SOUTH HOLLAND DISTRICT COUNCIL

Report of: **Audit & Risk Manager (Audit Lincolnshire) and Finance Manager (SHDC)**

To: **Governance & Audit Committee – 25 June 2015**

(Author: **Lucy Pledge – Head of Audit & Risk Management (Audit Lincolnshire)**
Mark Finch – Finance Manager (SHDC))

Subject: **Internal Audit Update Report**

Purpose: **To update the Committee on progress with the Audit Plan January 2015 to May 2015**

Recommendation:

1)   That the Committee considers the content and outcomes of Internal Audit work and identifies any action required

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1.0   BACKGROUND AND KEY MESSAGES

1.1   The purpose of this report is to:

- Advise of progress being made with the 2014/15 & 2015/16 Audit Plan
- Provide details of the audit work during the period
- Provide details of the current position with agreed management actions in respect of previously issued reports
- Update the committee on any changes to the 2015/16 Audit Plan and any other matters that may be relevant to the Governance and Audit Committee role.

Key Messages

1.2   Work is progressing on the remaining audits from the 2014/15 plan.

The annual report summarises the status of audits at draft or final report stage.

We are currently finalising three audits as follows:

- ICT Strategy and projects
- ICT Software
- ICT Disaster Recovery follow up

These are scheduled to be completed by the end of June 2015 and will be reported together with the 2015/16 planned work in future.

For the 2015/16 audit plan Appendix 3 provides details of audit areas and proposed audit dates. Our focus at the moment is on Housing Benefit Subsidy testing.

1.3   We have issued eleven final reports since the last Committee. Eight reports are at draft report stage.

Internal Audit work completed from January 2015 to May 2015

1.4.   The following audit work has been completed and a final report issued:

Effective	Some improvement needed	Major improvement needed	Inadequate
	Health & Safety Housing in Multiple Occupation Gas Safety Management Key Controls testing – Accounts Receivable Voids Management Payroll CPBS Governance & Performance Budget Preparation and MTFS Bank Reconciliation	HRA Business Plan Follow Up Information Governance follow up	

Note: The Governance & Audit Committee should note that the assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. Definitions levels are shown in Appendix 1.

1.5   Progress with the implementation of agreed management action on high and medium recommendations is included within the Annual Internal Audit Report.

1.6   In the audits given "Some improvement needed" or "Effective" Assurance, we confirmed that the Council has sound processes in place.

Audits in Progress

1.7   The following 2015/16 audits are currently in progress:

- ICT Strategy and projects (2014/15 brought forward)
- ICT Software (2014/15 brought forward)
- ICT Disaster Recovery follow up (2014/15 brought forward)
- Housing benefit subsidy testing

Audits at Draft Report Stage:

- ICT Mobile working (with SHDC management)
- ICT Security (with CPBS management)
- Partnerships (with SHDC management)
- Plant Property & Equipment (with management / officers)
- Housing Benefits (final clearance with CPBS and SHDC officers)
- Accounts Payable (awaiting final management response)
- Council Tax (awaiting final management response)
- NNDR(awaiting final management response)

Performance Information

1.8   14/15 performance information is shown within the Annual Audit Report. The programme of work for 2015/16 is shown at Appendix 3

2.0   **OPTIONS**

2.1   Consider the content and outcomes of Internal Audit work and identify any action required.

2.2   Do nothing.

3.0   **REASONS FOR RECOMMENDATION**

3.1   To monitor Internal Audit progress including the results of Audit work.

4.0   **EXPECTED BENEFITS**

4.1   To meet the Audit Committee's Terms of Reference in monitoring the work of Internal Audit.

5.0 **IMPLICATIONS**

5.1 **Carbon Footprint / Environmental Issues**

5.1.1 It is the opinion of the report author that there are no direct Carbon Footprint/Environmental issue implications.

5.2 **Constitution & Legal**

5.2.1 The progress report forms part of the Committee's agreed Work Plan, and is linked to the Accounts and Audit Regulations 2015 requirement to undertake an effective internal audit.

5.3 **Contracts**

5.3.1 It is the opinion of the report author that there are no direct Contract implications. However, it should be noted that Contract Management is an area to be audited as part of the Internal Audit Plan and Schedule for 2015/16.

5.4 **Corporate Priorities**

5.4.1 It is the opinion of the report author that there are no direct Corporate Priority implications. However, some areas that have been, or in the future will be audited, have links to SHDC's Corporate Priorities.

5.5 **Crime and Disorder**

5.5.1 It is the opinion of the report author that there are no direct Crime and Disorder implications.

5.6 **Equality and Diversity / Human Rights**

5.6.1 It is the opinion of the report author that there are no direct Equality and Diversity/Human Rights implications. However, there could be some impact as a result of any recommendations arising from the process or individual audits. Any Equality and Diversity /Human Rights issues arising will be taken into consideration.

5.7 **Financial**

5.7.1 It is the opinion of the report author that there are no direct Financial implications. However, reviews and assessments of financial processes form a significant part of the Internal Audit Plan. Internal Audit's work provides an important assurance element to support the External Auditor's opinion of the Council's Statement of Accounts.

5.8 **Risk Management**

5.8.1 Internal Audit undertakes work under an agreed Audit Plan to ensure that the Council has sound processes in place.

5.8.2 Their critical review or assessment of activities establishes the situation with the Authority regarding service delivery arrangements, management of risks and the operation of controls and/or performance.

5.9 Staffing

5.9.1 It is the opinion of the report author that there are no direct Staffing implications. However, there could be some impact as a result of any recommendations arising from the process or individual audits. Any Staffing issues arising will be taken into consideration.

5.10 Stakeholders / Consultation / Timescales

5.10.1 It is the opinion of the report author that there are no direct Stakeholder / Consultation / Timescale implications.

6.0 WARDS/COMMUNITIES AFFECTED

6.1 No wards/communities are affected.

7.0 ACRONYMS

7.1
ICT	Information Communication Technology
CPBS	Compass Point Business Services
SHDC	South Holland District Council
NNDR	National Non Domestic Rates
HRA	Housing Revenue Account
CMT	Corporate Management Team
FOI	Freedom of Information
EIR	Environmental Information Regulations
CSU	Construction Services Unit

Background papers:- None

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Director / Officer who will be attending the Meeting:
Lucy Pledge – Head of Audit & Risk Management – Audit Lincolnshire;
John Scott – Audit Manager, Audit Lincolnshire
Mark Finch – Assistant Director, Finance

Key Decision: No
Exempt Decision: No
Appendices attached to this report:
Appendix 1 – Assurance Definitions
Appendix 2 – Audits with Limited Assurance
Appendix 3 – Internal Audit Plan & Schedule

Appendix 1 - Assurance Definitions[1]

Effective	Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively. As a guide there are a few low risk / priority actions arising from the review.
Some improvement needed	Our critical review or assessment on the activity gives us a reasonable level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low. A few specific control or risk issues identified. As a guide there are low to medium risk / priority actions arising from the review.
Major improvement needed	Our critical review or assessment on the activity identified numerous concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives. As a guide there are numerous medium and a few high risk / priority actions arising from the review. Our work did not identify system failures that could result in any of the following: - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements
Inadequate	Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. Our work identified system failures that could result in any of the following: - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high. As a guide there are a large number of high risks / priority actions arising from the review.

[1] These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

Appendix 2 – Audits where assurance is assessed as 'Major improvement needed" or "Inadequate"

HRA Business Plan Follow up

An audit of the Housing Revenue Account (HRA) Business Plan was originally carried out in November 2012. The original assurances for this audit were 'limited' for governance arrangements and 'substantial' for development of the business plan. Actions were agreed by the Shared Housing Manager, the S151 Officer at the time and Compass Point Business Services.

This follow up review was carried out to give independent assurance that:

- Effective progress has been made against the 2012 recommendations. If these have not been actioned then that there are reasonable explanations for this (for example, the risk is not longer relevant or alternative action has been taken).
- Governance and risk management arrangements are effective
- There is adequate monitoring of performance of the housing revenue business plan.

The review also established if there have been any significant changes to the HRA business plan since the previous audit.

Our review found that all but two of the original nine recommendations had been actioned. However the two outstanding:

- Introduction of additional governance arrangements to oversee the HRA business plan.
- Strategic and operational risks to be updated and included in the respective risk registers

were both assessed as high priorities in 2012 therefore the assurance opinion remains as major improvement needed. The first recommendation was key to 'provide dedicated governance and strategic management to the ongoing operation of the Business Plan' as detailed in the original report to Members in March 2012.

Progress has recently been made on the governance arrangements with consultants commissioned to assist SHDC with developing a new HRA governance structure. They have produced a report with options for overseeing the business plan and increasing tenant involvement. This report (Appendix 2) was due to be presented to the Corporate Management Team in February 2015 for a decision on how governance could be improved but as yet, has not been formally considered.

As part of revised governance arrangements, the Governance and Audit Committee were tasked with undertaking a review of the draft HRA Estimates and Business Plan. However, whilst an improvement, this is not a dedicated HRA group who would be able to provide regular and more detailed scrutiny.

Strategic and operational risks were to be updated following a recommendation in the previous review of the HRA Business Plan. This was to ensure the risks around the delivery of the business plan were recorded and regularly reviewed. This was reported as implemented within the audit recommendations tracker but this review found that risks relating to the HRA business plan are not included in the operational risk register. This was highlighted to the Housing Landlord Manager who said that this was an oversight and is currently addressing this. However we did find that risks and sensitivities are included in an appendix which forms part of the HRA estimates presented to Members annually.

During the review we found evidence of performance reporting:

- Managers from the Housing service meet monthly with the Senior Finance Business Partner responsible for Housing to review the budget position.
- Budget performance is reported to Members quarterly as part of the financial performance reports. The quarter 3 report, being presented to Cabinet on 17 February 2015, is reporting a forecast surplus outturn of £1.163 million. This is against an original budget deficit of £830,000 and an approved capital rollover of £2.253 million. SHDC & CPBS Finance are reporting that there is some risk associated to potential downward revaluations on HRA non dwelling properties, such as community centres and garages.
- There are several performance indicators which impact on the HRA:
  - Percentage of stock which meets the Decent Homes Standard (currently 100%)
  - percentage of rent collected against rent charged, currently standing at 99.43%
  - average time to re-let a property, currently 24 days against a target of 17 days.

  These indicators confirm that the HRA is performing well, the average time to re-let a property is below target but has been affected by three recently void properties which required substantial work.

Recommendation table 2012 Audit

Priority	Made	Implemented	Outstanding
High	5	3	2
Medium	4	4	0

Management Response

This report and the subsequent follow up meeting have helped us to understand there has been some confusion and ambiguity in the communications with CMT. It has shown that an additional piece of work is required to clarify this and to prepare the terms of reference for the proposed steering group. If the establishment of a steering group is agreed the outstanding audit recommendations can be duly signed off.

Duncan Hall, Shared Housing Manager

Information Governance follow up

The original assurance on this audit was "Limited" Assurance; whilst good progress has been made in several areas there are still some key areas to implement, including training and currently the assurance rating remains the same. Revised timescales for implementation indicate that the assurance rating will be improved by the end of the financial year.

Key recommendations still requiring completion:
- Ensuring that (new starter) induction material includes basic awareness of data protection and FOI
- Ensuring staff receive appropriate training on data protection and FOI (includes a new training package under development)
- Ensuring the FOI log is brought fully up to date
- Management monitoring of FOI/EIR performance
- Updating the document retention policy and ensuring service managers have a clear role in its application
- Ensuring that there is a review of records held

END OF APPENDIX 2

Appendix 3 Internal Audit Plan and Schedule 2015/16

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Critical Service Activities						
Construction Services Unit (CSU)	12	This review will focus on the work of the CSU (Construction Services Unit) which is the Council's responsive repair function. We shall examine the effectiveness of repairs delivery to tenants and leaseholders which contribute to the Council's wider housing objectives.	Oct 2015			
Housing – Planned Maintenance	12	We will review the housing planned maintenance programme to ensure effective management and delivery of housing modernisation projects, which support the Council's Housing objectives.	July 2015			
Contract Management	10	Rolled forward audit from 2014/15 To provide assurance that	January 2016			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		key contracts are managed effectively				
Sub total	**34**					
Due Diligence						
Key Control Testing - Bank reconciliation Accounts Payable Accounts Receivable Income Payroll Property, Plant & Equipment Council Tax NNDR	15	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.	January 2016 Oct 2015			
Budget management	6	Risk based review	July 2015			
General Ledger	6	Risk based review	July 2015			
Key income areas / collection and banking	12	Risk based review	January 2016			
Housing Rents	12	Risk based review	July 2015			
Housing Benefits	10	Risk based review	Oct 2015			
Project/programme management follow up	5	Follow up review to a previous limited assurance report	Oct 2015			
Performance management	5	Follow up review to a	Oct 2015			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
follow up		previous limited assurance report				
Procurement follow up	5	Follow up review to a previous limited assurance report	Oct 2015			
Sub Total	**76**					
Emerging Risks						
Asset & Property Management		Detailed scope to be agreed	TBA			
People Management		Detailed scope to be agreed	TBA			
Legal Services		Detailed scope to be agreed	TBA			
Contingency		Detailed scope to be agreed				
Sub Total	**56**					
ICT Audit						
Focus to be agreed			TBA			
Sub Total	**20**					
Other relevant areas						
Combined Assurance	10	Development of a Council assurance map and assisting in production of a status report	Oct 2015			
Follow up of recommendations	3		Ongoing quarterly			
Sub Total	13					
Non-Audit						
Advice / liaison	6					
Annual Report	2					
Audit Committee	6					
Sub Total	**14**					

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Total Audit Plan for 2015/16	**213 ***					
Other Work						
Subsidy claim testing	25	Part of the grants claims audit by the External Auditor	June 2015	June 2015		
ICT Disaster Recovery follow up	3			March 2015		
ICT Strategy & Project Management	10			March 2015		
ICT Software	10			March 2015		
Risk Management	10		July 2015			

*The base plan is 193 days. 20 days have been carried forward from 2014/15 and the subsidy claim testing is charged in addition to 193 days. The remaining ICT work and Risk Management are also carried forward from 2014/15