

# Internal Audit Annual Report 2022/23



## South Holland District Council

## **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 South Holland 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. 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

## Introduction





For the twelve months ended 31 March 2023 the Council's arrangements for governance and internal control framework have continued to work adequately.

The Council has strengthened its governance framework and the Senior Leadership Team (SLT) meet monthly for governance oversight and to provide leadership to address any issues.

Assurance on risk management has strengthened to performing well, while financial control has decreased to improvement needed.

There is regular risk management reporting to SLT and Members. The Council regularly reviews and updates its Strategic Risk register.

SLT and PSPSL management have been working jointly to address finance service delivery concerns and recent recruitment completed in April 2023 should improved the PSPSL financial management resource.

<p><b>Governance</b></p> 	<p><b>Performing Adequately</b>– Some improvements identified over the Council's Governance, Risk and Control framework to manage medium risks across the Council</p>
<p><b>Risk</b></p> 	<p><b>Performing Well</b> – No concerns that significantly affect the governance, risk and control framework and successful delivery of the Council priorities.</p>
<p><b>Internal Control</b></p> 	<p><b>Performing Adequately</b> – Some improvements identified over the Council's Governance, Risk and Control framework to manage medium risks across the Council</p>
<p><b>Financial Control</b></p> 	<p><b>Improvement Needed</b> – Improvement required to manage a significant governance issue or high risk in a specific business area or medium risk across the Council</p>



*"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.

There are still challenges in aligning the Partnerships governance structures and controls, but work is in progress to address both process and culture, led by the Senior Leadership Team (SLT).

Oversight and leadership are provided by SLT through the regular governance meeting, attended by Internal Audit. Plans are monitored to strengthen communication, alignment, policies, working relationships and clear targets are set.

The provision of financial services from Public Sector Partnership Services Ltd (PSPSL) was an area of focus for the Council and PSPSL throughout 2022/23 . A key failing for Councils identified from recent Public Interest reports is the lack of financial capacity and capability available to support Councils.

There has been some staff turnover within the financial service for PSPSL. The Council also needs to ensure its managers are fully engaged with the finance systems and processes. This has impacted on the overall financial governance and ability to consistently deliver timely financial support.

Actions have been taken to address the issues, including action plans monitored by the Senior Leadership Team and PSPSL and recent recruitment to strengthen the capacity and capability within the finance service.

It has also highlighted a need to ensure that at a senior management level there are effective processes and mechanisms in place to jointly address capacity, capability and delivery issues between the Council and PSPSL.

**We are recommending that actions to address financial capacity and capability are included in the AGS and results reported to the Audit and Governance Committee.**

The Council approved a new Corporate Strategy 2020-30 in 2020, which sets the direction for the next ten years. This Strategy details the Council's strategic aims and how these will be met.

Supporting this are Annual Delivery plans for the partnership. The end of year report has gone through the SLT and reports good achievements across a range of delivery tasks and projects. With **84%** of actions either complete or on track to be delivered on time.

Our work and attendance at SLT meetings has confirmed that progress has been made on management oversight and good governance. There is greater focus in the monitoring and reporting of completed activities & actions.



*"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 and report these in its Annual Governance Statement – in the interests of accountability and transparency.

The 2022/23 Annual Governance Statement (AGS) had not been finalised at the time of writing this report. The Governance and Audit Committee reviews the draft and final versions of the Annual Governance Statement.

The 2021/22 AGS has the following significant governance issues listed for monitoring –

The following items have been identified, from the Internal Audit Annual Opinion, for inclusion in the Annual Governance Statement. Which should be reported in the AGS until resolved, these are detailed as follows:

- In 2019/20, the private sector housing report was given a No Assurance grading. A total of 28 recommendations; 16 urgent, six important and six needs attention recommendations were originally raised. The 2021/22 audit has indicated that progress has been made with a further three urgent and five important actions agreed to support the further work required to fully implement the original recommendations, a significant improvement in the control framework in this area is however indicated.

- The audit of Corporate Health and Safety, resulting in a Limited assurance grading. It is confirmed that seven of the eight medium priority recommendations relating to this review have now been resolved, the remaining recommendation (relating to Actions arising from H&S Audits / Inspections be recorded and followed up, through to conclusion) has been reported as partially implemented.

Although the implementation of audit findings is closely monitored by the Audit and Governance Committee, there is no regular reporting of AGS actions. There should be greater transparency and regular updates of all AGS actions during the year.

There is a risk that effective oversight is not maintained on significant governance issues by the audit committee.

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

**We are recommending that significant governance issues raised in the Annual Governance Statement are monitored and progress is regularly reported in an action plan to the Audit and Governance Committee.**

# Governance



*"Achieving the Intended Outcomes While Acting in the Public Interest at all Times"*

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

In 2022 the Council organized a LGA Peer review. This was a useful exercise in gaining external views on how the Council and Partnership are working.

There were several actions and recommendations coming from this review. An action plan has been used to monitor progress against these actions and this is reported to SLT on a monthly basis. All the actions are either complete or on track to be complete.

Considering all the above, our overall opinion of Governance is assessed as Performing Adequately.

## Governance assurance



**Assessed as  
Performing Adequately**



# Risk



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

There are established overarching structures and processes for identifying, assessing and managing risk which have remained effective for strategic risk reporting.

Strategic risks have recently been updated by SLT and presented to Members for review and approval. The risks represent current and emerging risks for the Council. Work is also underway to develop a Partnership wide Strategic Risk register to better understand and monitor key risks. This will be reported to the June Governance and Audit Committee.

Further work is also planned with risk management professionals to review and update the Council's risk appetite, we will follow up on this work and report the results.

We have reviewed risk management arrangements across the Partnership and a Substantial level of assurance was given on risk management process and outcomes. The audit report will support Council risk officers in setting a new strategy for the Partnership.

Fraud risks have not been reported to the Audit and Governance Committee during 2022/23.

We've confirmed that a review of the Council's fraud risks and an update of the fraud risk register will take place during 2023/24 and be reported to the Audit and Governance Committee.

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

The above information helped inform the Head of Internal Audit opinion.

## Risk Management assurance



## Assessed as Performing Well



# Internal Control



We take account of the outcome of our audit work during the 2022/23 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.

During the year, Internal Audit services transferred from TIAA to Assurance Lincolnshire. Our opinion is based on a number of sources of intelligence including the outcome of our internal audit work and other sources. We have also considered the findings from the Internal Audit work undertaken by TIAA.

There was two indicative **Limited** Assurance opinions:

- Key Controls Control Account Reconciliations
- Key Controls ICT Project Management

and no Low Assurance opinions for 2022/23.

Work completed and assurance given –

- Housing Benefit Subsidy testing – Substantial Assurance
- Economic Growth – Substantial Assurance
- Procurement & Contract Management – Reasonable Assurance
- ICT Problem & Change Management – Reasonable Assurance
- Risk Management – Substantial Assurance\*
- Virus Protection & Malware – Substantial Assurance\*
- Housing Compliance – with TIAA for closure

\*Indicative opinion

During the year we made 48 High / Medium recommendations. We are still awaiting a final response on the current position of some recommendations, Percentage to be finalised.

We continue to monitor all outstanding audit actions and full details are provided in the

Internal Audit Progress report.

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

Our position as Internal Auditor across the SELCP and PSPSL allows us to work more effectively in our testing and reporting. Meaning we maintain a robust overview of systems and controls and can coordinate findings and issues efficiently.

The outcome of our internal audit work and the intelligence gathered through the combined assurance framework has helped inform the Head of Internal Audit's opinion on Internal Control.

## Internal Control assurance



Assessed as  
Performing Adequately



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

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

PSPSL provide the Council with management and operational financial support. During 2022/23 some issues were highlighted between PSPSL, the Senior Leadership Team Governance meetings and from management through the Assurance Mapping process.

Key areas included a gap in capital accountancy expertise, staff turnover and the use of interim staff to cover vacancies, leading to a reduction in experience of delivering Local Government financial support.

Interim solutions have been implemented, it is now key that jointly, the Councils leadership team and PSPSL leadership team establish clear actions and solutions to support the service.

The Assurance Mapping process, completed in December 2022, also highlighted an increase in managers expressing concerns with the timely availability and accuracy of some financial information for their services.

The Councils Senior leadership Team and PSPSL are working to address issues raised. An action plan is being developed, with input from both PSPSL and the Council, to ensure improvements are made in financial capacity and capability and that the Council and PSPSL are well supported in their ambitious goals and outcomes for the community.

Local Government as a whole is experiencing difficulties in recruiting to some hard to recruit to professions, including finance. PSPSL has recently completed a successful recruitment exercise and appointed two senior experienced finance managers to address the skills shortfall.

PSPSL have commissioned an independent review by CIPFA on their finance service and structure. The results of this will support wider corporate understanding on actions needed to strengthen financial services.

Improvements will be tracked through the SLT governance group and future assurance should be reported to the audit committee on how the issues are being addressed.

# 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:

- Housing Rents – Substantial Assurance\*
- Key Controls Council Tax – Substantial Assurance\*
- Key Controls- NNDR – High Assurance\*
- Key Controls Housing Benefits – Substantial Assurance\*
- Key Controls – Control Account Reconciliations - Limited Assurance\*
- Key Controls Accounts Receivable – Consultancy
- Key Controls Journals – Substantial Assurance\*

\*Indicative opinion

The outcome of our internal audit work and the intelligence gathered through other sources of assurance has helped inform the Head of Internal Audit's opinion on Financial Control.

The above information helped inform the Head of Internal Audit opinion

## Financial Control assurance



**Assessed as  
Requires Improvement**

## 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 & Governance Committee approved the 2022/23 original audit plan of 170 **days** in March 2022. The revised audit plan was 100 days. We have delivered **97%** of the revised plan and more details on the plan can be found in Appendix 1.

The Car Parks and Markets review was cancelled after some initial work had been carried out. This was agreed between SHDC management and TIAA the previous Internal Auditors.

TIAA are also completing the Housing Compliance audit, from the 2022/23 plan. At the time of writing this report, the Housing Compliance audit was in progress and at draft report stage. Therefore, we are unable to include the assurance level or outcomes from this work.

## Restriction on Scope

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

There were changes made to the planned audits throughout the year. These included postponing the Leisure and ICT Disaster recovery audits until 2023/24.

All changes to the audit plan are reported through the Audit and Governance committee.

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 work undertaken in December helped in this regard.

There have been some delays encountered in the provision of information through our work with the Council. Through discussion and agreement with the Senior Leadership Team we have agreed a new working protocol to support effective and contemporary delivery of audit work.

## Our Work



Internal Audit's role include advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

## Other Significant Work

During the year we have completed testing of Housing Benefit Subsidy on behalf of Mazars. Our testing found one error and we awarded Substantial Assurance based on detailed case testing. South Holland continues to show that Benefits are actioned in a timely and accurate way.

The impact of claims being paid incorrectly is that the Council may have over claimed or incorrectly claimed subsidy, which would require refunding and that financial penalties can be applied if error thresholds are breached.

We have continued to support the Council's assurance framework through attendance at the monthly SLT Governance meeting. These regular meetings provide cover a detailed agenda of assurance related matters and allow for the discussion and update on risk, governance and control issues.



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.

Having skilled and effective people remains at the heart of our workforce strategy. The team has provision for 23 full time equivalent posts – established to deliver both the County Council and external contracts internal audit plans.

As well as being fully compliant with the Public Sector Internal Audit Standards, after an independent review in December 2022, we are also refreshing our teams training and realigning the service to support improved audit quality and delivery.

During 2022/23 we have continued to build upon the strong focus on developing the next generation of audit and risk professionals. We have:

- Recruited new audit officers and seniors for our audit team.
- Enrolled them on an apprenticeship, working towards a professional audit qualification.
- Realigned our team's client coverage to strengthen client understanding.

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.

We are reassessing our approach to planning and understanding risk to improve the quality of our reports and timely delivery of our work.

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

**“the Assurance Lincolnshire Partnership's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note”.**

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

## Our Work



We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards (PSIAS). We continually focus on delivering high quality audit to our clients – seeking opportunities to improve where we can.

## Quality Assurance

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

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

## External Audit

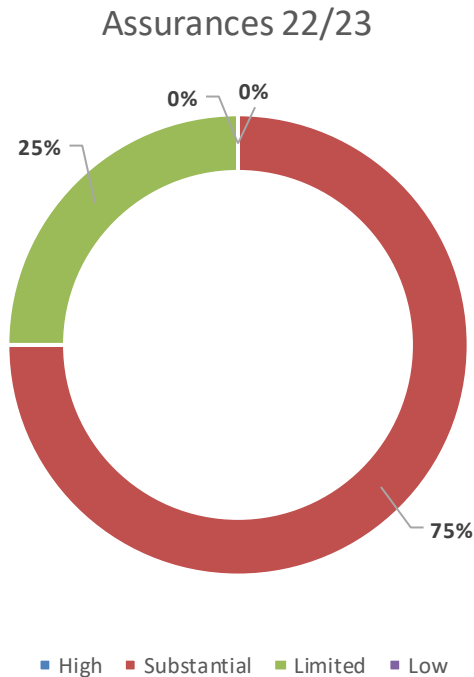
Although internal and external auditors carry out their work with different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will use the results of internal audit work where it is appropriate.





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



We have not provided a comparison of assurances to last year due to the Internal Audit service transferring to Assurance Lincolnshire during 2022.

Further details can be found at appendix 1 & 3



Internal Audit's performance is measured against a range of indicators. The table at Appendix 4 shows our performance on key indicators at the end of the year. We are pleased to report a good level of achievement in delivery of the revised plan and the added value of our work.

### Performance on Key Indicators

**97%**  
Of revised  
plan delivered

**TBC Agreed  
actions  
implemented**

**70%**  
Of key  
financial  
systems  
delivered

Audit	Rating	Type of audit	Status	High	Medium	Advisory	Total
Housing Benefit Subsidy	Substantial	Grant Work	Complete	0	0	0	0
Economic Growth	Substantial	Risk Based	Complete	0	0	2	2
Housing Compliance	TIAA	Risk Based	TIAA				0
Procurement and Contract Management	Reasonable	Risk Based	Complete	0	0	2	2
Car Parks and Markets	TIAA	Risk Based	TIAA	-	-	-	0
SELCP Risk Management	Substantial*	Risk Based	Draft report	0	8	2	10
SELCP Key Controls - Revenues & Benefits	Council Tax Substantial* NNDR –High Assurance*	Risk Based	Draft report	0	2	2	4
SELCP Key Controls - Accountancy services - Journals	Substantial*	Risk Based	Draft report	0	2	0	2
SELCP Key Controls - Accountancy services - Control Account Reconciliations	Limited*	Risk Based	Draft report	6	6	0	12
SELCP Key Controls - Housing Rents	Substantial*	Risk Based	Draft report	0	4	0	4
SELCP Key Controls Accounts Receivable	Consultancy	Consultancy	Draft report	2	5	0	7
SELCP ICT Project Management	Limited*	Risk Based	Draft report	2	6	0	8
Virus Protection and Malware	Substantial*	Risk Based	Draft report	0	5	0	5
ICT Problem and Change Management	Reasonable	Risk Based	Complete	0	0	1	1
		Total		10	38	9	57

The original approved plan was 170 days –

A small number of audits were removed from the original audit plan and this was due to re-prioritising audit resources to those areas of highest risk.

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

- Corporate Governance
- ICT Disaster Recovery
- Leisure

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

The annual audit plan remains flexible with a process to postpone and change audits. This means we can adapt our plan and coverage to emerging risks but maintain control and transparency on changes which must be approved by management and the Audit & Governance Committee.

## Performance on Key Indicators

Performance Indicator	Annual Target	Actual
Percentage of plan completed (based on revised plan)	100%	97%
Percentage of recommendations agreed	100%	100%
Percentage of recommendations implemented	100% or escalated	TBC
Percentage of recommendations due implemented	100% or escalated	100%

We have not reported the KPI's for our timeframes due to the transition of Internal Audit services mid year and a large volume of reports are currently at draft report stage. This information can be made available to committee if required.

**Substantial**

Based upon the issues identified there is a robust series of suitably designed internal controls in place upon which the organisation relies to manage the risks to the continuous and effective achievement of the objectives of the process, and which at the time of our review were being consistently applied.

**Reasonable**

Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisation's management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.

**Limited**

Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.

**Low**

Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of the process. Immediate action is required to improve the controls required to mitigate these risks.

**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).