

Internal Audit Annual Report 2019/20



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 2020 the Council's arrangements for governance, risk management and control is unaffected by the coronavirus. That said, my opinion needs to be contemporary and take into account its impact on the Council's governance, risk and control environment.

Based on the work we have undertaken and information from other sources of assurance, my opinion on the adequacy and effectiveness of the Council's arrangements for governance, risk management and control is:

<p>Governance</p> 	<p>Performing Adequately – Some improvements/assurance required over the Council's Governance framework and to manage high and medium risks across the Council.</p>
<p>Risk</p> 	<p>Performing Adequately – Some improvements/assurance required over the Council's Risk framework to ensure that high and medium risks are managed across the Council.</p>
<p>Internal Control</p> 	<p>Performing Adequately – Some improvement required to manage high and medium risks in key business areas and other medium risks across the Council.</p>
<p>Financial Control</p> 	<p>Performing Adequately – Some concerns that may affect the Financial governance, risk and control framework and successful delivery of the Council priorities.</p>

This opinion is **caveated** as it is **not possible for us to quantify** the additional risk arising from the Council's response and recovery or the overall impact on the framework of governance, risk management and control.

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.

There were a number of issues identified in the 2018/19 statement and the latest update of these was presented to the Audit and Accounts Committee in February 2020. Progress has been made to reduce the impact and risk of these on the ongoing business of the Council. The only one which remains an issue is compliance with Financial Regulations re the authorisation of goods, works and services which, whilst reduced, at 54% is still too high.

Significant governance issues identified by the Council in the 2019/20 statement are:

- Development Company
- Re-integration of Housing Management Function

These were both within the 2018/19 Statement as they are long term issues but some progress has been made.

lockdown has had a significant impact on all areas of the public sector. The impact on governance will be felt by all organisations and there will be some aspects experienced by all, for example changes to decision making arrangements and the conduct of meetings. Other aspects will reflect changes to the organisation's priorities and programmes.

We note that the Council's governance arrangements have adapted well to the emergency but as the full impact of the coronavirus is largely unknown we suggest that the Annual Governance Statement includes a significant governance issue - reviewing lessons learned from its response.

The Governance framework



Assessed as Performing Adequately

Governance



The management changes incurred last year are now embedded however, the independent review highlighted some areas of improvement within the political governance of the Council.

A recent review of the governance arrangements has been undertaken by the LGA. The report identified a number of good working practices within the Council including well managed finances, good working relationships and a clear framework in place for 2019 – 2023. There were some areas for improvement with the Team picking out the following:- *‘The political management aspects of the council now need attention and to be brought up to date. A particular area of improvement should be to develop a more transparent and accountable approach with clear roles, responsibilities and functions, which will also help members achieve their ambition of improving engagement with local residents and stakeholders’.*

Several recommendations were made around the above statement with the overall aim of completely overhauling the current Committee arrangement to ensure that it provides clearer political ownership and accountability, reducing inefficiencies, improving the speed and transparency of decision making, clearer challenge and stakeholder engagement.

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.

The significant changes within the management structure and leadership of the Council last year have now been embedded. There are however some further changes this year with the integration of the Housing Management Function which will have an impact on the structure and governance arrangements going forward. A new Director Post for Housing and Wellbeing has been created and appointed to and once in place a review of the structure within the directorate will be undertaken to ensure that it meets the needs of the Council and is fully resourced.

We have not undertaken a review of Governance since the health check in 2016/17 . We planned to undertake a Governance Review of culture and values in 2019/20 but we have not been able to complete this work due to Covid-19.

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.

It is not possible to quantify the additional risks arising from the Council's response and recovery to Covid-19 or the overall impact on the framework of governance, risk management and control.

The Council's risk management arrangements were assessed as **Amber** through the combined assurance review. During the review process we found that the Strategic Risks had been updated and a number of them had not been scored.

Management confirmed that action has now been taken to ensure that outstanding strategic risk owners score and implement their risk assessments and action plans. The risk management policy has been revised and is currently going through the review process before adoption. Risk maturity work was also considered at the last Senior Leadership Team workshop and an action plan is being developed.

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

We were due to carry out an audit of Strategic Risks in the final quarter of this year. A request from the Business Manager was made in March to postpone the review as procedures were being changed and a new policy being written. Unfortunately the implications of Covid-19 has meant that we have not been able to progress this further.

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

Risk Management assurance



Assessed as Performing Adequately

Internal Control



We take account of the outcome of our audit work during the 2019/20 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.

Our opinion is based on a number of sources of intelligence including the outcome of our internal audit work, through the combined assurance work and other sources.

Whist the control environment up to 31st March 2020 has largely been unaffected by the coronavirus - emergency measures implemented have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. The full impact is unknown and some post assurance will be required.

We have seen a slight increase in the number of audits given a Limited level of assurance. These are

- Key Controls – Health and Safety
- Key Controls – Absence Management
- Building Control – Client side
- Community Centres
- ICT Incident Management

A summary of these audits can be found in appendix 2.

We have also been involved in a number of consultancy pieces of work this year which have highlighted areas of improvement in control around the

management of customer debt, commercial rental income and contract management.

Processes have now been put into place to ensure that actions are implemented by the due dates and reports receiving Limited assurance opinions are monitored more closely by the Audit and Accounts Committee.

The Council has made good progress in implementing agreed improvement actions arising from our work. During the year we have agreed 54 actions to address recommendations for improvement, 4 of these were not confirmed as complete at their due date – see appendix 4 for full details.

As shown in the following page the level of assurance has declined slightly since last year and there remains a number of key areas which received amber assurance.

Internal Control assurance



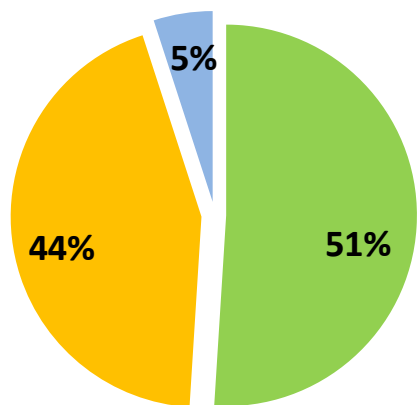
Assessed as Performing₅
Adequately



A Combined Assurance Status report has been produced this year collating 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 19/20



■ High ■ Medium ■ Low ■ Unknown

High levels of assurance have decreased by 5% since 2018/19



There remain no areas of low assurance. Management consider that the increase in Medium assurance reflects the Council's forward plan of action and the increasing variety and complexity in the operating and governance arrangements. Amber areas are:-

Communities and Environment

Business Continuity, Emergency Planning, and CCTV.

Growth and Regeneration

Land Charges, Town Centre Development and Tourism/Newark Castle

Governance and Organisational Development

Corporate Policy, Human Resources, Risk Management and Health and Safety

Resources and Deputy Chief Executive

Contract Management, Project / Programme Management, Commercialisation, Asset Register, Insurance, VAT, Financial Regulations, Procurement, Debtors, Strategic Asset Management, Energy/Carbon Management, Estates Management and Car Parks.

ICT

Governance, Compliance and applications.

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.

During the year we reviewed:

- Financial Strategy and Modelling – **High Assurance**
- Key control testing – **Substantial Assurance** for the Financial areas
- Capital Programme – **Substantial Assurance**
- Pay and Grading – **Substantial Assurance**
- Procurement Client side – **Substantial Assurance**

There have been a number of changes made within the Financial Services Team and processes. Some of these have involved seeking advice from ourselves demonstrating an awareness of the potential impact of changes on the overall control environment.

There were some areas of weakness impacting on the wider financial control environment referred to within the general internal control assessment and governance areas above.

A management review was carried out of phase 1 of the Sherwood Forest Arts and Crafts Centre in Edwinstowe, which involved the conversion of a derelict building on Forest Corner. The review identified a number of weaknesses in project management and budgetary control. Management have carried out

further follow up reviews and appropriate action is being taken to address the issues and weaknesses identified.

Financial Services have been involved in carrying out a review of the process for debtors with revised processes and resources being put into place to ensure that all outstanding debts are followed up in a timely manner and action instigated where appropriate.

The service is in the process of implementing an upgrade to the Financial management system and we have been asked to advise on this. This will assist in providing assurance over the process.

The impact of Covid-19 will have a major impact on the Council's finances. This impact is unlikely to be fully realised until recovery is complete. The combination of remote working, staff redeployment and the swift introduction of new processes heightens the risk around financial control.

Financial Control assurance



Assessed as Performing Adequately



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 2019/20 audit plan of **285 days** in February 2019. We have delivered 78% of the plan. Details on revisions to the plan can be found in Appendix 3.

Restriction on Scope

In carrying out our work we identified no unexpected restrictions to the scope of our work.

We have had a number of difficulties this year which has impacted on our ability to complete the full plan within the expected timescales. In summary these include:-

- Gaining access to some staff
- Receiving responses from some staff
- Obtaining approval to issue draft reports
- Postponing/delaying audit at the last minute

- Staff absences and changes within NSDC
- Internal changes in our team contributing to some of the delays.

We secured additional resources to complete the plan this year (subject to access to auditees) but unfortunately the implications of Covid-19 meant that these resources could not be deployed.

We propose to review the 2020/21 plan – taking into account the current risk profile and recovery plan – focussing on where we can add most value and assurance to the Council. We will also seek to work with the Council to address the issues identified in the audit process.

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.

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 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 supervisory 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 and preparations have started for the next required assessment in 2021. 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 to 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.

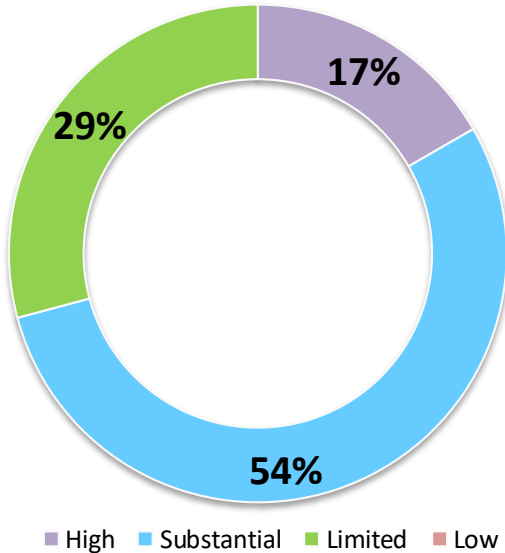
Although internal and external auditors carry out their work different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work where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

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



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



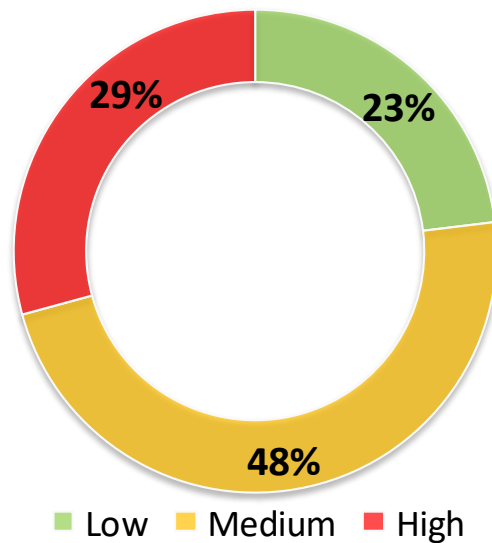
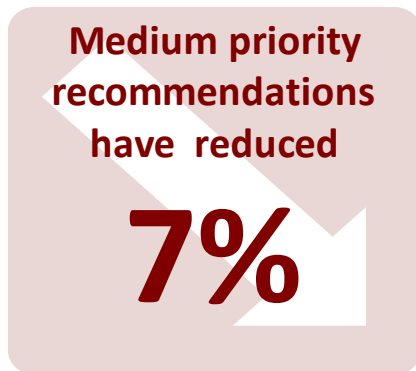
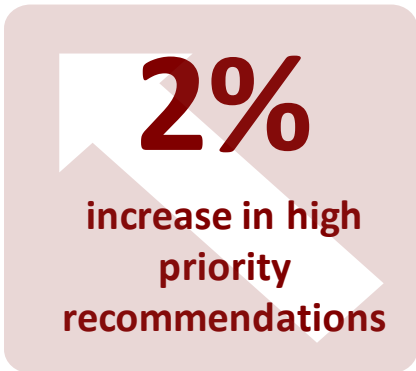
Increase in Low and Limited Assurance on last year

16%

Decrease in High and Substantial Assurance on last year



Recommendations



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 graph shows our performance on key indicators at the end of the year. We are pleased to report a good level of achievement in contemporary reporting (timescales) and issuing reports. An area of improvement is around plan completion which has declined this year due to a number of factors including those detailed within the previous section 'Our Work'.

Performance on Key Indicators

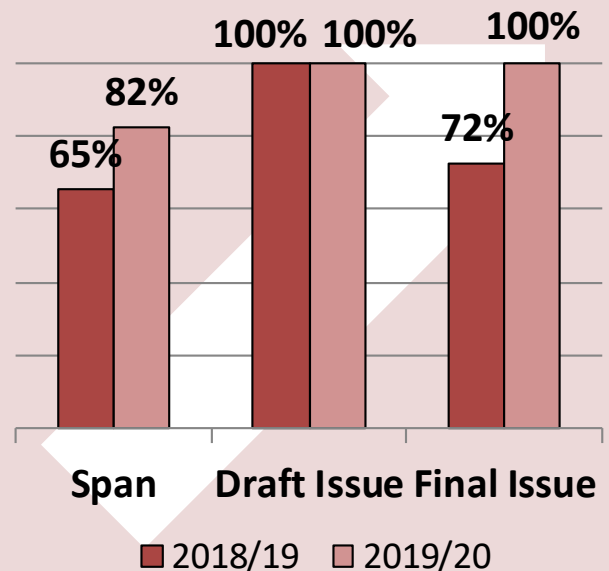
100%

Rated our service Good to Excellent

Some decline in achievement of Audit KPI's

78%

Of revised plan delivered



Audit	Rating	Type	High	Medium	Advisory	Total
Commercialisation	In progress	Risk Based Audit				0
Mansfield Crematorium	Complete	Financial	N/A	N/A	N/A	0
Customer Comments	Substantial	Risk Based Audit	0	3	1	4
Pay and grading	High	Risk Based Audit	0	0	2	2
Financial Strategy and Modelling	High	Risk Based Audit	0	0	0	0
Community Centres	Limited	Risk Based Audit	0	3	2	5
Building Control	Limited	Risk Based Audit	4	0	0	4
Newark Cattlemarket	Complete	Financial	N/A	N/A	N/A	0
Corporate Planning	Postponed to 2020/21	Risk Based Audit	N/A	N/A	N/A	0
ICT Incident Management	Indicative - Limited	Risk Based Audit	6	3	1	10
Workforce changes and succession planning within the Council including changes within the management team	Postponed to 2020/21	Risk Based Audit	N/A	N/A	N/A	0
Performance	Indicative - Substantial	Risk Based Audit	0	1	0	1
Buttermarket	In progress	Risk Based Audit				0
Gilstrap	Completed	Financial	N/A	N/A	N/A	0
Budgetary Control /Management	Postponed to 2020/21	Risk Based Audit	N/A	N/A	N/A	0
Sub total			10	10	6	26

Audit	Rating	Type	High	Medium	Advisory	Total
Procurement	Substantial	Risk Based Audit	0	4	2	6
ICT Patch Management and Change Control	Indicative - Substantial	Risk Based Audit	2	7	2	11
Combined Assurance	Complete	Consultancy	N/A	N/A	N/A	0
Key Control Testing	Indicative - Substantial / Limited	Risk Based Audit	6	11	4	21
Capital Programme	Substantial	Risk Based Audit	0	3	0	3
Newark Cattlemarket	Cancelled	Risk Based Audit	N/A	N/A	N/A	0
Housing Options	On hold	Risk Based Audit				0
General Ledger/Financial reporting	Postponed to 2020/21	Risk Based Audit	N/A	N/A	N/A	0
Strategic Risks	On hold	Risk Based Audit				0
Land Charges	Indicative - Substantial	Risk Based Audit	1	0	1	2
Public Protection	On hold	Risk Based Audit				0
Follow-ups	In progress	Risk Based Audit				0
Corporate Governance	On hold	Risk Based Audit				0
Fraud Risk register	Completed	Consultancy	N/A	N/A	N/A	0
Gilstrap	Completed	Financial	N/A	N/A	N/A	0
Newark Cattlemarket	Completed	Financial	N/A	N/A	N/A	0
Sherwood Forest Arts and Craft Centre	Completed	Consultancy	N/A	N/A	N/A	0
Lorry Wash	Completed	Consultancy	N/A	N/A	N/A	0
Ranch Café	Completed	Consultancy	N/A	N/A	N/A	0
Debtors	Completed	Consultancy	N/A	N/A	N/A	0
S106	In progress	Consultancy				0
	Total		19	35	15	69

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

Community Centres – our review looked to provide assurance that the Community Centre buildings are effectively managed supporting the Council’s values.

The Council need to have an understanding of how the centres are performing to be able to minimise risk, be assured that they and their assets are protected and to provide an overview of what value centres are adding.

Recommendations are focused on creating a structure for monitoring community centres so that all checks and communications are completed and documented in one place and ensuring that the value they add to achieving the Community Plan objectives is reported.

Key Controls – Health and Safety* – We took a high level review of the processes to ensure that Health and Safety legislation is embedded and adhered to.

We found that despite raising some issues in the 2017/18 audit, policies and the importance of risk assessments are still not fully embedded throughout the Council. Responsibilities are not being complied with which could potentially expose the Council to HSE penalties, sanctions and damaged reputation.

Recommendations have been made around the risk assessments, communication of responsibilities and accountability for fulfilling those responsibilities.

Key Controls – Absence Management* - Whilst there is a Policy and toolkit in place we found that these were several years old (2016 and 2014 respectively) and were not being fully complied with as processes had changed. The issues raised increase the potential for fraud and abuse as absences are not authorised, followed up or potentially overpaid if not correctly recorded and trigger points reached. Management are also unable to accurately monitor the absences and put processes in place where possible to reduce future absences.

Recommendations include carrying out compliance checks, reviewing reporting arrangements and reviewing the Policy and toolkit.

Building Control* – This review looked at the Councils monitoring arrangement for the Building Control contract.

The area had incurred some challenges due to the vacancy of a Business Manager for some time. Therefore monitoring of the contract had been limited. It was identified that a large proportion of the information for the monitoring comes directly from the Partnership Board Meetings.

Performance data is limited to what they provide with no further monitoring carried out to ensure the partnership provides value for money or is meeting the initial objectives. The business case has also not been updated annually as required within the contract

ICT Incident Management* – Our audit reviewed the processes to ensure that ICT incidents are promptly identified, recorded and investigated.

The review found that the Council does not have an effective reporting facility for staff and contractors to convey their concerns and when concerns are raised they are not always handled effectively utilising the most appropriate staff. The incident handling procedure has not been reviewed in at least 5 years. Lessons learnt are also not reflected on.

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

The approved plan was 285 days and the changes made resulted in the plan days remaining the same.

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:

- Budgetary Control / Management
- Workforce changes and succession planning within the Council including changes within the management team (Originally postponed from 2018/19)
- General Ledger / Financial Reporting
- Corporate Planning
- Newark Cattlemarket – Risk Based Audit
- Full performance audit – follow-up completed

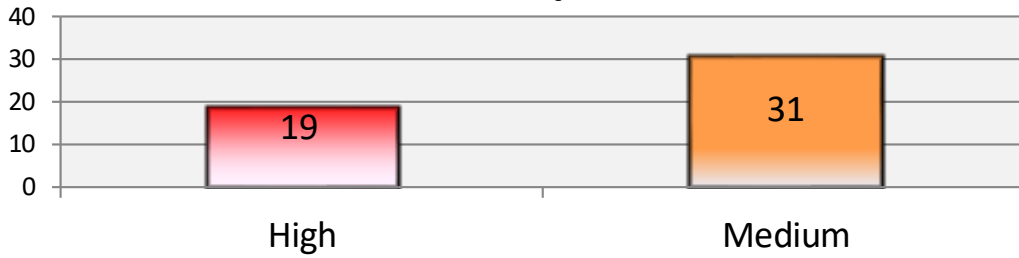
Two of these have been included in the 2020/21 plan, one has been removed

completely due to an internal review being undertaken and the remaining three were cancelled after the 2020/21 plan was produced so will need to be considered as potential changes to this plan.

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

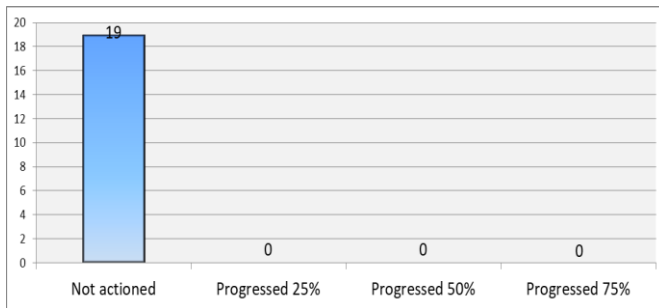
- Sherwood Forest Arts and Craft Centre
- Lorry Wash
- Ranch Café
- Debtors
- S106
- Governance Review

Overall Actions remaining to be implemented for 2019/20 audits



High Priority Actions remaining to be implemented

Overall

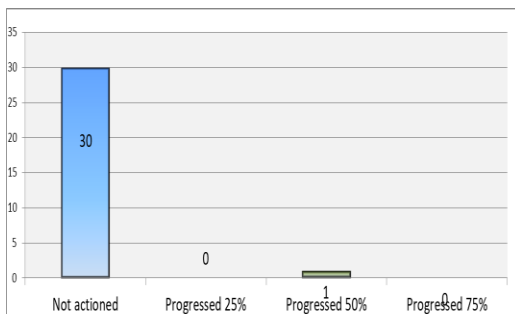


Overdue

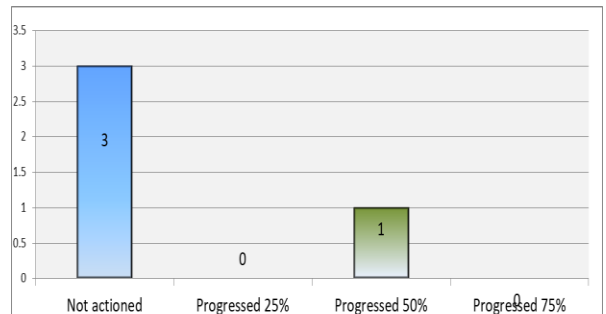


Medium Priority Actions remaining to be implemented

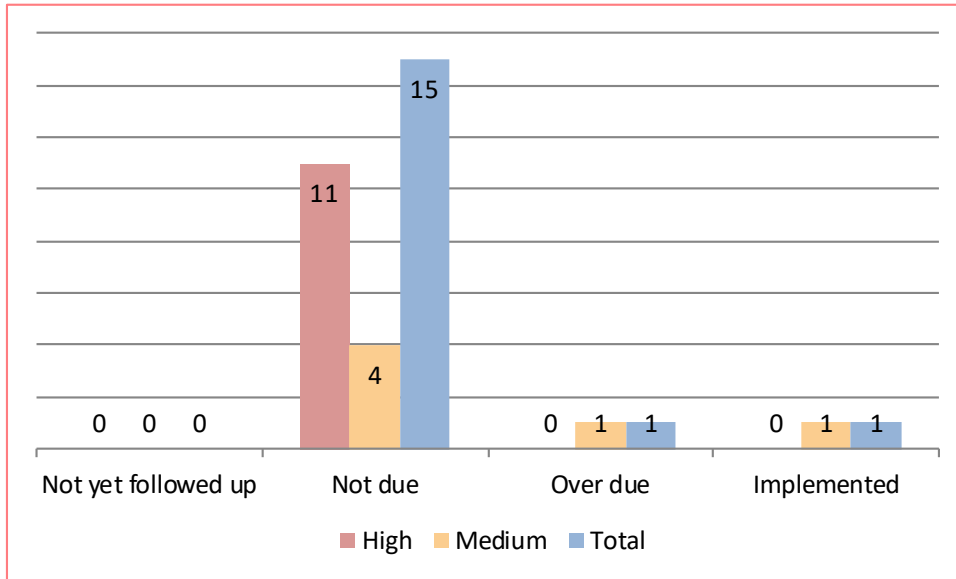
Overall



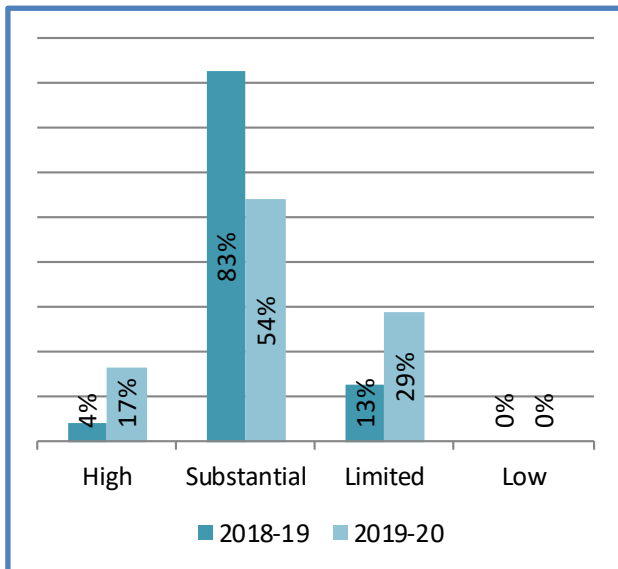
Overdue



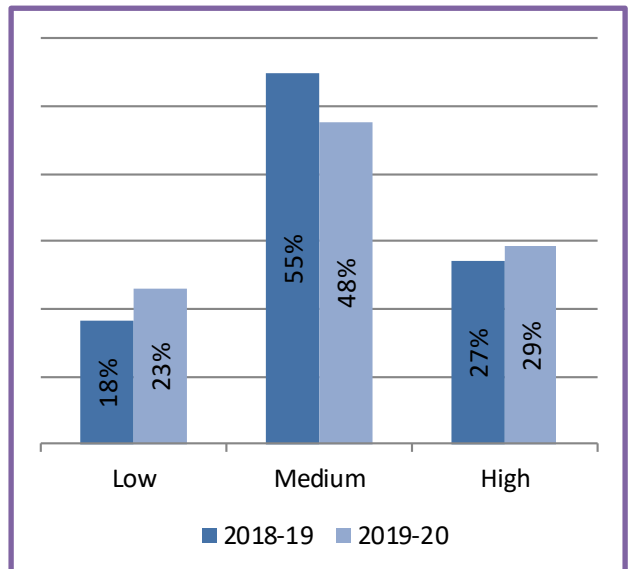
Status of Actions within Limited or Low reports for 2019/20



Comparison of Assurances



Comparison of Recommendations



Performance on Key Indicators

Performance Indicator	Annual Target	Actual
Percentage of plan completed (based on revised plan)	100%	78%
Percentage of recommendations agreed	100%	100%
Percentage of 2019/20 Actions implemented	100% or escalated	67%
Timescales:		
Draft Report issued within 10 days of completion	100%	100%
Final Report issued within 5 days of management response	100%	100%
Draft Report issued within 2 months of fieldwork commencing	80%	82%
Client Feedback on Audit (average)	Good to excellent	Good*

*Only 1 returned

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).