

Eastern Internal Audit Services



SOUTH HOLLAND DISTRICT COUNCIL

Annual Report and Opinion 2018/19

Responsible Officer: Emma Hodds – Head of Internal Audit for South Holland DC

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1. INTRODUCTION

- 1.1 The Accounts and Audit Regulations 2015 require that “a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.
- 1.2 Those standards – the Public Sector Internal Audit Standards - require the Chief Audit Executive to provide a written report to those charged with governance (known in this context as Governance and Audit Committee) to support the Annual Governance Statement (AGS). This report must set out:
- The opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control during 2018/19, together with reasons if the opinion is unfavourable;
 - A summary of the internal audit work carried from which the opinion is derived, the follow up of management action taken to ensure implementation of agreed action as at financial year end and any reliance placed upon third party assurances;
 - Any issues that are deemed particularly relevant to the Annual Governance Statement (AGS);
 - The Annual Review of the Effectiveness of Internal Audit, which includes; the level of compliance with the PSIAS and the results of any quality assurance and improvement programme, the outcomes of the performance indicators and the degree of compliance with CIPFA’s Statement on the Role of the Head of Internal Audit.
- 1.3 When considering this report, the statements made therein should be viewed as key items which need to be used to inform the organisation’s Annual Governance Statement, but there are also a number of other important sources to which the Governance and Audit Committee and statutory officers of the Council should be looking to gain assurance. Moreover, in the course of developing overarching audit opinions for the authority, it should be noted that the assurances provided here, can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes subject to internal audit review. The annual opinion is thus subject to inherent limitations (covering both the control environment and the assurance over controls) and these are examined more fully at **Appendix 3**.

2. ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

2.1 Roles and responsibilities

- The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.
- The AGS is an annual statement by the Leader of the Council and the Chief Executive that records and publishes the Council’s governance arrangements.
- An annual opinion is required on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control, based upon and limited to the audit work performed during the year.

This is achieved through the delivery of the risk based Annual Internal Audit Plan discussed and approved by the Executive Management Team and key stakeholders and then approved by the Governance and Audit Committee at its meeting on 15 March 2018. Any justifiable amendments that are requested during the year are discussed and agreed with senior management, and reported through to Committee. This opinion does not imply that internal

audit has reviewed all risks and assurances, but it is one component to be taken into account during the preparation of the AGS.

The Governance and Audit Committee should consider this opinion, together with any assurances from management, its own knowledge of the Council and any assurances received throughout the year from other review bodies such as the external auditor.

2.2 The opinion itself

The overall opinion in relation to the framework of governance, risk management and control at South Holland District Council is **Reasonable**. This conclusion has been reached by considering the following points, which are further expanded in section 3.4 of the report.

During 2018/19 a total of 18 internal audit reviews have been completed at South Holland District Council, 16 of these concluded in a positive assurance grading with three of these being Substantial assurance in areas of Leisure, Building Control and Service Desk.

A total of two reports received a Limited assurance grading. The first in relation to Procurement and Contract Management. However, we are pleased to report that of the 12 important recommendations raised management have already addressed 7 of these. Three important recommendations are now overdue, and we therefore recommend that these are referenced in the AGS as per section 3.4.

The second Limited assurance report relates to Financial Services. Six urgent and six important priority recommendations were raised. High priority recommendations relate to improving supplier verification checks, reducing the number of retrospective purchase orders raised, improving documentation of fees and charges, invoice and credit note authorisation, writing off Accounts Receivable debt and system functionality not being able to prevent unauthorised write offs or invoices. Important recommendations relate to adhering to corporate payment terms, regularly reviewing disputed invoices, improving accounts receivable reconciliations, profiling budgets, investigating car parking banking discrepancies, and reviewing the purchase order exceptions list. We recommend that these recommendations are referenced in the AGS as per section 3.4.

In comparing the issues raised during the 2017/18 annual report, where six audits concluded in negative assurance and where a limited opinion overall was given, we are now pleased to report that significant effort has gone into addressing agreed recommendations and for the majority of areas audited, improved governance, risk management, and control observations were noted. This has led to an improved Reasonable assurance grading being reported for 2018/19.

This opinion has been discussed with the Section 151 Officer, the Finance Board and the Corporate Management Team prior to publication.

3. **AUDIT WORK UNDERTAKEN DURING THE YEAR**

3.1 **Appendix 1** records the internal audit work delivered during the year on which the opinion is based. In addition, **Appendix 2** is attached which shows the assurances provided over previous financial years to provide an overall picture of the control environment.

3.2 Summary of the internal audit work

The work undertaken by Eastern Internal Audit Services (TIAA Ltd) and East Lindsey District Council) in 2018/19 has covered a wide range of services and has resulted in both assurance

opinion reports being concluded and suggested improvements made through position statements.

A total of 18 assurance reports have been issued, with 16 of these being positive, and two of these being a negative assurance grading. Details of the limited reports are provided at 3.4 of this report.

Four position statements have been issued this year by TIAA Ltd providing suggested action and improvements to management in areas such as Delivery Unit Team, Asset Management, Property Services and Network Management.

A summary of all reports has been presented to the Governance and Audit Committee ensuring open and transparent reporting and enabling the Committee to review key service area controls and the conclusions reached.

The significant changes to the internal audit plan this year include the cancellation of the Transformation Programme audit, the Office 365 review and deferral of Environmental Protection to the 2019/20 plan.

All rationale and reasoning for changes to the 2018/19 audit plan have been presented to the Committee in the Internal Audit Progress Report throughout the year. Overall the 2018/19 plan has been reduced by 11 days to take account of the needs of the business and to ensure the Internal Audit Service was able to add value where required.

3.3 Follow up of management action

In relation to the follow up of management actions to ensure that they have been effectively implemented the position at year end is that of the 76 recommendations raised by TIAA Ltd and East Lindsey District Council in 2018/19, 28 are now complete, four are overdue (three important and one needs attention relating Procurement and Contract Management) and 44 are not yet due.

A total of 10 recommendations remain outstanding from 2017/18, 5 urgent and 5 important. All 10 outstanding recommendations are previously referred to in the follow up report in more detail earlier on in the agenda.

The performance module utilised by the Council (Pentana) is used to record of the audit recommendations, as well as all related performance information such as risk and performance measures. There does remain the challenge of ensuring that this is kept up to date at all times and that responses are provided as needed for corporate reporting and monitoring of services. East Lindsey District Council is responsible for following up on the audit recommendations raised within their audits.

3.4 Issues for inclusion in the Annual Governance Statement

Looking back over the issues raised in the 2017/18 Internal Audit Annual Opinion, we are pleased to report that the vast majority of issues raised have now been resolved.

A limited assurance opinion and eight recommendations were raised for Asset Management in 2017/18. Five have now been completed. Two urgent and one important are outstanding and we therefore suggest these are referenced in the AGS until completion. They relate to carrying out a programmed review of all leases, carrying out end of tenancy inspections and updating the lettings policy. The five completed recommendations were verified by Internal Audit during our position statement in 2018/19. The final three recommendations will be completed following a review of the service being undertaken by Norfolk Property Services.

Two assurance reports were graded Limited in 2017/18 by East Lindsey District Council; Revenues and HR & Payroll, and one area, Accounts Receivable, concluded with no assurance; all recommendations relating to HR and Payroll are now resolved.

One high priority recommendation from the Revenues report remains overdue, relating to the monitoring of the paye.net application implementation, with a new deadline of 31 May 2019 given.

One high priority recommendation from the Accounts Receivable report also remains overdue in relation to reviewing the Council's authorisation matrix. A new deadline of 30 June 2019 has been given.

Until the above recommendations have been resolved we feel they should be referenced within the AGS as they represent key financial systems risks.

In 2018/19 two reports received a limited assurance opinion. These were Procurement and Contract Management and Financial Services. As mentioned in 2.2 of this report the Procurement and Contract Management review concluded with 12 recommendations raised. We are pleased to report that management have already addressed 7 of these however three important recommendations are now overdue and should be considered for inclusion in the AGS. The first relates to production of a procurement strategy now due for June 2019, the second, to provide clarification on officer authorisation due for August 2019 and the third relates to reviewing the contract template and is due for June 2019.

The second Limited assurance report relates to Financial Services. Six urgent and six important priority recommendations were raised. High priority recommendations relate to improving supplier verification checks, reducing the number of retrospective purchase orders raised, improving documentation of fees and charges, invoice and credit note authorisation, writing off Accounts Receivable debt and system functionality not being able to prevent unauthorised write offs or invoices. The six important recommendations relate to adhering to corporate payment terms, regularly reviewing disputed invoices, improving accounts receivable reconciliations, profiling budgets, investigating car parking banking discrepancies, and reviewing the purchase order exceptions list. This report is in draft at the time of writing.

4. THIRD PARTY ASSURANCES

- 4.1 In arriving at the overall opinion reliance has been placed on third party assurances provided by East Lindsey District Council Internal Audit Services. Protocols are in place to enable all audit work programmes to be shared with the Head of Internal Audit before the start of the audit and on conclusion of the audit, the summary working papers and draft report is also provided. This approach enables input into the scope of the audit to ensure that all pertinent areas are covered. It also enables a detailed review of the work that has been undertaken. We can therefore agree with the conclusions that are reached and the recommendations that are raised.

As reported in 2017/18, we have unfortunately again seen significant delays in the completion of internal audit work from East Lindsey District Council which has resulted in difficulties in concluding the annual internal audit opinion in good time for discussion with management. One report remains in draft at the time of writing this report. We understand that these delays can be attributed to resourcing.

We would therefore like the Committee to note that improvements are required to allow for timely year end conclusions.

5. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

5.1 Quality Assurance and Improvement Programme (QAIP)

5.1.1 Internal Assessment

A checklist for conformance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note has been completed for 2018/19. This covers; the Definition of Internal Auditing, the Code of Ethics and the Standards themselves.

The Attribute Standards address the characteristics of organisations and parties performing Internal Audit activities, in particular; Purpose, Authority and Responsibility, Independence and Objectivity, Proficiency and Due Professional Care, and Quality Assurance and Improvement Programme.

The Performance Standards describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated, in particular; Managing the Internal Audit Activity, Nature of Work, Engagement Planning, Performing the Engagement, Communicating Results, Monitoring Progress and Communicating the Acceptance of Risks.

On conclusion of completion of the checklist conformance has been ascertained in relation to the Definition of Internal Auditing, the Code of Ethics and the Performance Standards.

The detailed internal assessment checklist has been forwarded to the Section 151 Officer for independent scrutiny and verification.

5.1.2 External Assessment

In relation to the Attribute Standards it is recognised that to achieve full conformance an external assessment is needed. This is required to be completed every five years, with the first review having been completed in January 2017.

The external assessment was undertaken by the Institute of Internal Auditors and it has concluded that ***“the internal audit service conforms to the professional standards and the work has been performed in accordance with the Internal Professional Practices Framework”***. Thus, confirming conformance to the required standards.

The external assessment report has previously been provided to the Section 151 Officer and the Committee.

Two improvement points were raised in relation to the assessment. The first relates to updating and documenting current risks relating to the delivery of the TIAA contract. The second relates to the Internal Audit Manager carrying out a yearly deep dive assurance exercises on a sample of TIAA audit files to give assurance that audit procedures are being followed in line with the PSIAS. We can confirm these actions are now resolved.

5.2 Performance Indicator outcomes EIAS (TIAA)

5.2.1 The Internal Audit Service is benchmarked against a number of performance indicators as agreed by the Governance and Audit Committee. Actual performance against these targets is outlined within the table below and overleaf:

5.2.2 It is encouraging to note that 10 out of a possible 11 performance measures have been achieved, with three of these exceeding targets. Client feedback has been provided which has

been extremely positive recognising the professional service provided and also the value that internal audit has brought to the Council. We experienced a delay in the issue of draft reports in Q2 and Q3 of 2018/19 however the contractor was quick to resolve these issues and by 11 April 2019 all 2018/19 internal audit work was complete and issued to management for consideration, demonstrating the contractors commitment to good performance.

It is also encouraging to note that all planned work was at final report stage by 25 April 2019. Thus ensuring audits are completed within the financial year and ensuring that this annual opinion can be ready in line with the earlier reporting requirements associated with the audit of the accounts.

Area / Indicator	Frequency	Target	Actual	Comments
Audit Committee / Senior Management				
1. Audit Committee Satisfaction – measured annually	Annual	Adequate	TBC	TBC
2. Chief Finance Officer Satisfaction – measured quarterly	Annual	Good	TBC	TBC
Internal Audit Process				
3. Each quarters audits completed to draft report within 10 working days of the end of the quarter	Quarterly	100%	100%	Not achieved. 5/18 draft reports were not issued within deadline.
4. Quarterly assurance reports to the Contract Manager within 15 working days of the end of each quarter	Quarterly	100%	100%	Achieved - All quarterly reports received with 15 working days of year end.
5. An audit file supporting each review and showing clear evidence of quality control review shall be completed prior to the issue of the draft report (a sample of these will be subject to quality review by the Contract Manager)		100%	100%	Achieved
6. Compliance with Public Sector Internal Audit Standards		Generally conforms	Generally conforms	Achieved
7. Respond to the Contract Manager within 3 working days where unsatisfactory feedback has been received.		100%	100%	Achieved
Clients				
8. Average feedback score received from key clients (auditees)		Adequate	Excellent	Exceeded, 6 responses received.
9. Percentage of recommendations accepted by management		90%	100%	Exceeds
Innovations and Capabilities				
10. Percentage of qualified (including experienced) staff working on the contract each quarter		60%	100%	Exceeds
11. Number of training hours per member of staff completed per quarter		1 day	1 day	Achieved

5.3 Effectiveness of the Head of Internal Audit (HIA) arrangements as measured against the CIPFA Role of the HIA

5.3.1 This Statement sets out the five principles that define the core activities and behaviours that apply to the role of the Head of Internal Audit, and the organisational arrangements to support them. The Principles are:

- Champion best practice in governance, objectively assessing the adequacy of governance and management of risks;
- Give an objective and evidence based opinion on all aspects of governance, risk management and internal control;
- Undertake regular and open engagement across the Authority, particularly with the Management Team and the Audit Committee;
- Lead and direct an Internal Audit Service that is resourced to be fit for purpose; and
- Head of Internal Audit to be professionally qualified and suitably experienced.

Completion of the checklist confirms full compliance with the CIPFA guidance on the Role of the Head of Internal Audit in relation to the 5 principles set out within.

The detailed checklist has been forwarded to the Section 151 Officer for independent scrutiny and verification.

APPENDIX1 – AUDIT WORK UNDERTAKEN DURING 2018/19

Audit Area	Assurance	No of Recs	Implemented	P1 OS	P2 OS	P3 OS	Not yet due
Annual Opinion Audits							
Environmental Services including waste, recycling & depot services	Reasonable	5	5	0	0	0	0
Procurement & Contract Management	Limited	12	7	0	3	1	1
Compass Point - Finance	Reasonable	4	0	0	0	0	4
Food, Health & Safety	Reasonable	4	4	0	0	0	0
Democratic Services	Reasonable	7	3	0	0	0	4
Corporate Governance	Reasonable	4	1	0	0	0	3
Payroll and Human Resources	Reasonable	7	5	0	0	0	2
Leisure	Substantial	0	0	0	0	0	0
Community Enforcement & ASB	Reasonable	3	0	0	0	0	3
Building Control	Substantial	1	1	0	0	0	0
Housing Needs, Allocations, Homelessness and Housing Register	Reasonable	6	0	0	0	0	6
IT audits							
Service Desk	Substantial	1	0	0	0	0	1
Cyber Security	Reasonable	5	0	0	0	0	5
Software Licensing	Reasonable	1	0	0	0	0	1
PSPS audits							
Housing Rents	Reasonable	2	0	0	0	0	2
Revenues and Benefits	Reasonable	0	0	0	0	0	0
Financial Services	Limited	12	0	0	0	0	12
Accountancy Services	Reasonable	2	2	0	0	0	0
Total		76	28	0	3	1	44

Assurance level definitions		Number
Substantial Assurance	Based upon the issues identified there is a robust series of suitably designed controls in place upon which the organisation relies to manage the risks to the continuous and effective achievement of the objectives of the process, and which at the time of our audit review were being consistently applied.	3
Reasonable Assurance	Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisations management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.	13

Limited Assurance	Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.	2
No Assurance	Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of the process. Immediate action is required to improve the controls required to mitigate these risks.	0

Urgent – Priority 1	Fundamental control issue on which action to implement should be taken within 1 month.
Important Priority 2	Control issue on which action to implement should be taken within 3 months.
Needs Attention – Priority 3	Control issue on which action to implement should be taken within 6 months.

APPENDIX 2 ASSURANCE CHART

Eastern Internal Audit Services	2016-17	2017-18	2018-19	2019-20
Annual Opinion / Corporate Audits				
Corporate Governance	Reasonable	Reasonable	Reasonable	X
Risk Management	Postponed to 2017/18	Substantial		X
Compass Point - Governance / Finance			Reasonable	
Corporate Performance and Corporate Plan		Substantial		X
Procurement and Contract Management			Limited	X
Transformation Programme - benefits realisation	Position Statement	Position Statement		
Fundamental Financial Systems				
Housing Rents / Management		Reasonable		
Payroll & Human Resources			Reasonable	
See also ELDC conclusions below				
Service Area Audits				
Strategic Housing	Reasonable			X
Housing Right to Buy	Reasonable			
Welland Homes		Reasonable		
Asset Management		Limited	Position Statement	X
Delivery Unit Team			Position Statement	
Economic Development (GFG 1718)		Position Statement		
Licensing and Business Support	Reasonable			
Corporate Health and Safety	Reasonable			
Environmental Protection		Limited	Reasonable	X
Food, Health & Safety			Reasonable	
Legal Services				
Democratic Services			Reasonable	

Eastern Internal Audit Services	2016-17	2017-18	2018-19	2019-20
Elections and Electoral Registration		Reasonable		
Communications				
Branding	Reasonable			
Housing needs, allocation, homelessness, housing register and PSH		Position Statement	Reasonable	
Planned maintenance, major contracts and property services Responsive repairs, voids and recharges	Postponed to 2017/18	Position Statement	Position Statement	X
Strategic Enforcement, including Community Safety & ASB				X
Leisure	Position Statement		Substantial	X
South Holland Centre	Substantial			
Ascoughfee	Reasonable			
Planning - development control, enforcement and land charges		Reasonable		
Section 106 Agreements		Limited		X
Private Sector Housing				X
Building Control			Substantial	
Car Parking and Markets				X
Environmental Services - waste, recycling and depot services			Reasonable	
ICT Audits				
Cybersecurity	Limited		Reasonable	
CRM Application				X
Office 365				X
Remote Access				X
Disaster Recovery				X
Service Desk			Substantial	
ISO27001: 2013 Gap Analysis	Position Statement			

Eastern Internal Audit Services	2016-17	2017-18	2018-19	2019-20
IT Project Delivery		Reasonable		
Change and Patch Management		Reasonable		
Software Licencing			Reasonable	

ELDC reports	2016-17	2017-18	2018-19	2019-20
Key Controls and Assurance				
Income	Reasonable	Reasonable		X
Housing Rents	Reasonable		Reasonable	X
Accounts Receivable	Reasonable			X
Revenues	Reasonable	Limited	Reasonable	X
Benefits	Reasonable	Reasonable	Reasonable	X
Financial services Includes AP, AR, AM, Income, Budget	Reasonable	Reasonable	Limited	X
Accounts Payable		Reasonable		
Accountancy Services Includes General Ledger, Control Accounts, Treasury, Bank Rec			Reasonable	X
Payroll		Limited		
Service Area Reviews				
Accounts Payable	Limited			
Payroll	Reasonable			
Accounts Receivable		No assurance		
Budget Management and Control		tbc		

APPENDIX 3 – LIMITATIONS AND RESPONSIBILITIES

Limitations inherent to the Internal Auditor's work

The Internal Audit Annual Report has been prepared and TIAA Ltd (the Internal Audit Services contractor) were engaged to undertake the agreed programme of work as approved by management and the Audit Committee, subject to the limitations outlined below.

Opinions

The opinions expressed are based solely on the work undertaken in delivering the approved 2018/19 Annual Internal Audit Plan. The work addressed the risks and control objectives agreed for each individual planned assignment as set out in the corresponding audit planning memorandums (terms of reference) and reports.

Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve corporate/service policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness. Internal control systems essentially rely on an ongoing process of identifying and prioritising the risks to the achievement of the organisation's policies, aims and objectives, evaluating the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. That said, internal control systems, no matter how well they have been constructed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future Periods

Internal Audit's assessment of controls relating to South Holland District Council is for the year ended 31 March 2019. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in the operating environment, law, regulation or other matters; or,
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

The Head of Internal Audit, has sought to plan Internal Audit work, so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, additional work will then be carried out which is directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected and TIAA's examinations as the South Holland District Councils internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.