



Internal Audit

FINAL

Witham First Internal Drainage Board

Assurance Review of Governance, Risk and Control

2019/20

April 2020

Executive Summary

OVERALL ASSURANCE ASSESSMENT



OVERALL CONCLUSION

The four 'Witham and Humber Drainage Boards' (as statutory entities these are North East Lindsey, Upper Witham, Witham First District, and Witham Third District Internal Drainage Boards) are well-run drainage boards with good accounting practices. The 4 Boards work in partnership under a Joint Services Agreement, since 01.04.17, using the flexibilities of Section 11 of the Flood & Water Management Act [2010].

- Progress against a number of outstanding recommendations from previous audits relating to policy and procedures is due to be reported to the May 2020 Board.
- A detailed review of Health and Safety identified a well organised and managed system for Health and Safety compliance.
- Good corporate governance is practiced by the Board with appropriate Board involvement.

SCOPE

The scope for the 2019/20 internal audit included the following:

- Follow up of all and any recommendations from previous audit work.
- To review risk management to enable Boards to focus on what are truly important risks for them to manage.
- To verify the actual existence of a sample of assets held.
- To examine pension arrangements

To undertake sufficient internal audit work in the following areas to comply with the Annual Governance and Accountability Return: Governance; Petty Cash; Risk Management; Payroll; Accounting Records; Assets; Expenditure; Bank; Budget; Accounting Systems; Income.

ACTION POINTS

Urgent	Important	Routine	Operational
0	0	0	0

Management Action Plan - Priority 1, 2 and 3 Recommendations

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
No recommendations identified.							

PRIORITY GRADINGS

1	URGENT	Fundamental control issue on which action should be taken immediately.
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2	IMPORTANT	Control issue on which action should be taken at the earliest opportunity.
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3	ROUTINE	Control issue on which action should be taken.
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Operational Effectiveness Matters

Ref	Risk Area	Item	Management Comments
No Operational Effectiveness Matters were identified.			

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures.

Detailed Findings

Introduction

1. This review was carried out in March 2020 as part of the planned internal audit work for 2019/20. Based on the work carried out an overall assessment of the overall adequacy of the arrangements to mitigate the key control risk areas is provided in the Executive Summary.

Background

2. The Board is classified as a smaller public body and is an independent Flood Risk Management Authority (FRMA) and legal entity, albeit IDBs have a duty to work in partnership with other FRM Authorities. The Board operates within a partnership, co-operative agreement of four Internal Drainage Boards [North East Lindsey IDB, Upper Witham IDB, Witham First District IDB and Witham Third District IDB] working under a 'Joint Services Agreement' since 1st April 2017 (utilising permissive powers under Section 11 of the Land Drainage Act 1991 to provide reciprocal services between the Boards).
3. Each Board contributes an agreed percentage towards the costs of Joint Services, fixed for an initial period of three years from 1st April 2017 (North East Lindsey, 16.50%, Upper Witham 33.40%, Witham First 20.90% and Witham Third 29.20%). Revised allocations have been agreed to be implemented from 1st April 2020 (North East Lindsey, 20%, Upper Witham 30%, Witham First 20% and Witham Third 30%).
4. The four Boards have a Joint Services Committee which has delegated power to monitor the Joint Services Agreement, including in-year financial monitoring of approved budgets. This partnership of the four Boards is across the range of management, financial, engineering and environmental services. Whilst this is a relatively new arrangement between the four Boards, three of them (excluding North East Lindsey) had previously worked under a similar partnership arrangement since 1st April 2007 with the intention of delivering efficiency, effectiveness and value for money in support services to each of the Boards.

Materiality

5. Internal Drainage Boards are required to have an independent internal audit of their governance and financial arrangements. In addition, the Annual Governance Statement Assertion 6 requires throughout the year an adequate and effective system of internal audit of the accounting records and control systems

Key Findings & Action Points

6. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. Recommendations for improvements should be assessed for their full impact before they are implemented.

Scope and Limitations of the Review

7. The scope for the 2019/20 internal audit included the following:
 - Follow up of all and any recommendations from previous audit work.
 - To review risk management to enable Boards to focus on what are truly important risks for them to manage.
 - To verify the actual existence of a sample of assets held.

- To examine pension arrangements.
- To undertake sufficient internal audit work in the following areas to comply with the Annual Governance and Accountability Return:
 - Governance;
 - Petty Cash;
 - Risk Management;
 - Payroll;
 - Accounting Records;
 - Assets;
 - Expenditure;
 - Bank;
 - Budget;
 - Accounting Systems;
 - Income.

8. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

Disclaimer

9. The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Risk Area Assurance Assessments

10. The definitions of the assurance assessments are:

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

Acknowledgement

11. We would like to thank staff for their co-operation and assistance during the course of our work.

Release of Report

12. The table below sets out the history of this report.

Date draft report issued:	23 rd March 2020
Date management responses received:	3 rd April 2020
Date final report issued:	14 th April 2020

13. The following matters were identified in reviewing the Key Risk Control Objective:

Directed Risk: Failure to direct the process through approved policy & procedures.

Previous Internal Audit Recommendations

Internal Audit 2018/19

- 13.1 The previous internal audit was finalised on the 12 April 2019 with the following recommendations:
- 13.2 Recommendation 1: Outstanding recommendations from 2016/17 internal audit work be progressed as follows:
- Recommendation 3 – *Boards must continue to stress to Members the importance of them completing annually a declaration of interest.* The Chief Executive has brought this matter to the attention of all Board Members.
 - Recommendation 6 – *To complete the HR Policy and Procedures.*
 - Recommendation 7 – *To complete the HR Handbook.* For recommendation 6 and 7 due to a number of factors including the unprecedented inclement weather during 2019/2020 the Board has not been able to progress the revisions required to the above documents. This Policy and handbook has been drafted and will be reported to the May 2020 Board meeting for approval.
- 13.3 Recommendation 2: Outstanding recommendations from 2017/18 internal audit work be progressed as follows:
- Recommendation 3 – *To review and update policies and procedures relating to the Local Government Pension Scheme Employer Discretion Policy; the Members Code of Conduct; and the Officers Code of Conduct.*
 - Recommendation 4 – *To produce a Data Protection Policy.* For recommendation 3 and 4 due to the unprecedented inclement weather during 2019/2020 the Board has not been able to progress the revisions required to the above documents. These Policies have been drafted and will be reported to the May 2020 Board meeting for approval.
 - Recommendation 5 – *To produce a Risk Management Policy and Procedures.* The Board has reviewed their risk management policy and procedures which have been redrafted and approved at the 24 September 2019 Board meeting.
- 13.4 Recommendation 3: *Financial Regulations be amended to reflect that payment must not be made against supplier statements and it be ensured staff who process payments are informed of this requirement.* This has been amended and reported to the Board.

Board Agenda and Minutes

13.5 Board Agendas and Minutes for the following meetings were reviewed in detail:

- 22 May 2019;
- 24 September 2019;
- 26 November 2019; and
- 28 January 2020.

These were all found to be in order and confirmed that good governance was being followed in reporting matters to the Board for information or decision.

13.6 The Joint Services Committee (JSC) Agendas and Minutes for the following meetings were reviewed in detail: 13 May 2019; and 22 July 2019. These were all in order and copies of the minutes were presented to each of the four Boards following the JSC.

Risk Management

13.7 The Board has reviewed their risk management policy and procedures which have been redrafted and approved at the 24 September 2019 Board meeting

13.8 A sample risk was selected this year to review in detail: Risk Number 3.1:

- Employees of the four Boards contravene health and safety regulations and there is resulting personal injury or death to staff, a contractor or a member of the public with resulting reputational impact.

This risk aligns to the Health and Safety requirements for the Board. A review of the Health and Safety arrangements at the Board was carried out and these were found to be order and up to date.

Compliance Risk: Failure to comply with approved policy and procedure leads to potential losses.

Accounting Records

13.9 The IDB Boards use Sage 200 for their accounting records and these arrangements have not changed since the 2018/19 audit.

13.10 The accounting records are therefore all in order, up to date and in balance.

Accounts Payable

13.11 The accounts payable system was reviewed and was in order.

13.12 Purchases for January and February 2020 were reviewed. The approval process for the payments made was in accordance with Financial Regulations

13.13 A small sample of invoices paid relating to the Witham 3 IDB were reviewed in detail and these were found to be in order. In addition three major purchases for Witham 3rd IDB were selected for review as follows:

- Purchase of a JCB Tracked Excavator costing £130,100.
- Purchase of a Weed Basket costing £6,500, and
- Purchase of a Hidrostal Betsey 6 inch suction pump + attachments £15,798. All three purchases had been made in compliance with Financial Regulations and reported to the Board for approval.

Budget

13.14 Budgetary arrangements are in place and budgetary data is provided for each Board meeting.

Rates

- 13.15 The rate setting process was reviewed and found to be in order. The rate is approved by the respective Boards at their February meetings. In addition, the collection of rates was reviewed and generally a very high proportion of rate income is collected in a timely manner. Any outstanding debts after all reasonable collection methods have been used are then referred to the courts for collection and a bailiff is engaged to assist with collecting the debt.

Reserves

- 13.16 Financial Regulations state that the General Reserve for the Board will be maintained between 10% and 15% of Board income. Unfortunately due mainly to the higher than predicted rain fall the cost of maintaining and running the pumping stations has been extreme during 2019/20. This has resulted in the Board's General Reserves being used to support this increased expenditure. It is projected that the General Reserve will have dropped to around 2.81% of Income which is well below the level required by Financial Regulations. The Board are however, fully aware of this situation and once final year costs have been determined a report will be made to the May 2020 Board meeting with a recovery plan.

Forecast

- 13.17 A 10 year forecast is prepared to identify the major purchases year on year and how these impact upon the finances of the Boards. In addition, future forecasting is planned for all expenditure for all the Boards to provide a guide on what future rate increases may be necessary, particularly given the exceptionally inclement weather this year and whether that trend will continue into future years.

Accounts Receivable

- 13.18 Accounts Receivable is an integral part of Sage 200 and is working well. Invoices raised for the year to date were reviewed and found to be in order. There were no outstanding debts.
- 13.19 Debt collection is working well with no debts outstanding at the time of the audit (3 March 2020)

Write Offs

- 13.20 Write offs are only considered when all collection types have been exhausted. Write offs would be in accordance with Financial Regulations.

Income

- 13.21 The majority of payments to the Boards is made via bank transfer. A few cheques are received from time to time. These are recorded and then banked in a timely manner.

Petty Cash

- 13.22 There is a £200 imprest float which is managed by Witham Third IDB for all four Boards. Very few petty cash transactions now take place with only one or two per month. Due to cash being received the balance at the time of the audit was £219.75. As transactions are now few and far between it is likely that petty cash will be wound up at some future time. This has been paid in on 30th March 2020 and closed down.

Payroll

- 13.23 Sage Payroll manages the payment of wages/salaries. All staff and operatives are paid monthly.
- 13.24 A small sample of staff/operatives was examined for each Board to confirm their salary/wage details. These were all found to be in order.
- 13.25 It was confirmed that PAYE, NI and Student Loans were correctly treated and the correct sums had been paid over to HMRC in accordance with the online payment arrangements.

Pensions

- 13.26 A review was undertaken into the arrangements for pensions - both employee requirements and those of the employer. New employees to the Board are automatically enrolled into the local government pension scheme and their rate of deduction from salary is in accordance with a predetermined percentage as prescribed by the pension board depending upon their annual salary. The employer's contribution is reviewed every three years and the pension body (Lincolnshire County Council) then inform all admitted bodies what the new pension contribution is for the next three years.
- 13.27 Individual employee's data was examined along with the Board's contribution. A selection of pension sums paid over to Lincolnshire CC were also reviewed. The pension administration, sums collected and sums paid over were all in order.

Assets

- 13.28 The asset register is maintained within Sage 200 for each Board. This was examined and found to be up to date and complete. In addition, the Director of Finance & Governance maintains a comprehensive spreadsheet of assets for future planning and budgeting purposes.
- 13.29 Assets that were present at the new depot at Upper Witham IDB were examined and were all recorded on the asset register.

Bank Reconciliation

- 13.30 Bank reconciliations are regularly undertaken when the bank statements are received. The bank reconciliations for 2019/20 were reviewed and found to be in balance and in order.

Accounting Statements

- 13.31 Accounting statements have been produced and these have been reconciled to the cash book.
- 13.32 The Sage software manages the accounting records and supports the integrity of the feeder systems which feed into the accounting statements.
