## SOUTH HOLLAND DISTRICT COUNCIL

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

**To:** **Governance & Audit Committee – 24th September 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 - May 2015 to August 2015**

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**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 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    Since the last progress report we have completed 10 audits – 8 to final report stage and 2 to draft report.

1.3    Work is progressing with the 2015/16 plan as follows:

|   |   |   |
|---|---|---|
| ▪ Audits complete | | 11% |
| ▪ Audits in progress | | 12% |
| ▪ Audits Scheduled | | |
|     o Qtr 2 | 13% | |
|     o Qtr 3 | 24% | |
|     o Qtr 4 | 27% | |
| ▪ Audits unallocated / contingency | | 13% |

Appendix 3 provides details of audit areas and proposed audit dates

1.4    We are working with management to review, schedule and allocate the 2015/16 plan – any agreed changes to the plan will be presented to the next Committee.  The management restructure has had an impact on our schedule / planning process – with managers requesting some work to be delivered in Qtr 4.  This may make it difficult to deliver the plan by the 31st March 2016.

1.5    There are two audits relating to the 2014/15 plan – these are at draft report stage, namely:

- ICT Strategy and projects
- ICT Software

1.6    HB subsidy detailed audit testing work has been completed and the results passed to KPMG for assessment.

1.7    The tracking of audit recommendations will be through the Covalent system in the near future.  We are working with management to help update the system with a formal follow up of all outstanding recommendations planned in October/November.  The resulting audit report is scheduled to be presented to the Governance and Audit Committee on the 3rd December 2015.

## Internal Audit work completed from May 2015 to August 2015

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

| High (formally Effective) | Substantial (formally Some improvement needed) | Limited Assurance (formally Major improvement needed) | Low (formally Inadequate) |
|---|---|---|---|
|  | Housing Benefits | Accounts payable |  |
|  | Property Plant and equipment (key controls) | ICT Mobile devices |  |
|  | Council Tax ( Key controls) |  |  |
|  | NNDR (Key controls) |  |  |
|  | Partnerships |  |  |
|  | ICT Security (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.*

1.9     Progress with the implementation of agreed management action on high and medium recommendations is being progressed as part of the new Covalent Performance Management system roll-out.

1.10    In the audits given "Substantial / Some improvement needed" or "High / Effective" Assurance, we confirmed that the Council has sound processes in place as follows:

**Housing Benefits**

Our review recommended improvements to the Quality Assurance (QA) processes by re-instating some of the checks previously completed and reviewing the approach to Quality Assurance sampling. We also found there was a need to review system user accounts, improve controls around high value payment authorisation and ensure monthly reconciliations of Rent Rebate.  Management have reintroduced team members to QA activity plus a new and reviewed QA policy will improve this area over the coming months and improve assurance in due course. The actions have been agreed and will be completed.

**Property Plant and equipment (key controls)**

We carried out key control testing of property, plant and equipment. SHDC should publish their data on land and building assets on-line in accordance with data transparency guidelines - this has now been completed. Some work is required to review and update asset spreadsheets with land registry information; if this identifies any unregistered land this will be addressed.  The Council's Corporate Asset Management Strategy and action plan requires updating, for which work has already begun in light of the new Corporate Plan. The resulting updated action plan from the Strategy will highlight the projects that need to be completed to meet the new Corporate Priorities and prioritised through Member consultation.

**Council Tax / NNDR (national Non-Domestic rates) (Key controls)**

The Council needs to improve monitoring of suppressed bills which could present a fraud risk and could leave the Council at risk of not collecting all income due. NDR Valuation Office notifications and NDR reliefs should be promptly actioned as this could lead to a delay in the Council receiving all income due. In both areas management have agreed to take appropriate action.

**Partnerships**

The Council has recently compiled a formal Partnership Policy and Partnership Register.  The Policy sets out South Holland District Council's (SHDC) approach to partnership working, and outlines its processes for entering, managing, and reviewing partnerships to ensure resources are focussed on delivering Corporate Priorities. Our recommended area of improvement relates to ensuring that the Council embeds and enforces the planned procedures identified within the Policy, in particular the annual review of the Partnership Register.  This will build on the good practices summarised above that the Council already has in place.

**ICT Security (follow up)**

We undertook a follow up of outstanding IT security audit recommendations; these had been partially implemented. We made further recommendations to enhance policies and procedures around back-up, event logging and incident management. Management have agreed to review and update policies as required.

## Audits in Progress

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

- Housing benefit subsidy testing – complete and awaiting KPMG review September 2015
- Housing Rents
    We will assess rent setting, calculation and billing as well as income collection and arrears management
- Housing Planned Maintenance
    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.

1.12   We are preparing audits for:

- Contract management
    We will examine the effectiveness of current contract management
- Human Resources
    The relationship between the Council and CPBS to assess the effectiveness of Human Resources service delivery by CPBS.
- Income
    Review of key income areas including Planning fees, South Holland Centre income and Car Park charges

1.13    The Governance and Audit Committee may recall that Audit Lincolnshire is a collaboration partnership made up of the Internal Audit teams of Lincolnshire County Council, the City of Lincoln and East Lindsey District Council.  We share good practice, work to consistent and common practices and pool and share resources where appropriate to deliver our internal audit services across our client base.

1.14.   East Lindsey's Internal Audit team is nominated as the lead for internal audit of CPBS (as per the management agreement).  Every year, each Council allocates a number of audit days to review the financial systems administered by CPBS –with delivery of the work co-ordinated through the Audit Lincolnshire partnership.  In the past we have shared the actual delivery of the work between our South Holland and East Lindsey's teams.  This year we propose to solely use resources in the East Lindsey team to deliver South Hollands planned days (with the exception of ICT audits).  This aims to improve the co-ordination of work with CPBS and streamline the audit process.  Overall contract management and client engagement responsibilities remain with ourselves and we will monitor progress and delivery of the work plan in the normal way.

## Performance Information

1.5  The programme of work for 2015/16 is shown at Appendix 3

1.6.  Our current 2015/16 performance against targets is shown below:

| Performance Indicator | Target | Actual @ Sept 2015 |
|---|---|---|
| Percentage of 15/16 plan completed. | 100% (revised plan) | 19% |
| Percentage of key financial systems completed. | 100% | Annual Indicator |
| Percentage of recommendations agreed. | 100% | Awaiting data 15/16 |
| Percentage of recommendations implemented 15/16 audits falling due | 100% or escalated | Awaiting completion of audit recommendation follow up |
| Timescales | Draft report issued within 10 working days of completing audit. (target 100%) | Awaiting data from 15/16 audits |

| Performance Indicator | Target | Actual @ Sept 2015 |
|---|---|---|
|  | Final report issued within 5 working days of closure meeting / receipt of management responses. (target 100%)<br><br>Audit completed to draft report stage within two months of starting fieldwork (target 80%) |  |
| Client Feedback on Audit (average) | Good to excellent | Awaiting data |

## 1.7    Other Matters of Interest

### 1.7.1  Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE)

The introduction of new responsibilities and the development of new collaborative structures and ways of working provide challenges for ensuring transparency, demonstrating accountability and, in particular, for managing risk. It is crucial therefore that leaders and chief executives keep their governance arrangements up to date and relevant.

In response to these challenges, CIPFA and SOLACE are undertaking a fundamental review of the Framework: Delivering Good Governance in Local Government to ensure that it remains 'fit for purpose'.

A consultation on the new draft Framework is available on the CIPFA website until 28th September.  This can be found following this link: http://www.cipfa.org/policy-and-guidance/consultations

1.7.2  Discussions are being held with Officers around the potential for Members to shadow one or two internal audits so that they can get a better understanding of the audit process.  This will be taken forward from October onwards.

### 1.7.3  Training and Development

Training and Development forms a key part of maintaining the Committee's effectiveness.  We propose to relaunch the successful networking group – Lincolnshire's Audit Committee Forum – inviting public sector bodies across Lincolnshire.  This forum provided Audit Committees a way to share good

practice and receive topical updates and relevant training.  We are seeking the views of the Committee:

1    Is this something the Committee would welcome?
2    Are there any topics of relevance / interest that members would like covered at a Forum meeting?

## 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.
        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 |

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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]

| High | 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.<br><br>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively. |
|---|---|
| Substantial | Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.<br><br>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. |
| Limited | Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.<br><br>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. |
| Low | 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.<br><br>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. |

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[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 'Limited Assurance" or "Low"**

## ICT – Mobile Devices

CPBS manage a variety of mobile devices. The bulk of these devices are smartphones although tablets are also provided.  The majority of devices are corporately issued, although Bring Your Own Device arrangements are permitted.

Our review identified some gaps in arrangements to control mobile devices, which may then put the data available through such devices at risk.

Supporting policies need to be developed and refreshed to direct and inform users of mobile devices.

Settings that control mobile devices need to be reviewed and reporting functions on mobile device security need to be established with any reported exceptions being promptly acted upon.

An industry standard Mobile Device Management (MDM) software application is used to monitor and control mobile devices that are given access to corporate resources/data.

The MDM is not currently configured to provide the level of security as recommended by the Communications-Electronics Security Group (CESG - the national technical authority for information assurance).  We acknowledge that there is often a balance between ensuring a satisfactory user platform and providing an appropriate level of security for data, and have in places sought a pragmatic compromise between CESG guidance and user experience.  Ultimately existing settings need to be reviewed and a device configuration policy (or policies) established to ensure that an appropriate level of security is maintained for each organisation and type of device.

Policies for users of mobile devices need establishing.  Users may not recognise that mobile devices represent a threat to IT and data security.  As a result they may not apply the same security and data protection guidelines as they would on other devices such as desktop computers.  A second challenge is that when users provide their own devices (Bring Your Own Device – BYOD) they often give greater weight to their own rights on the device than to their employer's need to protect data.  Under the Data Protection Act, for example, if data is lost via an insecure employee-owned device, the organisation remains liable and may be subject to monetary penalty.

As well as providing this guidance to users, policies also need to make clear what monitoring arrangements will be in place and the privacy implications that these may have for the user.

Reporting features and automated actions within the MDM application need to be utilised to help promptly identify and resolve security issues.

**Management Response**

Management have agreed to all recommendations. Further detailed discussions between CPBS and Clients will be needed on some recommendations to assess impact and agree on the final mitigation.

**<u>Accounts Payable</u>**

We have carried out key control testing of the accounts payable (AP) system used at both South Holland District Council (SHDC) and East Lindsey District Council (ELDC). Compass Point Business Services (CPBS) operate the system for both Councils.

Although our testing found some areas of good practice we still found control weaknesses around incorrect payment authorisation, a low percentage of purchase orders raised and weaknesses around checking of bank account changes.

Our testing found that two of 15 SHDC invoices had been signed by a member of staff who was not a budget manager or authorised signatory. Staff need to be reminded that invoices should only be processed for payment if authorised by a budget manager or authorised signatory to reduce the risk of fraud or error.

A high percentage of invoices paid at SHDC and ELDC did not have a purchase order raised. Whilst it is acknowledged that some of these may relate to utility payments the absence of orders increases the risk of fraud, does not allow commitments to be reported against budgets and does not help with any supplier disputes. This was an issue raised in the September 2014 audit report.

The Ops Support team based in Manby carry out validation checks of bank account changes but this is not the case at Spalding. A clear written procedure should be introduced for both Manby and Spalding. This is an area where there have been significant frauds across the country in the past.

**Management Response**

Client managers will be reminded again of the need for requisitions (which has already been completed) and any incorrect authorisations of invoices will be returned to the Budget manager. Areas for recommendation have been duly reviewed and the appropriate level of actions/ owners and timescales have been documented. No errors were found in Supplier Bank details.

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 |
|---|---|---|---|---|---|---|
| **Quarter 1** | | | | | | |
| Housing Benefit Subsidy testing | 25 | Part of the grant claims audit by the External Auditor | June 2015 | June 2015 | | Complete – awaiting KPMG review. |
| **Quarter 2** | | | | | | |
| Housing – Planned Maintenance | 12+3 | 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.<br><br>Additional days covering system migration. | July 2015 | August 2015 | | In progress |
| Key control testing<br><br>4.Income*<br>5.Payroll* | 15<br>(all key controls) | Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment. | Sept 2015 | | | |
| Key Income areas / collection and banking | 12 | Risk based review:<br><br>Car parking<br>Planning<br>South Holland Centre | Sept 2015 | | | |

| Area | Days | Indicative Scope | Planned Start Date | Actual Start Date | Final Report Issued | Status / Assurance Level Given |
|---|---|---|---|---|---|---|
| Housing Rents | 12 | Risk Based review.. | July 2015 | July 2015 | | In progress |
| | | | | | | |
| **Quarter 3** | | | | | | |
| 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. | Dec 2015 | | | Planned audit under discussion |
| Contract Management | 10 | Rolled forward audit from 2014/15 To provide assurance that key contracts are managed effectively | Oct 2015 | | | Being prepared |
| Key Control Testing - 1.Accounts Payable* 2.Council Tax/NNDR* | See above | Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment. | Oct 2015 | | | |
| Housing Benefits* | 10 | Risk Based review | Oct 2015 | | | |
| People Management | 12 | The relationship between the Council and CPBS to assess the effectiveness of Human Resources service delivery by CPBS. | Oct 2015 | | | Being prepared |
| Combined Assurance | 10 | Development of a Council assurance map and assisting in | Nov 15 | | | |

| Area | Days | Indicative Scope | Planned Start Date | Actual Start Date | Final Report Issued | Status / Assurance Level Given |
|---|---|---|---|---|---|---|
| | | production of a status report | | | | |
| **Quarter 4** | | | | | | |
| Key Control Testing - 1.Bank reconciliation* 2.Accounts Receivable* 3. Property, Plant & Equipment* | See above | Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment. | Jan 16 | | | |
| Budget management* | 6 | Risk Based review | Jan 16 | | | |
| General Ledger* | 6 | Risk based review | Jan 16 | | | |
| Project / programme management follow up

Performance management follow up

Procurement follow up | 15 | Follow up review to a previous Limited assurance report | Jan 16 | | | |
| Asset and property Management | 12 | Assurance around the ability to deliver Corporate Asset aspirations, including asset utilisation. | Jan 16 | | | |
| ICT Audit | 20 | ICT Disaster Recovery* Access/Starters/Leavers/Movers*

Shared management interface ICT applications (PIMMS) | Jan 16 | | | *Joint reviews with ELDC This will be covered in Q3 subject to agreement with officers |

| Area | Days | Indicative Scope | Planned Start Date | Actual Start Date | Final Report Issued | Status / Assurance Level Given |
|---|---|---|---|---|---|---|
| Contingency | 29 | Not yet allocated | | | | |
| | | | | | | |
| **Other relevant areas** | | | | | | |
| Follow up of recommendations | 3 | | Ongoing quarterly | | | |
| **Non-Audit** | | | | | | |
| Advice / liaison | 6 | | | | | Ongoing |
| Annual Report | 2 | | | | | Completed |
| Audit Committee | 6 | | | | | Ongoing |
| | | | | | | |
| **Total Audit Plan for 2015/16** | **238** * | | | | | |
| **Other Work** | | | | | | |
| | | | | | | |
| | | | | | | |
| ICT Strategy & Project Management | 10 | | | March 2015 | | B/F Draft report stage with CPBS |
| ICT Software | 10 | | | March 2015 | | B/F Draft report stage With CPBS |
| Risk Management | 10 | Risk management extended advice. | Jan 2016 | | | B/F 2014/15 |

*Selected financial audits will be completed by ELDC auditors (see asterix* audits). The ELDC audit team is an Audit Lincolnshire partner. ELDC are also the lead auditors for CPBS.  For the selected audits ELDC apply an equal resource and undertake a joint audit. For ICT ELDC have a 15 day ICT audit allocation.

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.