

Internal Audit Annual Report 2018/19



What we do best...

Innovative assurance services
Specialists in internal audit
Comprehensive risk management
Experts in countering fraud

...and what sets us apart

Unrivalled best value to our customers
**Existing strong regional public sector
partnership**
**Auditors with the knowledge and expertise to
get the job done**
**Already working extensively with the not for
profit and third sector**

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This report has been prepared solely for the use of Members and Management of Newark and Sherwood 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 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 2015. In particular:-

- 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

Annual Opinion

For the twelve months ended 31 March 2019 (based on the work we have undertaken and information from other sources of assurance) my opinion on the adequacy and effectiveness of Newark and Sherwood District Council's arrangements for governance, risk management and control is:-

Governance 	Performing Adequately – Some improvements/assurance required over the Council's Governance, Risk and Control framework and to manage high and medium risks across the Council.
Risk 	Performing Well – No concerns that significantly affect the risk management framework and successful delivery of the Council priorities.
Internal Control 	Performing Adequately – Some improvement required to manage high and medium risks in key business areas and other medium risks across the Council.
Financial Control 	Performing Well – No concerns that significantly affect the Financial governance, risk and control framework and successful delivery of the Council priorities.

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.

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 – in the interests of accountability and transparency.

Significant governance issues identified by the Council in the 2019 statement are:

- Organisational change*
- Development Company*
- Estate regeneration programme*
- Emergency Planning
- Business Continuity*
- Re-integration of Housing Management Function
- Counter Fraud*
- Compliance with Financial* Regulations re. authorisation of goods, works and services.

Action plans are in place for these with responsible officers identified. There were, however, a number of these which were identified in the 2017/18 statement (*). Some of these are long term issues and progress has been made as planned.

However Business Continuity is making slower than expected progress receiving another Limited report this year. It has also been identified that the position on compliance with the Financial Regulations item has deteriorated rather than improved.

The Governance framework has decreased



Assessed as Performing Adequately

Governance



There were some significant changes to the management team and leadership within the Council during the year which have not yet been reviewed by ourselves. These have a significant impact on the Governance arrangements within the Council.

Further significant issues have been added around the emergency plan and the integration of the Housing management function which contribute towards our assessment.

The Audit and Accounts Committee helps to ensure that these arrangements are working effectively. They review and consider the draft and final versions of the Annual Governance Statement.

There have been some significant changes within the management structure this year with a change in Chief Executive, Monitoring Officer and other changes to Directorate responsibilities. There has also been a change in leader of the Council and it's Objectives have been refreshed . All of which have an impact on the governance arrangements.

We have not undertaken a review of Governance since the health check in 2016/17 . We will be undertaking a Governance Review of culture and values in 2019/20 – which will show whether the Council's core values are embedded and at the heart of what the Council does – being open, transparent and inclusive.

Whilst the assurance level has decreased due to the points raised above, this is still a good level of assurance.

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 put us in a stronger position to deliver our goals and provide excellent services.

During the year the Council's risk management arrangements were assessed as Green through the combined assurance review.

Previous audit work in 2017/18 provided substantial assurance and a level 3 of maturity.

There is an established framework in place for the Council to manage the key risks facing services and successful delivery priorities with regular reporting to management and members.

The Audit and Accounts Committee continues to receive regular updates on how the Council manages its risks.

A decision was taken this year to streamline the risks into Operational and Strategic. Fraud risks were incorporated into the operational risks.

A separate review of the Fraud risks was undertaken facilitated by the Assurance Lincolnshire Counter Fraud Team.

Risk Management assurance remained the same



Assessed as Performing Well

Internal Control



We take account of the outcome of our audit work during the 2018/19 year. As our audit plans include different activities each year it is not unexpected that assurance varies. However the assurance levels still give insight into the Council's control environment.

A follow-up review of Business Continuity has again provided a limited level of assurance. Other limited assurance opinions are:

- Procurement Card
- Cyber Security

Emergency Planning was given a Substantial/Limited assurance opinion. A summary of these audits can be found in appendix 2.

Positive assurance levels have improved upon the previous year for the Council's systems.

During the year we have made 106 recommendations for improvement 16 of these were not confirmed as complete at the due date – see appendix 4 for full details.

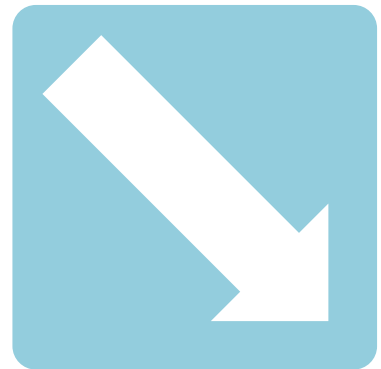
Our opinion is based not only on the outcome of our internal audit work but also the intelligence gathered through the combined assurance work and other sources.

As shown in the following page the level of assurance has declined since last year and there are a number of key areas which

received amber assurance or have not been given a level of assurance..

Whilst the assurance level has decreased due to the points raised above, this is still a good level of assurance.

Internal Control assurance has decreased



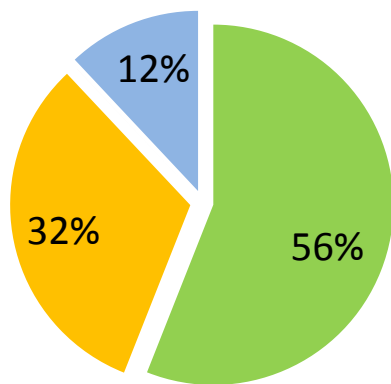
Assessed as Performing Adequately



A Combined Assurance Status report has not been produced this year but we have collated information from each Director and Business Manager on the level of confidence they can provide on service delivery arrangements, management of risks, operation of controls and performance for their area of responsibility. This information provides key assurance evidence to support the Head of Internal Audit opinion.

Combined Assurance

Overall Assurance Status 18/19



■ High ■ Medium
■ Low ■ Unknown

High levels of assurance have decreased by 10% since 2017/18



There remain no areas of low assurance. The biggest change is the number of unknown where there were previously none. These relate to projects for which assurance was not provided. Amber areas are:-

Communities and Environment

Street Cleansing, Health and Safety, Business Continuity, Emergency Planning, Housing Options.

Growth and Regeneration

Land Charges, National Civil War Centre

Governance and Organisational Development

Corporate Policy, External mail, print and Multi Function Devices, Performance Management, Assurance

Resources and Deputy Chief Executive

Corporate Planning, Commercialisation, Car Parks, Corporate Counter Fraud, Income and Banking, Financial Strategy, Benefits, Estates Management, Strategic Asset Management, Newark Cattlemarket Energy/Carbon Management

ICT

Governance, Operations, Compliance



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 we reviewed:

- Key control testing – **Substantial Assurance**
- Payroll – **Substantial Assurance**
- Creditors – **Substantial Assurance**
- HRA – **Substantial Assurance**

Following the issue of the report concerning Northamptonshire County Council we conducted a high level financial resilience health check at the Council. There were no concerns raised during the review which would affect the overall opinion and there was a positive statement provided last year from External Audit:-

'The Authority is in a strong position with a high level of reserves, but has recognised the risks around future funding beyond 2020.'

The Council is undertaking a procurement exercise for a new financial system and it's successful implementation will be key to future assurances.

The Financial Control assurance remains the same



Assessed as Performing Well

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

Our risk based internal audit plan was prepared taking into account the critical activities and key risks to support the basis of my annual opinion. It has remained flexible to enable us to respond to emerging risks and maintain effective focus.

The Audit Committee approved the 2018/19 original audit plan of **285 days** in February 2018. We have delivered 99% of the revised plan of **287 days** - **27** pieces of work. All remaining pieces of work are at draft report stage. More details on revisions to the plan can be found in Appendix 3

I do not consider the restrictions and changes to the plan to have had an adverse effect on my ability to deliver my overall opinion. The combined assurance model adopted by the Council helped in this regard.

We have not experienced any impairment to our independence or objectivity during the conduct and delivery of the Internal Audit Plan.

Restriction on Scope

In carrying out our work we identified no unexpected restrictions to the scope of our work. We have had minor difficulties in gaining access to some staff which resulted in some delay or inability to deliver planned work within the expected timescales.





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 commitment to quality begins with ensuring that we recruit develop and assign appropriately skilled and experienced people to undertake your audits.

Our audit practice includes ongoing quality reviews for all our assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.

There is a financial commitment for training and developing staff. Training provision is continually reviewed through the appraisal process and regular one to one meetings.

Assurance Lincolnshire conforms to the UK Public Sector Internal Audit Standards. An External Quality Assessment was undertaken in September 2016. No areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity was identified.

Our quality assurance framework helps us maintain a continuous improvement plan, which includes the following:

- Update Internal Audit Charter and practice manual following revision of PSIAS in April 2017 and CIPFA Application Note.
- Working with senior management improve progress and delivery monitoring / audit scheduling
- Support development of the Audit & Accounts Committee, following publication of CIPFA Audit Committee practical guidance
- Continuing professional development around new and emerging practice guidance.

Although internal and external auditors carry out their work different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work where it is appropriate.

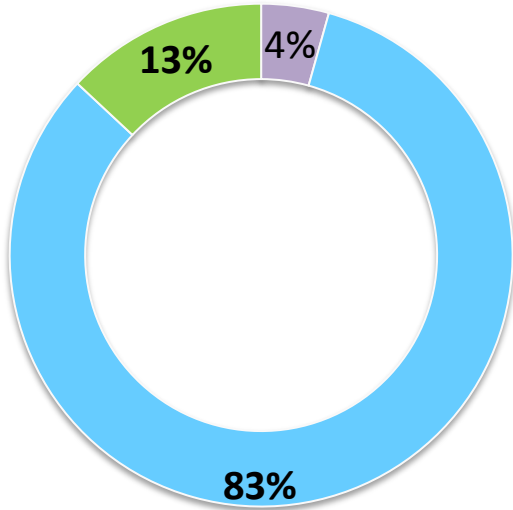
Assurance Lincolnshire were winners of CIPFA's Public Finance Awards 2019 for its work around Governance - Culture and Values.

Benchmarking



Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do 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



Increase in High and Substantial Assurance on last year



14%

Fall in Low and Limited Assurance on last year



■ High ■ Substantial ■ Limited ■ Low

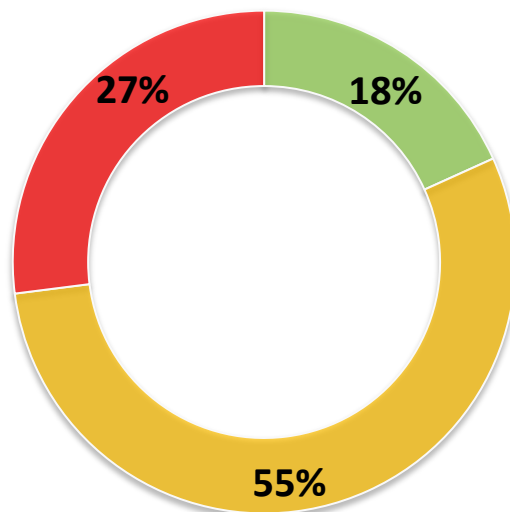
Recommendations

17%

increase in high priority recommendations

Medium priority recommendations have reduced

21%



■ Low ■ Medium ■ High

Further details can be found at appendix 4 and 5 including outstanding recommendations



Internal Audit's performance is measured against a range of indicators. The table **Figure 6** shows our performance on key indicators at the end of the year. We are pleased to report a good level of achievement delivery of the revised plan and the added value of our work. An area of improvement is around contemporary reporting (timescales).

Performance on Key Indicators

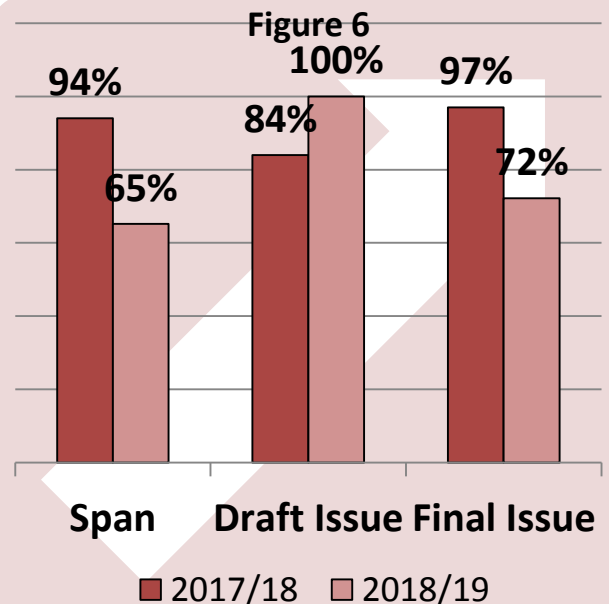
100%

Rated our service Good to Excellent

Some decline in achievement of Audit KPI's

99%

Of revised plan delivered



Audit	Rating	Type	High	Medium	Advisory	Total
Mansfield Crematorium	Completed	Financial	N/A	N/A	N/A	N/A
HRA Self Financing Business Plan	Substantial	Risk Based Audit	1	5	0	6
S106 Funding	Substantial	Risk Based Audit	0	3	1	4
Emergency Planning	Substantial	Risk Based Audit	5	2	0	7
Economic Development	Substantial	Risk Based Audit	0	5	2	7
Cyber Security	Limited	Risk Based Audit	9	10	2	21
Newark Cattlemarket	Completed	Financial	N/A	N/A	N/A	N/A
Creditors	Substantial	Risk Based Audit	1	3	2	6
Development Company	Substantial	Risk Based Audit	0	4	3	7
Assurance	Substantial	Risk Based Audit	0	3	2	5
Brexit Preparation and understanding the risks and opportunities	Substantial	Risk Based Audit	0	1	1	2
Gilstrap	Completed	Financial	N/A	N/A	N/A	N/A
NSDC Companies	Indicative - Substantial	Risk Based Audit	0	6	1	7
Review of IR35	Substantial	Risk Based Audit	1	0	1	2
Environmental Protection	Substantial	Risk Based Audit	0	3	2	5
Sub- Total			17	45	17	79

Audit	Rating	Type	High	Medium	Advisory	Total
IT Infrastructure	Cancelled	Risk Based Audit	N/A	N/A	N/A	N/A
Payroll	Substantial	Risk Based Audit	0	3	1	4
Commercialisation	Postponed to 2019/20	Risk Based Audit	N/A	N/A	N/A	N/A
Key Control Testing	Substantial	Risk Based Audit	1	4	2	7
Combined Assurance	Completed	Consultancy	N/A	N/A	N/A	N/A
Street Cleansing	Substantial	Risk Based Audit	0	5	0	5
Counter Fraud	Substantial	Risk Based Audit	0	2	0	2
Domestic Refuse	Substantial	Risk Based Audit	4	3	1	8
Strategic Asset Management	Indicative - Substantial	Risk Based Audit	0	6	0	6
Project/Programme Management	Draft Report	Risk Based Audit	N/A	N/A	N/A	N/A
Workforce changes and succession planning within the Council including changes within the management team	Cancelled - postponed to 2019/20	Risk Based Audit	N/A	N/A	N/A	N/A
Business Continuity	Indicative – Limited	Risk Based Audit	7	0	0	7
IT Governance	Indicative – substantial	Risk Based Audit	1	1	0	2
Running of elections and Referendums	Cancelled	Risk Based Audit	N/A	N/A	N/A	N/A
Follow-ups	Indicative – Substantial	Risk Based Audit	0	2	0	2
Procurement Card	Indicative - Limited	Risk Based Audit	7	4	4	15
Total			37	75	25	137

During the year we have issued a number of limited assurance opinions, in summary these are:

Cyber Security – our review looked to provide assurance that the 10 steps for cyber security set by the National Cyber Security Centre to help organisations manage cyber risks and 2 steps added by the National Audit Office had been addressed by the Council. There were a number of improvements required both in the policies and procedures and operational aspects of ICT.

Procurement Card* – this was an additional audit to the original plan which looked at the processes and use of the Councils Procurement Card. We found weaknesses within several areas of the process including monitoring of usage and card security.

Business Continuity* – this review was a follow-up of the previous audit carried out in 2017/18 which received Limited assurance. We found that whilst some work had been carried out at this stage, we are unable to give a higher rating due to the fact that the Business Impact Assessments (BIA) and service plans are incomplete. Also as the service plans haven't been finished yet, there has been no testing of the current corporate Business Continuity Plan. The action plan remains in place and will continue to be monitored by SLT.

Emergency Planning – Our audit was aimed at providing assurance that the Council has an up to date and stable plan in place, in order to manage the implications of any emergency.

Our overall assurance rating for Emergency Planning, as it currently stands whilst evolving, is substantial borderline limited.

This rating means that we have assessed it to be substantial overall but it would only take a decline in development and progress to become limited. Whilst there are sufficient controls in place to manage an Emergency Planning incident, we feel that there are still some significant improvements to be made.

Recommendations have been made to improve the assurance levels within these audits which are continuously monitored and reported. These are summarised within Appendix 5.

* Indicative – report has not yet been finalised

The original approved plan was 285 days – the revised plan was 287 days.

A number of audits were removed from the original audit plan – these were due to a combination of:

- changes being requested by management - so the timing of the audit adds more value
- management could not accommodate the audit in their work plan before the end of the year
- re-prioritising audit resources to those of highest risk

Outlined below are the areas that have been removed from the original plan:

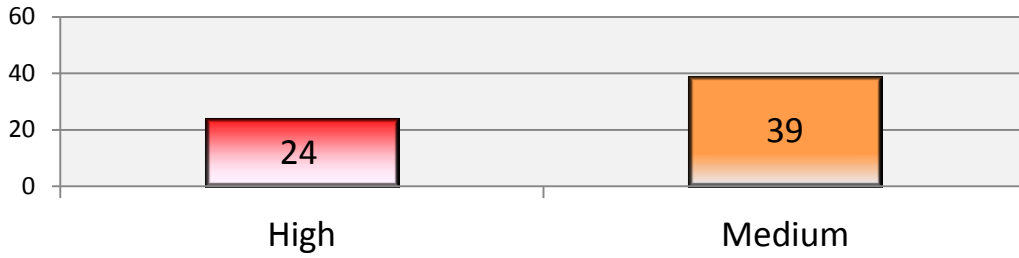
- Running of Elections and Referendums
- Commercialisation
- Workforce changes and succession planning within the Council including changes within the management team
- ICT Infrastructure

Two of these have been included in the 2019/20 plan, although due to changes in risk and priorities the others have been removed completely.

During the year we were also requested to undertake the following additional work:

- Procurement Card
- ICT consultancy report
- Fraud Risks

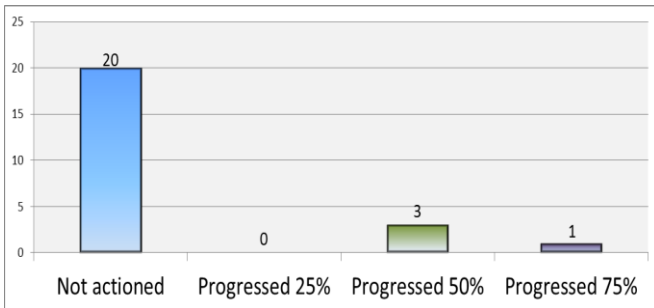
Overall Actions remaining to be implemented



High Priority Actions remaining to be implemented

Overall

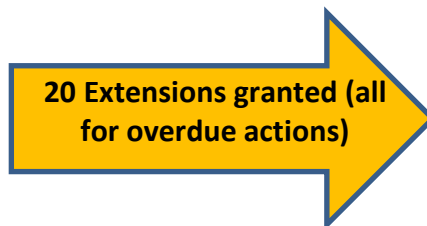
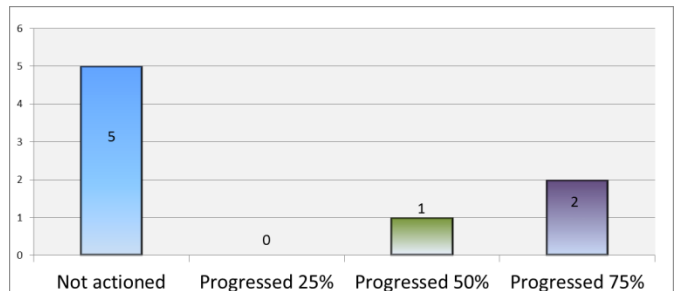
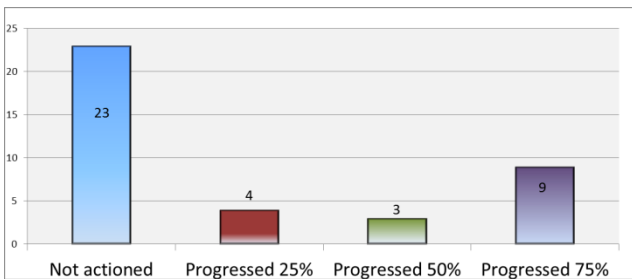
Overdue



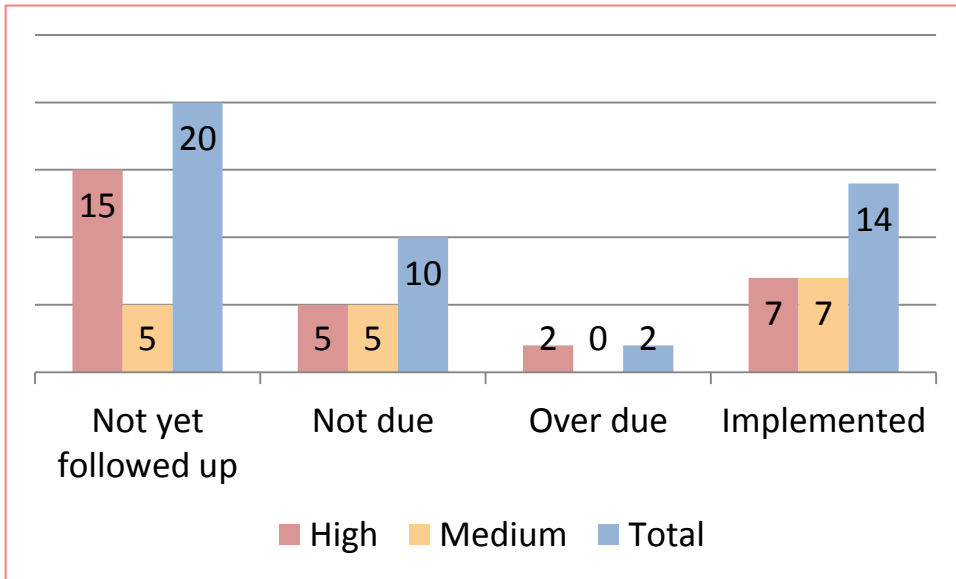
Medium Priority Actions remaining to be implemented

Overall

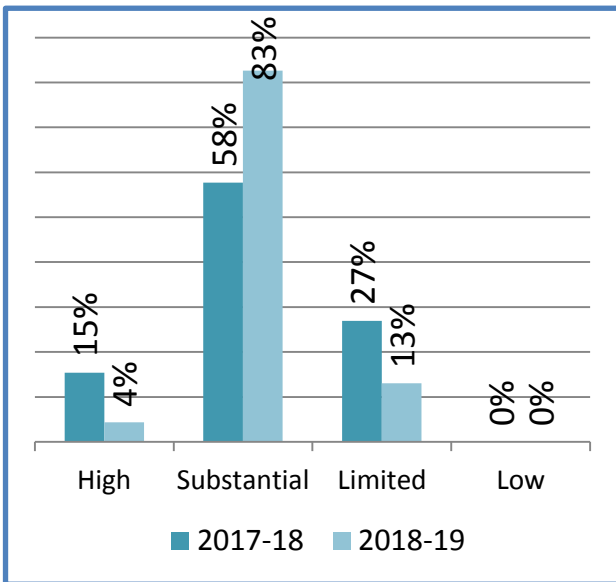
Overdue



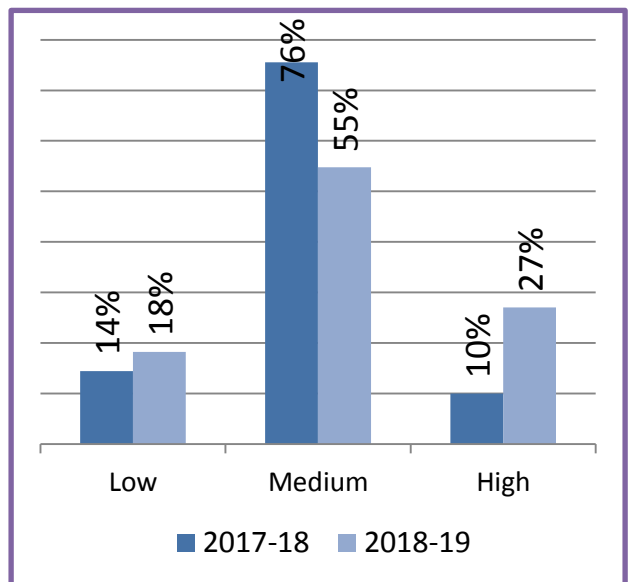
Status of Actions within Limited or Low reports for 2018/19



Comparison of Assurances



Comparison of Recommendations



Performance on Key Indicators

Performance Indicator	Annual Target	Actual
Percentage of plan completed (based on revised plan)	100%	99%
Percentage of recommendations agreed	100%	99%
Percentage of 2018/19 Actions implemented	100% or escalated	51%
Timescales:		
Draft Report issued within 10 days of completion	100%	100%
Final Report issued within 5 days of management response	100%	72%
Draft Report issued within 2 months of fieldwork commencing	80%	65%
Client Feedback on Audit (average)	Good to excellent	Excellent

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 (assurance) on service delivery arrangements, management of risks, and the 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).