



Internal Audit

FINAL





## Witham Third Internal Drainage Board

Assurance Review of Annual Governance and Accountability Return

2021/22

April 2022

## Executive Summary

<p><b>OVERALL ASSESSMENT</b></p>	<p><b>KEY STRATEGIC FINDINGS</b></p>								
 <p>The diagram shows a central green circle labeled 'SUBSTANTIAL ASSURANCE' surrounded by a blue ring with the text 'Adequate &amp; effective governance, risk and control processes'. To the right is a legend with four colored circles: green for 'SUBSTANTIAL ASSURANCE', yellow for 'REASONABLE ASSURANCE', orange for 'LIMITED ASSURANCE', and red for 'NO ASSURANCE'.</p>	<p> Witham and Humber Drainage Boards are well-run drainage boards administered by the Joint Services Agreement between Upper Witham, Witham First District, Witham Third District and North East Lindsey IDBs, with good accounting practices.</p> <p> Policies and Procedures listed on the 4 Boards website require some further review to improve presentation and to remove some inconsistencies.</p>								
<p><b>ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE</b></p>	<p><b>GOOD PRACTICE IDENTIFIED</b></p>								
<p>The audit covers all areas required by the Annual Governance and Accountability Return (AGAR) and includes where appropriate the key risks for a drainage board</p>	<p> Good corporate governance is practiced by the Board with appropriate involvement from members.</p>								
<p><b>SCOPE</b></p>	<p><b>ACTION POINTS</b></p>								
<p>The purpose of the review was to undertake sufficient audit work to be able to sign off the Annual Governance and Accountability Return for Internal Audit.</p>	<table border="1"> <thead> <tr> <th>Urgent</th> <th>Important</th> <th>Routine</th> <th>Operational</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>0</td> <td>1</td> <td>0</td> </tr> </tbody> </table>	Urgent	Important	Routine	Operational	0	0	1	0
Urgent	Important	Routine	Operational						
0	0	1	0						

## Assurance - Key Findings and Management Action Plan (MAP)

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	A review of the Boards Policies and Procedures page on their website identified some improvement that were requested at the last internal audit in 2020/21 however, many of the issues still require attention. The continuing review this year (2021/22), which is based on only testing a sample of policies, has identified other policy documents that require updating or corrections to the links.	The Policy and Procedures page on the Boards website be reviewed and the links, incorrect labelling and other matters identified be corrected.	3	<i>A lot of effort has been put into drafting and approving a full range of Policies The small number of anomalies identified are accepted and will be rectified.</i>	30/06/22	Chief Executive (supported by Executive Assistant)

### PRIORITY GRADINGS

**1 URGENT** Fundamental control issue on which action should be taken immediately.

**2 IMPORTANT** Control issue on which action should be taken at the earliest opportunity.

**3 ROUTINE** Control issue on which action should be taken.

## Operational - Effectiveness Matter (OEM) Action Plan

Ref	Risk Area	Finding	Suggested Action	Management Comments
No Operational Effectiveness Matters were identified.				

ADVISORY NOTE

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

## Findings



### Directed Risk:

Failure to properly direct the service to ensure compliance with the requirements of the organisation.

Ref	Expected Key Risk Mitigation	Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
GF	<b>Governance Framework</b> There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.	In place	1	-
RM	<b>Risk Mitigation</b> The documented process aligns with the mitigating arrangements set out in the corporate risk register.	In place	-	-
C	<b>Compliance</b> Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.	In place	-	-

### Other Findings



The recommendation made in 2020/21 stated: In reviewing policy documents on the Board's website the following detail was noted:

- 1) Some links to policies did not work for instance the Code of Conduct link;
- 2) A number of policy documents are still identified as "draft" for example the Risk Management Policy and the Induction Policy;
- 3) The titles of some of the policies were slightly different through the site for instance Policy 65 - Flood Protection and Water Level Management Policy is also described as Policy Statement - Water Level Management.
- 4) Some policies are specific to only one Board for example the Health and Safety Policy only refers to Witham 3rd IDB.
- 5) The list of Policies on the website could be listed alphabetically or numbered as per the Policy Handbook. While excellent progress has been made in progressing this important governance area a quality review would be beneficial to bring this to an exemplary standard and a model for other IDBs to follow.

## Other Findings

Upon examination at the 2021/22 audit many of the above issues have not been addressed. In addition, the following website matters also need to be rectified:

- Website – Treasury Management – Culverting Policy comes up;
- Culverting policy is dated January 2014 and only relates to three Boards;
- Officer's and Member's codes of conduct the link does not show the codes; and
- The Risk Management Strategy is the Policy document and vice versa.



The Board Minutes for the following meetings were reviewed:

- 26<sup>th</sup> January 2021 (18 in attendance, nine apologies out of 31). This Board approved a 2.5% increase in the penny rate.
- 25<sup>th</sup> May 2021 (10 in attendance, 17 apologies out of 31).
- 21<sup>st</sup> September 2021 (15 in attendance, 12 apologies out of 31).
- 16<sup>th</sup> November 2021 (15 in attendance, 12 apologies out of 31).
- 25<sup>th</sup> January 2022 (nine in attendance, 17 apologies out of 31).

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



Risk Management documents exist on the Board's web site. These have recently been updated and a revised risk register approved at the Board's January 2021 meeting. The risk register was reported to the 16<sup>th</sup> November 2021 Board meeting, at which Members were updated on the current position with regard to key risks.



The risk register was reviewed and found to be in order. A sample risk was not selected at this audit for a more detailed review.



The Board use the objectives approved by the Association of Drainage Authorities (ADA).



The IDB Boards use Sage 200 accounting software for their accounting records which supports the financial transactions of the Boards.



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



The accounts payable system is part of Sage 200.



The purchase ordering system was reviewed with orders matched to invoices. This was working well.

## Other Findings



The following invoices were reviewed in detail:

- (1<sup>st</sup> September 2021 to 31<sup>st</sup> October 2021) Listers Timber and Builders Merchants Ltd - £6,300 – Stock T107 – 1050 Stakes
- (1<sup>st</sup> April 2021 to 31<sup>st</sup> August 2021 ) B Webster - £5,507.00 – Depot Office Refurbishment labour and fixings

These were both found to be in order.



The rate setting process was reviewed and found to be in order. The rate for 2021/22 is approved by the Board at its January 2021 meeting. 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.



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 aged debts.



Write offs are only considered when all collection types have been exhausted. Write offs are progressed in accordance with Financial Regulations and are reported to the Board for approval prior to write off.



The Witham and Humber Drainage Boards no longer hold a petty cash imprest.



Sage Payroll manages the payment of wages/salaries. All staff and operatives are paid monthly.



The payroll data for February 2022 was examined for each Board to confirm their payment details. These were all found to be in order.



It was confirmed that PAYE, NI and Pension payments were correctly treated and the correct sums had been paid over to HMRC and Lincolnshire County Council in accordance with the online payment arrangements.



The asset register is maintained within Sage 200 for each Board. This was examined and found to be up to date and complete. The Director of Finance & Governance maintains a comprehensive spreadsheet of assets for future planning and budgeting purposes. In addition, smaller value items are also recorded and held within Sage.



Accounting statements have been produced and these have been reconciled to the cash book.



The Sage software manages the accounting records and supports the integrity of the feeder systems which feed into the accounting statements.



**Delivery Risk:**

Failure to deliver the service in an effective manner which meets the requirements of the organisation.

Ref	Expected Key Risk Mitigation	Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
PM	<b>Performance Monitoring</b> There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.	In place	-	-
FC	<b>Financial Constraint</b> The process operates within the agreed financial budget for the year.	In place	-	-
R	<b>Resilience</b> Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.	In place	-	-

**Other Findings**

- Budgetary arrangements are in place and budgetary data is provided for each Board meeting.
- For 2022/23 the Board are predicting a revenue reserve position in the order of 16.04% of turnover. The Board’s approved Policy on Reserves is to hold between 10% and 15% of turnover.
- 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. This is particularly important given how climate change may well deliver an increase in annual rainfall on a regular basis.
- 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.
- Bank reconciliations are regularly undertaken when the bank statements are received. The bank reconciliations for February 2022 were reviewed and found to be in balance and in order.
- The Board is operating within its approved budget for the 2021/22 financial year.
- Good practice is adopted by the Board to respond to business interruption events and to enhance the economic, effective and efficient delivery of its services.



## EXPLANATORY INFORMATION

## Appendix A

### Scope and Limitations of the Review

- 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. As set out in the Audit Charter, substantive testing is only carried out where this has been agreed with management and unless explicitly shown in the scope no such work has been performed.

### Disclaimer

- The matters raised in this report are only those that came to the attention of the auditor during the course of the 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.

### Effectiveness of arrangements

- The definitions of the effectiveness of arrangements are set out below. These are based solely upon the audit work performed, assume business as usual, and do not necessarily cover management override or exceptional circumstances.

<b>In place</b>	The control arrangements in place mitigate the risk from arising.
<b>Partially in place</b>	The control arrangements in place only partially mitigate the risk from arising.
<b>Not in place</b>	The control arrangements in place do not effectively mitigate the risk from arising.

### Assurance Assessment

- The definitions of the assurance assessments are:

<b>Substantial Assurance</b>	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
<b>Reasonable Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

### Acknowledgement

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

### Release of Report

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

Stage	Issued	Response Received
<b>Audit Planning Memorandum:</b>	17 <sup>th</sup> December 2021	17 <sup>th</sup> December 2021
<b>Draft Report:</b>	24 <sup>th</sup> March 2022	8 <sup>th</sup> April 2022
<b>Final Report:</b>	12 <sup>th</sup> April 2022	

# AUDIT PLANNING MEMORANDUM

## Appendix B

<b>Client:</b>	Witham Third District Internal Drainage Board		
<b>Review:</b>	Annual Governance and Accountability Return		
<b>Type of Review:</b>	Assurance	<b>Audit Lead:</b>	Chris Harris

<b>Outline scope (per Annual Plan):</b>	The purpose of the review was to undertake sufficient audit work to be able to sign off the Annual Governance and Accountability Return for Internal Audit.		
<b>Detailed scope will consider:</b>	<p>Directed</p> <p>Governance Framework: There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.</p> <p>Risk Mitigation: The documented process aligns with the mitigating arrangements set out in the corporate risk register.</p> <p>Compliance: Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.</p>	<p>Delivery</p> <p>Performance monitoring: There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.</p> <p>Financial constraint: The process operates with the agreed financial budget for the year.</p> <p>Resilience: Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.</p>	
<b>Requested additions to scope:</b>	(if required then please provide brief detail)		
<b>Exclusions from scope:</b>			

<b>Planned Start Date:</b>	07/03/2022	<b>Exit Meeting Date:</b>	24/03/2022	<b>Exit Meeting to be held with:</b>	Steve Larter and Jane Froggatt
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### SELF ASSESSMENT RESPONSE

<b>Matters over the previous 12 months relating to activity to be reviewed</b>	<b>Y/N (if Y then please provide brief details separately)</b>
Has there been any reduction in the effectiveness of the internal controls due to staff absences through sickness and/or vacancies etc?	
Have there been any breakdowns in the internal controls resulting in disciplinary action or similar?	
Have there been any significant changes to the process?	
Are there any particular matters/periods of time you would like the review to consider?	