken to provide the Head of Internal Audit the necessary evidence.

The areas selected by AL were Capital Programme, Accounts Payable and Accounts Receivable. Given the assurance levels given by AL (detailed below) senior management contacted the Head of Internal Audit to ask for reconsideration of the financial control rating to take into consideration a broader perspective of the financial control framework as it appeared that the accounts receivable scoring has had a disproportionate impact on the overall financial control assurance.

In detail the audits undertaken by AL within the financial control heading are:

- Capital Programme – substantial assurance given, 4 recommendations
- Accounts Payable – substantial assurance given, 1 recommendation

- Accounts Receivable (Debtors) – low assurance given, 9 recommendations

In terms of context, and notwithstanding the fact that management do not agree with some of the risk scores given to the Accounts Receivable audit, concern was expressed that proportionally accounts receivable only accounts for 1.9% of the overall collectable debt the Council raised in the financial year 2022/23.

Moreover, of the three audits undertaken, the audited Capital Programme had a combined budget of £32m, Accounts Payable £43m whilst Accounts Receivable is only £3.2m.

The request for reconsideration of the rating was not supported by AL and further narratives in the report were given as contributory reasons for the financial scoring. These were referenced as the Financial Code commentary and the Markets Action Plan.

Within the narrative under the Financial Control section, reference is made to the Financial Management Code report that was presented to the Committee on 26 January 2022. This was part of the 2021/22 audit report and should not feature, or have any impact, on the 2022/23 opinion. In addition, the minuted action from the meeting was:

That the Governance and Audit Committee noted the progress made in respect of the Financial Management Code Action Plan.

Whilst the report presented to Members suggested that six monthly reports could be provided, this is not supported by the Committee (as detailed in the published minute). Therefore, the commentary in the Annual Report regarding six monthly updates was not requested by the Committee and is therefore an incorrect comment.

The report also includes references to the Markets Action Plan and financial controls. The report was presented to the Committee on 14 June 2023 and so should not feature in the 2022/23 annual report. The Market Action Plan did not identify any financial control issues, or financial irregularities, and therefore has no impact on the financial opinion in any event.

Accounts Receivable (Debtors)

Management has disputed the ratings from this audit since the draft was produced. A meeting was requested by management and took place in an attempt to mediate a re-drafting of the report, and its findings, to more accurately reflect the assurance levels presented by AL. Unfortunately, this did not result in any material change to the ratings given but management has provided its rating status alongside each of the actions.

In summary of the 40 actions agreed, 18 have been completed, 9 are in progress and the remaining 13 are system limitations which will be resolved once the new accounts receivable system is live in April 2024.