

SOUTH HOLLAND DISTRICT COUNCIL

Report of: Audit & Risk Manager (Audit Lincolnshire) and Executive Director - Commercialisation

To: Governance & Audit Committee – 3 December 2015

(Author: Lucy Pledge – Head of Audit & Risk Management (Audit Lincolnshire)
Julie Kennealy – Executive Director Commercialisation

Subject: Internal Audit Update Report

Purpose: To update the Committee on progress with the Audit Plan - September to November 2015

Recommendation:

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

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 3 audits – 2 to final report stage and 1 to draft report. Reports on ICT Strategy and Projects and ICT Software remain at draft stage as we are still in the process of agreeing management actions with SHDC, ELDC and CPBS.

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

- Audits complete 36%
- Audits in progress 19%
- Audits Scheduled
 - Qtr3 6%
 - Qtr4 34%
- Combined assurance 5%

1.4 Details of audit areas and proposed audit dates are given in Appendix 3. Given the nature of any risk-based plan, changes occur or events happen that impact on delivery of the originally agreed plan e.g.:

- Timescales need changing to ensure that the audit delivers effective and relevant assurance
- Initiatives have been slower to implement than anticipated therefore changing the potential type of work / assurance required e.g. consultancy / sounding board for new systems and developments - rather than assurance on an implemented initiative
- Operational requests by management to reschedule the audit
- Risk profile changes during the year

1.5 Consequently, following discussion with the Executive Director – Commercialism, we are proposing the following changes to the Internal Audit Plan 2015/16 (with the revised plan days being 204 (including subsidy)).

Deletions from the Plan:

Audit	Reason for Change	Days	Assurance for Head of Internal Audit opinion (March 2016)
Asset & Property Management	Review of this service is included within the Council's Transformation Programme and therefore audit review would not add value at this time.	10	Assurances to be gained from Transformation Programme.
Procurement & Project Management follow up	These areas are currently subject to management review.	10	Assurances to be gained through Management, 1 st line of assurance.

Additions to the Plan:

Audit	Indicative Scope	Days
Housing Benefits	Risk based audit on Housing Benefit expanded to include extra days sample testing on the accuracy and classification of benefit claims to give early indication of issues on the annual Housing Benefits Subsidy claim.	Addnl 5 days

Performance Management	We are focussing our review of performance management to consider progress on the implementation of the new performance management system – Covalent.	Addnl 10 days
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- 1.6 Following discussion with Executive Directors we have agreed to hold the CSU audit pending the outcome of an operational review that is currently underway. We have drawn on some additional resource in order to be on track for delivery of the revised plan by 31 March 2016.
- 1.7 As agreed with the Committee at the last meeting, we have completed a follow up with managers on progress with all outstanding audit recommendations. In future the Council plans to track audit recommendations through the Covalent performance management system. Whilst the majority of recommendations made on audits from the 2014/15 plan have been implemented, a number of High Priority recommendations remain outstanding (a summary is provided below).

Internal Audit work completed from September to November 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 Rents Housing – Planned Maintenance		

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 In the audits given Substantial Assurance, we confirmed that the Council has sound processes in place as follows:

Housing Rents

Based on the sample tested we were able to confirm that housing rents are being charged correctly and have been increased in line with Government guidance. The Council is considering the impact of the Summer Budget where rents are to reduce by 1% for the next four years from 2016/17 and other measures e.g. the benefit cap being reduced.

Income is being collected timely and accurately posted to the general ledger and rent accounts. Regular reconciliations between the Income Collection, Housing and Finance systems confirm all income has been accounted for.

There are a small number of areas where controls could be enhanced including:

- Authorisation of the new year rent increases by senior management
- Ensuring that the Housing team are advised when rent arrears have been approved for write off by Members
- Accounts with the bailiffs should be monitored and when returned actioned on the Northgate Housing system
- Action taken timely on former tenant arrears account to increase the chance of recovery.

Housing – Planned Maintenance

For the planned maintenance contracts we sampled the programmes are working well:

- The work is approved annually as part of the capital programme
- Work to be undertaken is based on the decent homes surveys
- Regular meetings are held with the contractors
- Surveys of properties are undertaken and work is only paid when it has been confirmed that the work has been carried out satisfactorily.
- Tenants appear happy with works carried out with a high percentage satisfaction rate reported for the contracts.

An area which could be strengthened for all contracts is the review and reporting of contract performance. Currently tenant satisfaction is reported through the Corporate Performance management system, but there is very little other performance information reported through to management or formally discussed at contractor liaison meetings, for example client satisfaction for the product, defects, health and safety.

Audits in Progress

- 1.10 Our review of key income collection areas (Planning Fees, South Holland Centre income and Car Parking charges) is at draft report stage. The outcome is positive and the majority of expected controls are in place.
- 1.11 The following 2015/16 audits are currently in progress:

Human Resources

We are seeking to provide assurance around the effectiveness of HR service delivery to the Council by CPBS.

Housing Benefits

We will be undertaking a review of housing benefit administration to provide independent assurance that there are sound internal controls within the system and that the Councils' resources are being protected. The key focus of

the work will involve substantive testing on areas of the subsidy claim with known issues.

Two members of SHDC's Governance and Audit Committee will be shadowing this audit as part of the Member development programme.

ICT – Starters, Movers and Leavers

Our work will provide assurance around the processes to deal with ICT access for starters, movers and leavers.

1.12 We are preparing audits for:

Contract Management & Performance Management

We are currently working with the Corporate Improvement and Performance Manager to scope these audits in more detail. Initial discussions indicate these reviews will cover:

Contract Management – the arrangements in place with Procurement Lincolnshire to support the Council's procurement

Performance Management – a follow up of issues highlighted by the previous audit in this area and review of the implementation of the Covalent performance management system.

Follow Up of Outstanding Audit Recommendations

1.13 We have followed up outstanding audit recommendations from audits completed in 2013/14 and 2014/15. Responses from managers have determined that 70% of the recommendations that were due for implementation by the end of October 2015 have been actioned. There are nine high recommendations outstanding relating to six audits and progress has been reported as follows:

CPBS Governance – the CPBS Board is awaiting a report on IT system capacity and proposes that recommendations for investment will be included in the 2016/17 CPBS Business Plan. *Note* - Internal Audit understands that the Plan has now been prepared and we intend to follow up this recommendation.

Health & Safety – work is progressing to ensure that all current and prospective contractors are fully vetted and approved prior to commencing work for the Council. This is due to be completed by 31 December 2015.

Housing Revenue Account – our follow up review of the 2012 Housing Revenue Account audit highlighted outstanding point around governance and risk management. Management are reviewing governance arrangements again following the recent shared management restructure. HRA risks are to be added to Covalent.

Mobile Devices – Our audit highlighted that remote working policies for remote devices would benefit from a refresh and potential risks around the capacity to open corporate data on these devices. The revision of the policy has been delayed due to CPBS reprioritisation of work and CPBS are awaiting a decision from the Council on whether the ability to open documents should be restricted.

Property Services & Gas Servicing – there are 2 high priority audit recommendations outstanding relating to gas safety. The implementation of the action plan produced by an independent inspection of housing gas safety management will be complete by 31 March 2016. Work is in progress to address the gas safety management within non-housing assets by using the Housing Property gas service contractor who carried out 2015 inspections.

Procurement – the Procurement Team is currently completing a full review of practice and governance across both SHDC and Breckland Councils. Contract data is being collected and analysed and there will be meetings with service managers to advise on exit and re-tendering arrangements on all contracts that originally breached procurement regulations.

The Executive Director – Commercialisation is to take the lead with Directors in addressing the reasons for agreed management actions remaining outstanding. The Committee will receive a further update on outstanding audit recommendations at the meeting in March 2016.

Performance Information

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

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

Performance Indicator	Target	Actual @ Nov 2015
Percentage of 15/16 plan completed.	100% (revised plan)	36%
Percentage of key financial systems completed.	100%	Annual Indicator
Percentage of recommendations agreed.	100%	100%
Percentage of recommendations implemented 15/16 audits falling due	100% or escalated	70%

Performance Indicator	Target	Actual @ Nov 2015
Timescales	Draft report issued within 10 working days of completing audit. (target 100%)	100%
	Final report issued within 5 working days of closure meeting / receipt of management responses. (target 100%)	100%
	Audit completed to draft report stage within two months of starting fieldwork (target 80%)	100%
Client Feedback on Audit (average)	Good to excellent	Excellent

Note – details relate to audit work at final report stage.

Other Matters of Interest

Lincolnshire Counter Fraud Partnership

1.16 The Lincolnshire Counter Fraud Partnership (consisting of Lincolnshire County Council and all seven district councils) has been fully operational since May 2015. The priorities of the Principal Investigator appointed to oversee and deliver the project are guided by the comprehensive work plan in place.

1.17 Progress is being made in key areas of the partnership's workplan. These include:

- Establishment of fraud networks – this work is helping develop a greater understanding of fraud risks facing the partner authorities, sharing of best practice and transfer of fraud intelligence across Lincolnshire
- Developing an overarching Communications Plan. The initial communications since the Partnership was created have included press releases, radio interviews and articles. County wide publicity is generating an increased response to the Lincolnshire Authorities Fraud hotline – issues reported include Housing and Blue Badge Fraud
- A county wide fraud risk register is also being developed. The outcomes from this risk assessment work will help prioritise areas for future pro-active

counter fraud work. Fraud risk workshops are currently being held with district councils to establish registers specific to each partner

- Fraud 'health checks' using the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. Our initial assessment suggests further work is required within all partner authorities to strengthen arrangements.

1.18 Current projects designed to detect fraud and error include:

- Council Tax Single Person Discount (SPD) – at 6 November 2015 this project has generated net 'savings' of £621k, of which £87,365 relates to SHDC. A total of 2253 discounts have been removed (378 SHDC) and 342 penalties applied across the county.
- A pilot to address Council Tax reduction fraud within partner authorities has so far realised £37k in savings and identified 22 cases where fixed penalties have been imposed

1.19 These projects were approved, funded and implemented through the Partnership. We believe the initial results are encouraging and demonstrate the value in joint working across partner authorities and the potential for long term sustainability of the partnership.

CIPFA Audit Committee Update 18

1.20 In the recent Audit Committee update the CIPFA Better Governance Forum has provided some guidance on self-assessment and improving effectiveness for Audit Committees. The guidance includes a suggested approach for assessment through considering 4 broad areas:

- whether the committee is meeting recommended practice for committees in its sector
- whether the committee is addressing its areas of responsibility adequately
- whether the members have acquired the necessary knowledge and skills to be effective
- whether the committee is adding value to the organisation

The document also provides advice on how to undertake the assessment and acting on its results. A copy of the update is provided as Appendix 4.

Lincolnshire Audit Committee Forum

1.21 Members will be familiar with the Lincolnshire Audit Committee Forum – an Audit Committee networking group to enable sharing of good practice, emerging governance and risk issues and hot topics for public sector audit committees. It is designed to help and support audit committees effectiveness.

We plan to host an all-day forum event in February 2016 (supported by KPMG). Indicative agenda:

Morning (Chairman and Vice-Chairman)

- What makes an effective audit committee
- Information sharing
- Hot topics

Networking lunch

Afternoon (open to all members of the Audit Committee)

- Cyber risk
- Thinking about risk

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 **Constitution & Legal**

5.1.1 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.

5.2 **Contracts**

5.2.1 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.

5.3 **Corporate Priorities**

5.3.1 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

5.4 **Equality and Diversity / Human Rights**

5.4.1 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

5.5 Financial

5.5.1 Reduction in Audit Plan cost.

5.6 Risk Management

5.6.1 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.

5.7 Staffing

5.7.1 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.

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

Lead Contact Officer

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Director / Officer who will be attending the Meeting:

Lucy Pledge – Head of Audit & Risk Management – Audit Lincolnshire;
Julie Castledine – Principal Auditor – Audit Lincolnshire

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 4 - CIPFA Better Governance Forum Audit Committee Update 18

Appendix 1 - Assurance Definitions¹

High	<p>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.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
Substantial	<p>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.</p> <p>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.</p>
Limited	<p>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.</p> <p>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.</p>
Low	<p>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.</p> <p>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.</p>

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’

There are no audits to report with this level of assurance.

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	N/A	Complete
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. Additional days covering system migration.	July 2015	August 2015	November 2015	Complete
Key control testing 4.Income* 5.Payroll*	15 (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.	<i>Revised Feb 16.</i>			
Key Income areas / collection and banking	12	Risk based review: Car parking Planning South Holland Centre	Sept 2015	Oct 2015		Draft report issued
Housing Rents	12	Risk Based review.	July 2015	July 2015	Oct 2015	Complete

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
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.	<i>Revised Q4</i>			<i>Planned audit under discussion – start date revised to new year at management request pending outcome of operational review.</i>
Contract Management	10	Rolled forward audit from 2014/15. To provide assurance that key contracts are managed effectively – focus likely to be around Procurement Lincolnshire.	Nov / Dec 15			<i>Scoping meeting arranged with Corporate Improvement & Performance Manager.</i>
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.	<i>Revised</i> <i>March 16</i> <i>Dec 15</i> <i>/Jan 16</i>			
Housing Benefits	10 + 5	Risk Based review: To provide assurance that there are sound internal controls within the administration of housing benefits and that the Councils' resources are being protected. A key focus will be substantive testing on	Nov 2015			Audit brief issued for agreement.

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		the accuracy of claims processing and their classification within a Housing Benefits Subsidy Claim.				
People Management	12	The relationship between the Council and CPBS to assess the effectiveness of Human Resources service delivery by CPBS.	Oct 2015	Oct 2015		Audit fieldwork in progress.
Combined Assurance	10	Development of a Council assurance map and assisting in production of a status report	TBA			<i>EMT considering whether this work is still required.</i>
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.	<i>Revised Mar 16</i>			
Budget management*	6	Risk Based review	<i>Revised Feb 16</i>			
General Ledger*	6	Risk based review	<i>Revised Feb 16</i>			
Performance management follow up	15	Follow up review to a previous Limited assurance report. Our work will include a review of the introduction of the Covalent performance management system.	Jan 16			<i>Scope amended at management request. Project management &</i>

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
						<i>Procurement not included at this time.</i>
ICT Audit	20	ICT Disaster Recovery* Access/Starters/Leavers/Movers*	Jan 16	Nov 15		*Joint reviews with ELDC This will be covered in Q3 subject to agreement with officers
Other relevant areas						
Follow up of recommendations	5		Ongoing quarterly			
Non-Audit						
Advice / liaison	6					Ongoing
Annual Report	2					Completed
Audit Committee	6					Ongoing
Total Audit Plan for 2015/16	204**					
Other Work						
ICT Strategy & Project Management	10			March 2015		B/F Draft report stage with SHDC / ELDC
ICT Software	10			March 2015		B/F Draft report stage with SHDC /

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
						ELDC
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 – the proposed changes revise this total to 159. 20 days have been carried forward from 2014/15 and the subsidy claim testing is charged in addition to 159 days. The remaining ICT work and Risk Management are also carried forward from 2014/15.