

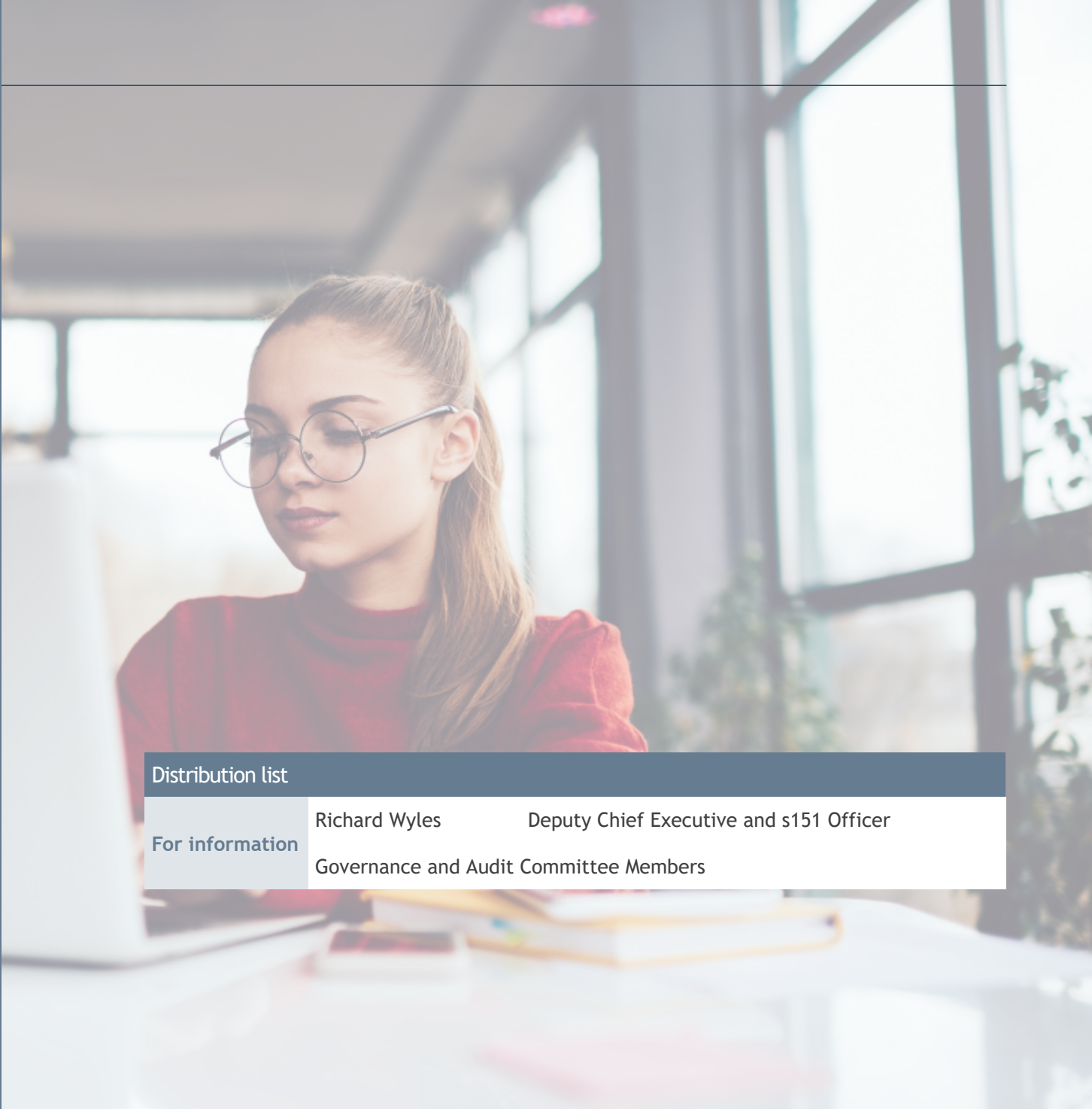
South Kesteven District Council
Internal Audit Annual Report and Opinion
June 2026

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Restrictions of Use

The matters raised in this report are only those which came to our attention during our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.



Distribution list		
For information	Richard Wyles	Deputy Chief Executive and s151 Officer
	Governance and Audit Committee Members	

1.Executive summary

Introduction

Role of Internal Audit

Internal auditing strengthens the organisation’s ability to create, protect, and sustain value by providing Full Council* and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The primary responsibility of the internal audit service is to provide the Board with assurance on the adequacy and effectiveness of risk management, control and governance arrangements.

Responsibility for these arrangements remains fully with management, who should recognise that internal audit can only provide a reasonable level of assurance and cannot provide any guarantee against material errors, loss or fraud. Internal audit also plays a valuable role in helping management improve risk management control and governance, so reducing the effects of any significant risks faced by the organisation.

Full Council is ultimately responsible for the system of internal control and the management of risk, including reviewing the effectiveness of internal control. Management is responsible for implementing board policies on risk and control, achieved by designing, operating and monitoring a suitable system of internal control and risk management. All employees have some responsibility for internal control, in that they are all accountable for achieving objectives and should also understand the risk implications of the activities they perform.

*The Global Internal Audit Standards (GIAS) refer to the ‘board’ as ‘the highest-level body charged with governance.’ For South Kesteven District Council, ‘the board’ is the Governance and Audit Committee (GAC) acting on behalf of Full Council.

Planned coverage

Our internal audit work for South Kesteven District Council (the Council) covered the period 1 April 2025 to 31 March 2026 and was carried out in accordance with the Internal Audit Plan approved by the GAC and in line with the recognised Global Internal Audit Standards (GIAS) from the Institute of Internal Auditors and the Internal Audit Standards Advisory Board’s Application Note for the GIAS in the UK Public Sector, which together comprise the ‘GIAS in the UK Public Sector’.

The internal audit programme is risk-based and our work is designed to align to key risks over the life cycle of the internal audit plan. The approved internal audit annual plan for 2025/26 comprised the following assignments:

▶ Accounts Payables	▶ Voids Management	▶ Building Control	▶ Treasury Management
▶ Payroll	▶ Performance Management	▶ Market Services	▶ IT Strategy
▶ Climate Plan		▶ Financial Systems and General Ledger	▶ Stock Management

Changes to the plan

There were no changes to the Internal Audit Plan during 2025/26 and the plan was delivered in accordance with the approval from the GAC on 15 March 2025.

Audit outcomes

The conclusions from our reports are summarised on pages 8 and 9. Key themes are summarised on pages 6 and 7.

Background to the Annual Opinion

Internal Audit is required to provide an opinion to Full Council, through the GAC, on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation’s objectives in the areas reviewed. The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation’s risk management, control and governance processes, within the scope of work undertaken by us as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

1. Executive summary

Opinion

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness the Council's risk management, control and governance processes.

Opinion

Our opinion is as follows:

➔ Good

➔ Generally satisfactory with improvements required in some areas

➔ Improvements required

➔ Significant improvements required

Overall, the controls in the areas we examined were found to be suitably designed and operating effectively to achieve the specific risk management, control and governance arrangements and value for money. However, there are some areas where weaknesses and/or non-compliance were identified and, therefore, may put the achievement of objectives at risk. No audits received no assurance ratings although we would draw attention to the Stock Management review which was the only limited assurance audit this year. This was a known area of concern and action has been taken to improve controls in this area.

In other areas, we provided Substantial assurance over the design and/or effectiveness of controls. This demonstrates strength in key processes and compliance with these controls.

We have continued to experience strong levels of engagement from management and more broadly across the Council with internal audit, with the Council demonstrating a positive culture for improvement in controls. This was noted throughout the year on individual assignments and more generally, particularly during the audit planning phase where we engaged with Senior Leadership Team Members and Assistant Directors to prepare our risk-based internal audit plan.

Basis of opinion

As the provider of internal audit services to the Council, we are required to provide the Governance and Audit Committee and Full Council with an opinion on the adequacy and effectiveness of the risk management, control and governance processes.

In giving our opinion, it should be noted that the assurance can never be absolute. The most that Internal Audit can provide to the Board is reasonable assurance that there are no major weaknesses in the Council's risk management, control and governance processes.

In assessing the level of assurance to be given, we have taken into account:

- ▶ Our assessment of the design and operation of the underpinning risk management framework and supporting processes, including whether risk appetite has been established and embedded within the activities, limits and reporting of the organisation.
- ▶ The range of individual opinions arising from risk-based audit assignments that have been reported throughout the year; including the relative materiality of these areas.
- ▶ Management's acceptance of our audit recommendations.
- ▶ Management's progress in respect of addressing control weaknesses and implementing recommendations .
- ▶ Reliance placed upon other assurance providers which includes external auditors and benchmarking data provided through our internal audit portfolio of local government organisations which shows that the Council perform in line with other authorities on a range of metrics.

This opinion is based on information provided between 1 April 2025 and 31 March 2026, and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity.

1. Executive summary

Recommendation follow up

Management action on implementing recommendations

Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented in a timely manner, weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment.

Management have worked constructively with us on audit assignments to ensure that recommendations are effective and proportionate to the level of risk identified. Furthermore, in recognition of significant structural changes facing local government (with the announcement of local government reorganisation), management have collaborated effectively with us to ensure that recommendations were achievable, while mitigating the risk identified.







Internal Audit performed a follow up review periodically throughout the year to verify the status of the open internal audit actions. Overall, out of 23 medium and high actions which have been raised for internal audit reports completed between 1 April 2025 and 31 March 2026:

- Fully implemented 30% of recommendations
- Partially implemented 9% of recommendations
- 61% of implementations which are not yet due at time of reporting
- Not implemented 0% of recommendations.









2. Thematic reporting

Throughout the 2025/26 internal audit plan, we have considered key findings against six core themes. Broadly, these themes were considering the following key questions:

Area	Principle
 Strategic Alignment and Reporting	<ul style="list-style-type: none"> ▶ Is the area under review coherent with the overall strategic objectives, and is reporting sufficient and appropriate to enable effective oversight at a strategic level?
 Controls & Assurance	<ul style="list-style-type: none"> ▶ What first/second line controls are in place, and are these offering adequate comfort? Does the business obtain assurance from other sources? ▶ Is the overall control framework fit for purpose?
 Documentation	<ul style="list-style-type: none"> ▶ What is the quality of the documentation? Is it user friendly, accessible, and easily understood? ▶ Where are documents stored? Are policies up to date?
 Systems & Data Quality	<ul style="list-style-type: none"> ▶ Is there good quality of data and a 'single version of the truth'? Which systems are used to maintain data integrity? Do the right people have access? ▶ Have relevant performance metrics been calculated and can these be accurately compared to source data and in line with regulatory guidance?
 Resources	<ul style="list-style-type: none"> ▶ Where does responsibility sit? Do they have sufficient capacity? ▶ Are people appropriately skilled and trained? Are there any cultural issues to note? ▶ Are controls in place to reduce the risk of fraud, or to highlight instances where there may be higher risk of fraud within processes?
 Innovation and Efficiency	<ul style="list-style-type: none"> ▶ How is South Kesteven District Council continually developing and are lessons learned exercises undertaken and acted upon? ▶ Are there future looking strategies and improvement plans?

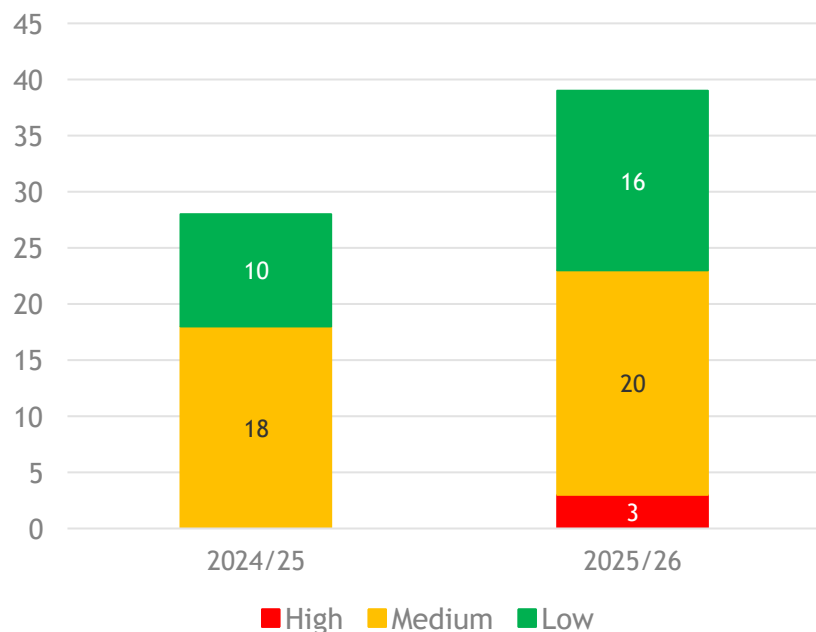
2. Thematic reporting

There was consistent trends around compliance with core processes and procedures, specifically where there is strict legislative requirements that must be adhered to. These themes presented well across the independent assurance programme for the year. Looking across the work we have completed, the themes where more recommendations have focused include on Controls & Assurance, Documentation and Governance and Culture, where systems have not been fully embedded and processes are not fully documented to ensure consistency across all service areas.

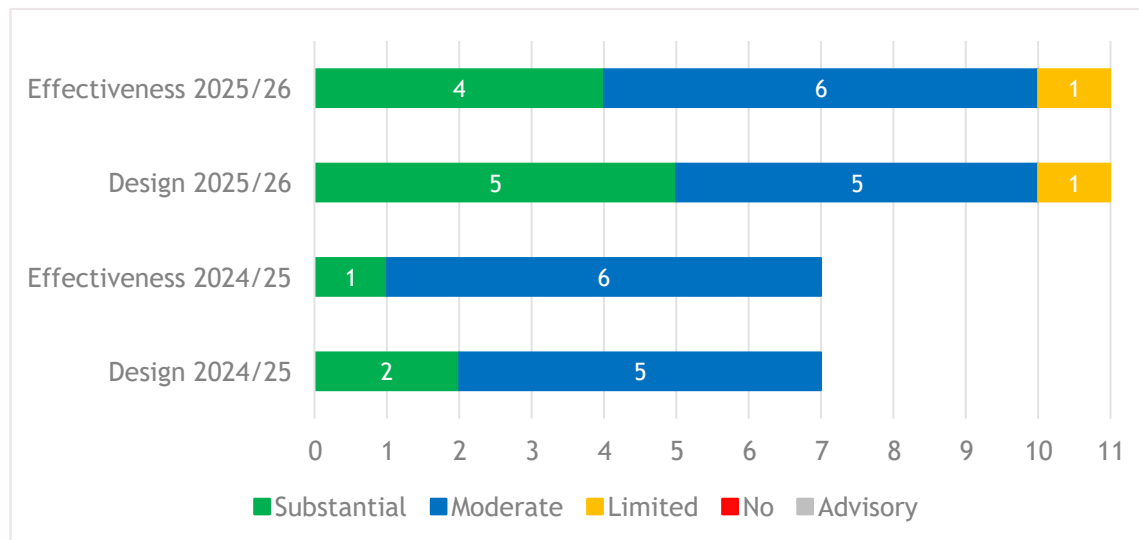
Area	Principle
 Statutory Compliance	<ul style="list-style-type: none"> ▶ We did not find any significant non-compliance with legislative requirements. Compliance with statutory requirements is considered a core expectation of a local authority.
 Controls & Assurance	<ul style="list-style-type: none"> ▶ First line controls were identified across the organisation. The Council has recently implemented a workflow-driven financial system (Unit4) with embedded approval routes, the processes of which however are still being embedded and refined. There is scope to further improve user access controls, although our reviews did not identify any evidence of malpractice. ▶ Similarly, there are gaps within the iTrent system controls which impact payroll control design. However, the effectiveness was found to be substantial despite the potential gaps.
 Documentation	<ul style="list-style-type: none"> ▶ In some areas there was a lack of documented policies and procedures which resulted in inconsistencies across the Council. Notably, this was the case in relation to Main Financial System controls, Voids Management, Stock Management and Building Control, where a lack of a single corporate policy weakened the control system. ▶ In some cases, action plans lacked clear ownership and deadlines and/or remained in draft format.
 Governance and Culture	<ul style="list-style-type: none"> ▶ Effective governance was observed in several areas including Building Control services. In relation to performance management, a suite of key performance indicators (KPIs) had been formally agreed and there was evidence or regular structured reporting to key governance groups, including the Scrutiny Committees and Cabinet. ▶ However, there was a lack of management information in some areas, including Accounts Payable. Additionally, KPI data was found to not always be fully utilised to drive actions.
 Resources	<ul style="list-style-type: none"> ▶ Our reviews did not specially identify any concerns relating to resourcing and capacity. ▶ Strengthened resource planning was noted relating to Voids Management.
 Innovation and Efficiency	<ul style="list-style-type: none"> ▶ Generally, we were able to confirm efficiency improvements across all reviews.

3. Summary of results

Recommendations by significance



Assurance opinions



Comparison to prior year

- ▶ In 2024/25 we issued 28 recommendations in total from seven reviews, there was 18 medium and 10 low recommendations issued to the Council. In comparison, in 2025/26 we have issued 39 recommendations from 11 reviews completed, with three high, 20 medium and 16 low recommendations.
- ▶ The total proportion of positive design (substantial and moderate) opinions has dropped from the prior year from 100% to 91%. In 2024/25 there was two substantial and five moderate control design opinions issued to the Council. In comparison in 2025/26, there has been five substantial, five moderate design, but one limited opinion issued to the Council.
- ▶ In 2024/25 there were one substantial and six moderate operational effectiveness opinions issued to the Council. In comparison, we have issued four substantial, six moderate and one limited operational effectiveness opinions.

Year	2024/25	2025/26
Assurance audits completed	7	11
Findings raised	28	39
Average per audit	4.0	3.5

3. Summary of results

Within the year, we produced eleven audit reports. We set out below our summary of the audits completed, the significance of recommendations raised, our opinions on control design and operational effectiveness, a comparison against the original IA plan and the link to the relevant strategic risk/objective.

The definitions of recommendation significance and report conclusions are set out in the tables in Appendix I. The Audit Plan is mapped to the strategic objectives in Appendix II.

Audit	Type of review	Recommendations and significance			Overall report opinion		Strategic Risk Register Reference
		High	Medium	Low	Control design	Operational effectiveness	
Accounts Payable	Assurance	-	1	1	Moderate	Substantial	SRR04 - Ineffective financial management.
Payroll	Assurance	-	2	-	Moderate	Substantial	SRR04 - Ineffective financial management. SRR14 - Significant fraud/theft successfully committed against the Council.
Climate Plan	Assurance	-	2	2	Substantial	Moderate	SRR11 - Not sufficiently engaging with and responding to climate change.
Voids Management	Assurance	-	2	-	Moderate	Moderate	SRR02 - Serious safeguarding failure by the Council. SRR03 - Serious health, safety, and well-being failure by the Council. SRR05 - Unable to maintain and build quality and consistency in service provision by the Council.
Performance Management	Assurance	-	1	-	Substantial	Moderate	SRR13 - Governance failure. SRR15 - Unable to effectively respond to political priorities.
Building Control	Assurance	-	1	1	Substantial	Moderate	SRR03 - Serious health, safety, and well-being failure by the Council. SRR05 - Unable to maintain and build quality and consistency in service provision by the Council. SRR08 – Not maintaining and developing fruitful partnerships and collaborations.
Market Services	Assurance	-	-	2	Substantial	Moderate	SRR03 - Serious health, safety, and well-being failure by the Council.
Treasury Management	Assurance	-	-	2	Moderate	Substantial	SRR04 - Ineffective financial management. SRR14 - Significant fraud/theft successfully committed against the Council.
Financial Systems and General Ledger	Assurance	-	1	3	Moderate	Substantial	SRR04 - Ineffective financial management.
IT Strategy	Assurance	-	1	2	Substantial	Moderate	SRR07 - Failure to explore digital transformation of Council Services.
Stock Management	Assurance	3	9	3	Limited	Limited	SRR03 - Unable to maintain financial sustainability.

4. Quality assurance

As a firm we are committed to continual improvement. To achieve this, we apply the latest internal quality standards, which are designed to ensure that the work we perform meets the requirements of the regulatory environment within which each of our clients operates. The provision of Internal Audit services rests with a team of dedicated internal audit professionals who form part of a national Risk and Advisory Services (RAS) team.

Qualifications, Training And Development

It is our policy that staff engaged in the provision of a specialist service be qualified in the relevant professional discipline. In Internal Audit, staff are qualified or are studying for the exams by the Chartered Institute of Internal Auditors, or for a professional accountancy body.

Qualified staff are required to retain commitment to their professional body after their qualification and the firm is committed to continuing professional education and provide staff access to quality training programmes.

Quality assurance processes

We adopt the following processes in order to ensure that the internal audit work we perform meets our required quality standards:

- ▶ **Documented standards** - the fundamentals of our auditing standards are set out within our audit manual and related documentation. Our audit methodology complies with current best practice, Global Internal Audit Standards and GIAS in the UK public sector.
- ▶ **Annual plan** - A risk-based approach is taken to determine the annual plan.
- ▶ **Planning** - each assignment is planned based upon a thorough understanding of the business area being audited and the risks that are associated with that area. All assignments are supported by briefing documents agreed in advance with the client.
- ▶ **Quality assurance** - the work conducted to meet the requirements of each assignment brief is subject to a full client debrief and to manager review within the audit team before a final draft report is issued. All finalised reports are approved and signed off by a licence holder (Partner or Director).
- ▶ **Cold reviews** - we also adopt a cold review process where samples of the work performed by the internal audit team are reviewed to ensure that they meet our own internal standards. These reviews are conducted by professionals outside of the team which conducted the work. The work of cold review is subject to our National Quality Review processes, aimed at ensuring consistency of standards adopted within the firm.

Continuous Improvement

The results of the various review processes that are outlined opposite are used to inform the development needs of staff through our appraisal process and by the development of relevant training courses for the staff involved in internal audit work. The appraisal process adds to the structured training that each member of our RAS team receives on a firm wide basis. At the moment each of our team members is required to attend at least two RAS training days annually with additional training being provided in response to changes in the environment in which we operate.

Compliance with the Global Internal Audit Standards (GIAS)

Based on the results of our internal assessments, we can confirm that our Internal Audit services are aligned and have been delivered in accordance with the Global Internal Audit Standards and Topical Requirements and GIAS in the UK public sector during the year. It should be noted that as the GIAS became effective on 9 January 2025 and GIAS in the UK public sector on 1 April 2025), there has been a transition period during the year.

We confirm there have been no deviations from the GIAS during the year.

External Quality Assessment

The Global Internal Audit Standards of the Institute of Internal Auditors (IIA) requires every internal audit function that aims to comply with its standards to be reviewed, externally, every five years. At BDO we recognise the importance of independent quality assurance and so submit our RAS team to an External Quality Assurance (EQA) review every five years, most recently in April 2021. We engaged the Chartered Institute of Internal Auditors (CIIA) to carry out the EQA and, in summary, their conclusion was that BDO generally conforms to the International Professional Practices Framework (IPPF). This is the highest of the three gradings awarded by the CIIA.

RAS is committed to continuous improvement and has agreed a Quality Assurance Improvement Programme with the CIIA to respond to the recommendations and suggestions raised through the EQA exercise. A copy of the EQA report is available to our clients in order they may obtain comfort regarding our working practices.

Our next EQA is due in late 2026.

5. Quality Assurance Improvement Programme

An update on our specific improvement actions included as part of our Quality Assurance Improvement Programme is below:

Initiative	Benefit	Due date	Status
Ensure our annual plan was wide coverage of the five strategic priorities, providing assurances over the delivery of strategies and objectives across the whole Council, including front-line services impacting residents	Align our audit plan to the Council's strategic risks, ensuring that areas we cover link back to strategic objectives	Ongoing throughout delivery of our 25/26 IA plan which has been mapped to your five corporate priorities and risks	Complete
Apply a blend of audit and advisory techniques using our various toolkits to assess the Council's 'soft controls' such as EDI, Environment, Governance/Culture, Sustainability, etc. This will provide roadmaps to applying best practice controls to achieve objectives	Allows management to gain insights into emerging risks with advisory support rather than traditional third line assurance	Ongoing throughout delivery of our 26/27 IA plan and over our three-year plan to FY29. We have scheduled 'soft control' reviews in our three-year audit plan, including equality, diversity and inclusion and for local government reorganisation, to provide the Council with advisory support as it transitions into a new authority. We will share best practice approaches from across our local government clients who are also impacted by local government reorganisation	Ongoing
Use SMEs and specialist skills and knowledge for highly technical areas of testing Ensure 60% of qualified resources are used in the delivery of the audit plan Ensure team members hold or are working towards professional and relevant qualifications Team members will comply with the firm's and professional bodies policies on CPD requirements	Allow the Council continue to benefit from expertise across our firm on specific, technical audit engagements. Furthermore, use of qualified staff and ensuring our staff maintain relevant CPD ensures that emerging issues and risks are addressed in our audit work to maximise the value to the Council	Through the delivery of individual audit engagements during 26/27 and throughout the full plan for the year	Complete In 25/26, 76% of the audit plan was delivered by qualified staff. The remaining work was all completed by staff working towards a professional qualification. All work was delivered by our RAS Public Sector Team, who are sector specialists. All BDO staff holding professional is required to record CPD on our HR and Finance Portal. From 1 November 2025, this has been extended to all staff.
Commission independent EQA every five years	Allows for independent assurance that our work conforms with the GIAS.	Late-2026	Not yet due

6. Annual attestation of independence

Independence

The Internal Audit function is independent and objective and we undertake our work with an impartial, unbiased attitude, avoid conflicts of interest and perform engagements in such a manner that there are no quality compromises.

During the year we have not acted in any management capacity, taken on any responsibility for the operations of your organisation or provided any services that would compromise our independence.

In the year BDO has not been engaged by management to carry out additional services outside of Internal Audit contract.

If the independence or objectivity of the Internal Audit service is ever impaired, details of the impairment will be disclosed to either the Deputy CEO/their delegate, or the Chair of the Governance and Audit Committee, dependent upon the nature of the impairment.





Relationship with external audit

All of our final reports are available to the external auditors through the Governance and Audit Committee papers and are available on request.

We have also met with External Audit during the year to discuss relevant matters.

Appendix I: Definitions

Annual Opinion Definitions

Opinion		Definition
	Good	The controls in the areas which we examined were found to be suitably designed and operating effectively to achieve the specific risk management, control and governance arrangements .
	Generally satisfactory with improvements required in some areas	The controls in the areas which we examined were found to be suitably designed and operating effectively to achieve the specific risk management, control and governance arrangements . However, there are some areas where weaknesses and/or non-compliance were identified and therefore may put the achievement of objectives at risk. Where weaknesses have been identified, improvements are required to enhance the design and/or effectiveness of risk management, control and governance arrangements .
	Improvements required	Significant weaknesses were identified in both the design and/or operational effectiveness of the controls in all/the majority of the areas which we examined and weaken the risk management, governance and control arrangements. Significant improvements are required to enhance the design and/or effectiveness of risk management, control and governance arrangements .
	Unsatisfactory	The framework of governance, risk management and control arrangements is poor. Immediate action is required to improve the design and/or operational effectiveness of the governance, risk management and control arrangements.

Appendix I: Definitions

Audit Report Definitions

Level of assurance	Design of internal control framework		Operational effectiveness of controls	
	Findings from review	Design opinion	Findings from review	Effectiveness opinion
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

Recommendation significance	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

Appendix II: Link to strategic objectives

We have mapped the Internal Audit Plan to the organisation's strategic objectives to show coverage across the year.

Audit	Type of review	Link to risk strategic objectives				
		Connecting Communities	Sustainable South Kesteven	Enabling Economic Opportunity	Housing	Effective Council
Accounts Payable	Assurance	-	✓	✓	-	-
Payroll	Assurance	-	-	✓	-	-
Climate Plan	Assurance	✓	✓	-	-	-
Voids Management	Assurance	✓	-	✓	✓	-
Performance Management	Assurance	✓	✓	✓	✓	✓
Building Control	Assurance	-	-	✓	✓	-
Market Services	Assurance	✓	-	✓	-	-
Treasury Management	Assurance	-	-	✓	-	✓
Main Financial Systems	Assurance	-	-	✓	-	✓
IT Strategy	Assurance	-	-	-	-	-
Stock Management	Assurance	-	✓	✓	-	-

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The matters raised in this report are only those which came to our attention during our audits and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made organisation. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

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