



Internal Audit Annual Report & Opinion – 2025/2026

The Head of Internal Audit is responsible for delivering an annual opinion and report to inform the Annual Governance Statement, concluding on the adequacy and effectiveness of the Council's governance, risk and control environment.

May 2026

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Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

'Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.'

The standards relevant for the financial year 2025/26 related to proper practices laid down in the Global Internal Audit Standards, 2024 and the Application Note: Global Internal Audit Standards in the UK Public Sector, 2025.

The role of internal audit is best summarised through the purpose statement contained within the Standards, which states:

"Internal audit strengthens the organisation's ability to create, protect, and sustain value by providing the board and management within independent, risk-based and objective assurance, advice, insight and foresight.

Internal auditing enhances the organisation with:

- *Successful achievement of its objectives.*
- *Governance, risk management and control processes.*
- *Decision-making and oversight.*
- *Reputation and credibility with their stakeholders.*
- *Ability to serve the public interest.*

Internal audit is most effective when:

- It is performed by competent professionals in conformance to the GIIA Standards, which are set in the public interest.
- The internal audit function is independently positioned with accountability to the board.
- Internal auditors are free from undue influence and committed to making objective assessments.

South Holland District Council (SHDC) is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising SHDC that these arrangements are in place and operating effectively.

LCC's audit service is delivered by competent auditors who receive targeted support and regular training throughout the year. Behaviours, conduct and competency expectations are made clear and when auditor actions fall below expected and communicated standards, action was taken through LCC's HR processes.

SHDC's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

There have been no instances of interference with audit judgments or outcomes from the Senior Leadership Team. The Senior Leadership team call upon the audit team for advisory work and additional assignments supporting the value added by the team and utilising the objectivity and independence of the service.

Internal Audit Approach

To enable effective outcomes, internal audit delivered a combination of assurance and advisory activities. Assurance work involved assessing how well the systems and processes were designed and delivered, with advisory activities available to help to improve those systems and processes where necessary. The assessment for effectiveness of fraud controls was also considered when reviewing overall adequacy. A full range of internal audit and counter fraud services were provided in forming the annual opinion.

As the Head of Internal Audit, I reviewed the approach to each audit, considering the following key points:

- Level of assurance required.
- Significance of the objectives under review to the organisation's success.
- Risks inherent in the achievement of objectives.
- Level of confidence required that controls are well designed and operating as intended.

Each internal audit assignment resulted in a published report. The primary purpose of the audit report was to provide an independent and objective opinion to the Council's senior management on the framework of internal control, risk management and governance in operation and to support continual improvement. The audit work delivered to inform the opinion was assessed against defined risk assessment criteria with evidence based conclusions assessed against defined categories, which were communicated across the organisation. This approach increased the reliability and validity of the annual opinion.

The internal audit team maintain an agile approach to auditing, seeking to maximise efficiencies and effectiveness in balancing the time and resource commitments with the necessity to provide comprehensive, compliant and value adding assurance. High level scoping was discussed with the Director/Head of Service sharing the areas assurance would be provided upon and any significant impactors which may influence the audit review.



Internal Audit Coverage

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council's activities and to support the preparation of the Annual Governance Statement. The plan was developed and executed to obtain sufficiently reliable evidence to support conclusions and provide reasonable assurance over the effectiveness and application of the internal control system.

The Governance and Audit Committee considered and approved the indicative 2025-2026 internal audit plan in March 2025 and periodically throughout the year to complement the service's approach to flexible planning. It was informed by internal audit's own assessment of risk and materiality in addition to consultation with the corporate leadership, external auditors and to ensure it aligned to key risk areas facing the organisation.

The audit plan remained flexible throughout the year to support the maintenance of effective focus and ensure that it continues to provide assurance, as required, over new or emerging challenges and risks that management may need to consider, manage, and mitigate. All internal audit reviews included in appendix one culminated in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review.

Where advisory reviews have taken place throughout the year, the intention was to provide independently obtained evidence to inform further developments and/or improvements to procedural efficiencies and processes. Each advisory assignment culminates in a written report, shared with senior management and appropriate officers, which details findings, identified root causes and, if appropriate, propose recommendations.

Advisory work is considered when forming my opinion, and any action taken consequently is revisited when the assurance programme is considered in its entirety.

The audit programme included follow up work to determine whether the risks identified during assurance assignments have sufficient evidence of management action being taken to mitigate the risks and address control deficiencies. This process results in an additional independent assessment of the impact and resultant risk after management action has been taken. For 2025/2026 the follow up programme was designed to inform the residual risk profile alongside informing the HIA on the attitude of management towards monitoring and completing agreed actions.

Internal Audit Opinion

As Head of Internal Audit, I am responsible for the delivery of the internal audit plan and the annual audit opinion used by the Council to inform their Annual Governance Statement. The annual opinion concludes with an independent opinion broken into three key areas, governance, risk management and control environment.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be provided, I have used the following to aid my opinion:

- ✓ Written reports on all internal audit work completed during the year (assurance and advisory).
- ✓ Results of any follow up work undertaken in respects of previous years' internal audit work.
- ✓ The results of work other review bodies where appropriate.
- ✓ The extent of the resources available to deliver the internal audit work.
- ✓ The quality and performance of the internal audit service and the extend of compliance with the Standards, and
- ✓ The proportion of the Council's audit need that has been covered within the period.

The assurance opinions are defined as follows:

Substantial Assurance
There is a sound framework of control operating effectively to mitigate key risks, which contributed to the achievement of business objectives. <ul style="list-style-type: none">• No individual audit engagement classed as limited or no assurance.• Occasional medium rated risks identified in individual audit engagements although mainly low weaknesses.• Internal audit has confidence in management's attitude to resolving identified issues.
Adequate Assurance
The control framework is adequate and controls to mitigate key risks operate effectively, although some controls need to improve to ensure business objectives are met. <ul style="list-style-type: none">• Medium risk rated weaknesses identified in individual audit assignments.• Isolated high rated risks identified for isolated issues.• No critical rated risks identified through the audit programme.• Internal audit is broadly satisfied with management's approach to resolving identified issues.
Limited Assurance
The control framework is not operating effectively to mitigate key risks. Several key controls are absent and/or are not being applied to meet business objectives.

- A significant number of medium and/or high rated risks identified in individual audit assignments.
- Isolated critical and/or high rated risks identified that are not systemic.
- Internal audits have concerns about management’s approach to resolving identified issues.

Low Assurance

A control framework is not in place to mitigate key risks. The Council is exposed to abuse, significant errors, loss and/or misappropriation. Objectives are unlikely to be met.

- Serious systemic control weaknesses identified through aggregation of individual audit engagements.
- Significant number of high and/or critical rated risks identified for isolated issues.
- Internal audit has serious concerns about management’s approach to resolving identified issues.

No Assurance

Insufficient internal audit work has taken place during the period to substantiate an independent opinion. The rationale for this will be fully explained in the report.

Please Note

Results and observations of internal audit advisory work form an important part of the opinion. Where they have material weighting this will be fully explained in the report.

Internal audit may downgrade an opinion based on the work of internal audit where it is aware of material findings by another trusted assurance party. This will be fully explained in the report.

Circumstances may arise where internal audit is aware of specific issues within the control environment that negate the use of the framework. The rationale for such deviation will be fully explained in the report.

Audit Opinion 2025/2026

I am satisfied that sufficient assurance work has been completed to allow me to form a conclusion on the adequacy and effectiveness of the internal control environment.

In my opinion the frameworks of governance, risk and internal controls are **limited**, and audit testing has demonstrated that the control framework is not operating effectively to mitigate key risks. Several key controls are absent and/or are not being applied to meet business objectives. Improvements in control design and application will reduce the reliance on employee’s diligence and application.

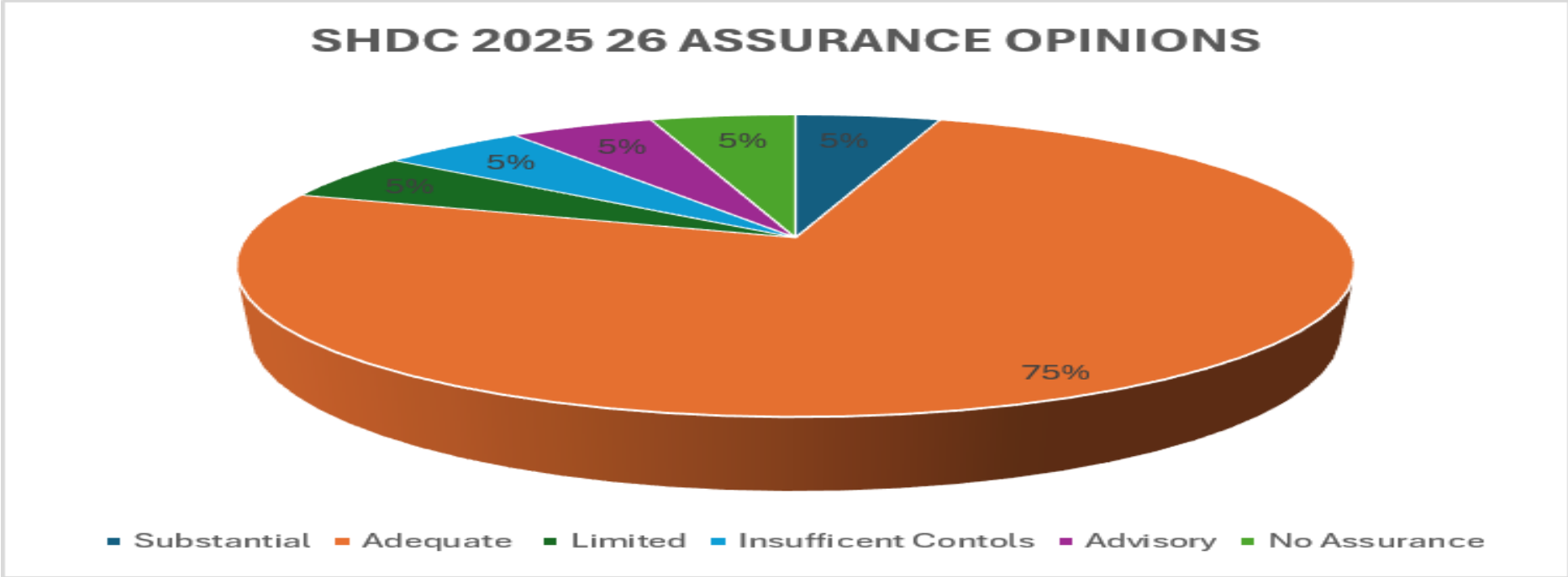
Where weaknesses have been identified through internal audit review, the audit team worked with management to agree corrective actions within an appropriate timescale.

Key Observations on Governance, Risk & Control

Assurance Opinion From 2025-26 Reviews

Audit assurances awarded along with finding summaries from both assurance and advisory reviews were reported to the Governance and Audit Committee throughout the year. The graph below shows the percentage of awards for each assurance category for South Holland District Council.

Figure 1 – Assurance Summary



There was one no assurance award provided during the year, and one advisory assignment. Advisory assignments were designed to offer improvements to efficiency, process and procedural delivery and concluded in written report sharing findings and root causes.

Governance

Every assurance assignment contained a review of governance aspects. Governance arrangements were considered during the planning and scoping for each review and in most cases, the scope of work includes an overview of:

- The governance structure in place, including respective roles, responsibilities, and reporting arrangements.
- Relevant policies and procedures to determine whether they are in line with requirements, regularly reviewed, approved, and appropriately communicated and accessible.

Evidenced from audit reviews completed during the year and observations from attendance at a range of management and governance meetings, elements of the Council's governance framework are established and subject to reporting through the Governance & Audit Committee. Internal Audit has identified inconsistencies in how governance arrangements are applied in practice. In particular, the findings from the UKSPF grant review highlight a lack of consistently applied governance in certain areas, resulting in weak controls, unclear responsibilities, and insufficient oversight. This indicates that, although the overall sound framework was in place, it was not applied effectively or consistently across all activities. Improvements are required to strengthen application, accountability, and assurance.

The Governance & Audit Committee plays a key role in promoting good governance, this year a self-assessment was completed, highlighting training needs. Training plans are being developed for 2026/27 to further support members to be an effective committee. Where insufficient control review or limited assurance reviews were reported, the committee took a proactive role in understanding the key risks. There were multiple occasions when relevant officers were not in attendance at the Governance & Audit Committee to respond to member's questions seeking additional assurance on appropriate matters. Whilst an improvement has been seen, this is an area for sustained improvement to enable members to assess the adequacy of governance practices and hold officers to account for the delivery of their governance arrangements. The approach demonstrated by committee members supported their important role in providing a robust response, in line with the committees' terms of reference and good governance principles.

In some instances, officers were unable to provide a full response to member queries at the time of the meeting. This limited the committee's ability to undertake immediate and effective scrutiny, including probing issues further, seeking assurance, and pursuing additional lines of enquiry informed by officer responses. While responses may subsequently be provided outside of the meeting, this removes the effectiveness of real-time challenge and the overall depth of discussion within the committee setting.

Risk Management

A consistent framework is in place at South Holland District Council, defining risk management across strategic, operational, and programme/project levels, with documented roles and responsibilities.

Audit reviews found that key elements of risk management were underdeveloped, including the absence of a formally defined and operational risk appetite. Risk reporting was inconsistent, with varying quality across registers. The overall framework was not fully aligned to governance requirements, and unclear escalation processes and roles further weakened effective oversight.

Training and awareness arrangements would benefit from greater formality and structure, with a defined programme, monitoring, and evaluation. Actions agreed following the 2025 internal audit remained incomplete and not embedded, despite past implementation dates, which limited assurance that key control gaps have been addressed.

In accordance with the Constitution, the Governance & Audit Committee continues to play a key role in overseeing and monitoring the effectiveness of risk management arrangements. This has been supported through the committee's regular consideration of both the risk management strategy and the strategic risk register, which have remained standing agenda items throughout the year. Internal Audit has observed consistent quarterly reporting, with member scrutiny prompting discussion, challenge, and the identification of improvement actions where required.

Whilst the overall framework is considered fit for purpose, improvement is required to strengthen risk management practices to allow the Governance & Audit Committee to place full reliance on the work.

It is my opinion that the Council's risk management framework is in place and subject to regular review. However, current arrangements do not provide confidence that risks are managed consistently and effectively; the proposed improvements will help to further strengthen its maturity and consistency.

Control

Internal audit work undertaken during 2025/26 continued to demonstrate that there was a control environment in place across many review areas, with controls generally designed appropriately and operating to support the delivery of corporate objectives. However, audit work has identified one review where controls were insufficient, one limited assurance review and one no assurance review. This highlighted that there remained areas where the control framework was either not adequately designed or not operating in application.

Whilst still draft, in the no assurance review the control environment was considered severely weak, with governance and core controls not being consistently applied. Monitoring, risk management, and documentation processes were inadequate, with reliance on informal practices and incomplete audit trails. The environment lacked control, transparency, and accountability, which created a high-risk position.

The other lower assurance assignments identified weaknesses in defined roles and responsibilities, performance monitoring, and oversight arrangements. This reinforces the theme identified in previous years that, in some key areas of joint working between the Council and PSPS,

there was a lack of clarity and consistency in how services are governed and controlled. Audit work undertaken during 2025/26 identified that this remained a key risk area requiring continued management focus.

Management have responded positively to the risks raised and internal audit reporting throughout the year has highlighted that the timely implementation of agreed actions remains an area for improvement, with progress reports continuing to track overdue management actions and follow-up activity. This indicated that whilst controls were being strengthened, improvements were not always embedded at an adequate pace, limiting the overall effectiveness of the control environment.

The Council must continue to address the root causes for recurrent risks. Incorporation of identified improvements into the Annual Governance Statement and action plan, alongside regular reporting to the Governance & Audit Committee, will support improved oversight and deliver effective monitored across all improvements to governance, risk and control environments.

Follow-up work remained a key component of the internal audit approach during 2025/26, providing ongoing assurance that management action was being taken to address identified risks. The continued emphasis on follow-up activity demonstrated a maturing approach to assurance, although the presence of overdue actions highlights the need for greater consistency in implementation and completion.

Across Council services, audit work continues to find that officers are aware of the importance of effective control frameworks and are receptive to audit recommendations. Management actions provided were subject to monitoring and reporting, including escalation to the Governance & Audit Committee where appropriate. Internal audit progress reports throughout the year have provided regular updates on control weaknesses, improvement activity, and outstanding actions, supporting transparency and member oversight of the control environment.

The key areas of challenge identified or confirmed through audit work are outlined below:

Identification and monitoring of savings Q1

The audit was unable to establish sufficient first or second-line controls to test for adequacy and fulfil the agreed assignment scope to provide a reliable assurance rating. Seven key findings were reported with five root causes identified. The recommendations included for management to take immediate action to implement effective, formal and management led controls to provide a foundation level for the control environment and that an assurance driven audit is rearranged to provide an update on systems and processes implemented. A repeat audit was agreed to be undertaken once sufficient controls had been implemented.

Identification and Monitoring of Savings Q4

Audit testing found that since the completion of the previous audit in quarter 1 of 2025/26, a governance process had been implemented to deliver monitoring and oversight of the required savings in 2026/27. Members of the Senior Leadership Team (SLT) and the Section 151 Officer were actively involved. As 2026/27 will be the first year of the new process, there is currently limited assurance over the effectiveness and consistent embedding of the new methodology, and a residual financial risk remains over delivery of savings until it is fully tested. Testing of the 2026/27 budget setting process for the council found that no efficiency targets were required within the balanced budgets for the forthcoming year. Internal work had been completed to reduce potential deficits that were presented for scrutiny in two of the councils in January 2026. The audit also identified that although processes are in place to monitor savings, there is no formally documented escalation process for any savings proposals that are not on schedule to be delivered within the year.

UKSPF Grant Review Q4

An additional audit had been undertaken, which is at draft report stage, the audit review has identified failures within the control environment and the application of safeguards and oversight.

Overall, the findings reflect an unclear and inadequate governance framework, leading to weak controls, poor accountability, and insufficient oversight across the grant lifecycle, resulting in a 'No Assurance' rating being anticipated.

Additional Observations

Management Actions Follow Up Monitoring

Where our work identified risks considered to fall outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers. Progress is reported to the Governance & Audit Committee throughout the year through the internal audit progress reports, with high focus on areas receiving negative assurance ratings.

Anti-fraud and Anti-corruption

SHDC is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image. During the 2025/26-year internal audit provided support and advice to the council on updating its whistleblowing and anti-fraud and corruption policies.

The Council maintains a suite of strategies and policies to support the effective management of the prevention, detection and investigation of possible fraud and corruption.

Senior Leadership Team - Governance Meetings

Every month the senior leadership team meet to review key governance issues. With a set agenda covering governance, finance, performance, risks, and the control environment. A representative from internal audit attends every meeting and has a standing item on the agenda. The meetings support management to maintain an effective oversight on governance issues and facilitates direct access to the senior leadership team for internal audit, a key element of an effective audit function.

National Fraud Initiative (NFI) - The NFI is a statutory exercise facilitated by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud.

South Holland District Council actively participates in the National Fraud Initiative as a statutory requirement, using it as a core data-matching tool to identify fraud, error, and control weaknesses across a wide range of systems (housing, council tax, payroll and benefits).

While participation and processes are clearly embedded, there is limited reporting on the outcomes, impact, and control improvements arising from NFI matches, to the Governance and Audit Committee, meaning its effectiveness must largely be inferred from the Council's broader counter-fraud and audit framework.

Quality Assurance, Conformance & Performance

The Global Internal Audit Standards require the Head of the Internal Audit to develop and maintain a Quality Assurance and Improvement Programme (QAIP) to enable the internal audit service to be assessed against the Global Internal Audit Standards, 2024 and the Application Note: Global Internal Audit Standards in the UK Public Sector, 2025.

The QAIP must include provision for both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An External Quality Assessment of Lincolnshire County Council's Internal Audit Service was undertaken by CIPFA in 2022. In considering all sources of evidence the external assessment team concluded: *'It is our opinion that the Assurance Lincolnshire Partnership's (now known as LCC Internal Audit Service,) 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.'* The next assessment is due in 2027.

Disclosure of Non-Conformance

There are no disclosures of non-conformance to report. In accordance with Global Internal Audit Standards (Domain 5, Standard 15.2) I can confirm that Lincolnshire County Council conforms to the definition of Internal Auditing; the Code of Ethics and the Standards. Since the release of the Global Internal Audit Standards, 2024 and the Application Note: Global Internal Audit Standards in the UK Public Sector, 2025, multiple self-assessments have been undertaken to identify and address any conformance gaps, arising from the revised Standards. Since implementation no concerns were identified with the current delivery model or staffing structure.

Quality Control

The Internal Audit Service continues to provide a function responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2025-2026 through the following internal processes:

- Implementation and delivery of specific training needs for all internal auditors.
- Reviewed and updated internal systems and processes covering all aspects of delivery and quality assurance.
- Development, roll out and embedding of an overarching quality assurance framework to inform training and support needs.
- Data analysis of delivery processes and target support where improvements can be realised.
- Development and delivery of a HIA mentor programme targeted specific development needs of selected senior auditors.

Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

South Holland District Council – Performance Measures	
Audit Management	Performance Measure
Annual Plan presented to Audit Committee by 31 st March.	Yes
Annual Internal Audit Report presented to Audit Committee by 30 th June.	Yes
Completion of Annual Audit Plan	100%
Individual Assurance Assignments	
Timescales	
<ul style="list-style-type: none"> Draft report issued within 10 working days of completing audit. 	100%
<ul style="list-style-type: none"> Final report issued within 10 working days of closure meeting/receipt of management responses. 	75%
<ul style="list-style-type: none"> Individual audit assignment in timescales delivered as agreed in the latest internal audit plan. 	69%
Percentage of recommendations agreed.	100%
Client feedback on Audit (average) <i>Target Good</i>	Excellent/Very Good

Acknowledgement

I would like to take this opportunity to give my genuine thanks to all those staff and officers throughout the Council with whom internal audit have made contact in the year. Our relationships have been mostly positive, and senior management responsive to the formal reports and informal feedback provided.

Appendix 1: Summary of assurance reviews throughout 2025/2026

South Holland District Council
Substantial Assurance: A reliable system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<ul style="list-style-type: none">Leisure Services Procurement
Adequate Assurance: There is a generally reliable system of governance, risk management and control in place. Some issues of non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<ul style="list-style-type: none">Risk Register ReviewICT Cyber SecurityCapital Budget MonitoringPSPS Contract ManagementSection 106Administration of GrantsHealth and Safety ActionsPlanningICT AI GovernanceDisability Facilities GrantsFinance Resilience including Skills Capacity and Management Code ComplianceWelland Homes
Limited Assurance: Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<ul style="list-style-type: none">Identification and Monitoring of Savings
No Assurance: Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks in the achievement of the objectives for the area audited.
<ul style="list-style-type: none">UKSPF Grant.