

Eastern Internal Audit Services



South Holland District Council

Progress Report on Internal Audit Activity

Period Covered: 6 January 2020 to 2 March 2020

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

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1. INTRODUCTION

- 1.1 This report is issued to assist the Authority in discharging its responsibilities in relation to the internal audit activity.
- 1.2 The Public Sector Internal Audit Standards also require the Chief Audit Executive to report to the Audit Committee on the performance of internal audit relative to its plan, including any significant risk exposures and control issues. The frequency of reporting and the specific content are for the Authority to determine.
- 1.3 To comply with the above this report includes:
 - Any significant changes to the approved Audit Plan;
 - Progress made in delivering the agreed audits for the year;
 - Any significant outcomes arising from those audits; and
 - Performance Indicator outcomes to date.

2. SIGNIFICANT CHANGES TO THE APPROVED INTERNAL AUDIT PLAN

- 2.1 At the meeting on 14 March 2019, the Annual Internal Audit Plan for the year was approved, identifying the specific audits to be delivered. Since our last report to the Committee in January 2020, there has been no significant changes to that plan.

3. PROGRESS MADE IN DELIVERING THE AGREED AUDIT WORK

- 3.1 **Appendix 1** covers progress made against the 2019/20 agreed internal audit plan. A total of 170 days of work has been allocated to Eastern Internal Audit Services (EIAS) to be delivered by TIAA Ltd. A total of 65 days was also allocated to East Lindsey District Council.

East Lindsey's coverage includes the testing of key financial systems managed by Public Sector Partnership Services (previously Compass Point Business Services) on behalf of South Holland District Council. The Head of Internal Audit places reliance on the work carried out by East Lindsey District Council when concluding on the overall Internal Audit Opinion. Progress in relation to delivering the East Lindsey allocated days is provided in **Appendix 1**.

- 3.2 **In summary:**

124 days of programmed work has been completed by EIAS, equating to 81% of the (revised) Audit Plan for 2019/20.

4. THE OUTCOMES ARISING FROM OUR WORK

- 4.1 On completion of each individual audit an assurance level is awarded using the following definitions:

Substantial Assurance: Based upon the issues identified there is a robust series of suitably designed internal 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 review were being consistently applied.

Reasonable Assurance: Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisation's 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.

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.

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.

4.2 Recommendations made on completion of audit work are prioritised using the following definitions:

Urgent (priority one): Fundamental control issue on which action to implement should be taken within 1 month.

Important (priority two): Control issue on which action to implement should be taken within 3 months.

Needs attention (priority three): Control issue on which action to implement should be taken within 6 months.

4.3 In addition, on completion of audit work “Operational Effectiveness Matters” are proposed, these set out matters identified during the assignment where there may be opportunities for service enhancements to be made to increase both the operational efficiency and enhance the delivery of value for money services. These are for management to consider and are not part of the follow up process.

4.4 During the period covered by this report TIAA has issued one final report:

Audit	Assurance	P1	P2	P3
Markets	Limited	0	4	1

The Executive Summary of this report is attached at **Appendix 2**, a full copy of this report can be requested by Members.

4.5 As can be seen in the table above as a result of this audit, five recommendations have been raised and agreed by management.

5. PERFORMANCE MEASURES – Eastern Internal Audit Services

5.1 The Internal Audit Services contract includes a suite of key performance measures against which the new contractor will be reviewed on a quarterly basis.

5.2 There are individual requirements for performance in relation to each measure; however, performance will be assessed on an overall basis as follows:

- 9-11 KPIs have met target = Green Status.
- 5-8 KPIs have met target = Amber Status.
- 4 or below have met target = Red Status.

Where performance is amber or red a Performance Improvement Plan will be developed by the contractor and agreed with the Internal Audit Consortium Manager to ensure that appropriate action is taken.

- 5.3 Quarter three has now been completed and a report on the performance measures provided to the Head of Internal Audit, performance is currently at green status with targets having been satisfactorily met.
- 5.4 In addition to these quarterly reports from the Contractors Audit Director, ongoing weekly updates are provided to ensure that delivery of the audit plan for the current financial year is on track. A review of the most recent update indicates that the 2019/20 Internal Audit plan is being completed in line with expectations.

APPENDIX 1 – PROGRESS IN COMPLETING THE AGREED AUDIT WORK

Audit Area	Audit Ref	No. of days	Revised Days	Days Delivered	Status	Assurance Level	Recommendations				Date to Committee
							Urgent	Important	Needs Attention	Op	
Quarter 1											
Strategic Enforcement - Joint BRK	SH2001	10	10	10	Final position statement issued 5 November 2019						Nov-19
Private Sector Housing	SH2002	12	17	17	Final report issued 17 October 2019	No Assurance	16	6	6	3	Nov-19
TOTAL		22	27	27							
Quarter 2											
Strategic Housing	SH2003	10	10	10	Final report issued 24 October 2019	Reasonable	0	1	1	1	Nov-19
Environmental Protection Joint	SH2004	8	8	8	Final report issued 28 October 2019	Reasonable	0	0	2	0	Nov-19
Section 106 Agreements	SH2005	8	8	8	Final report issued 17 October 2019	Reasonable	0	0	4	1	Nov-19
Leisure	SH2006	10	10	10	Final report issued 29 October 2019	Reasonable	0	1	1	0	Nov-19
TOTAL		36	36	36							
Quarter 3											
Corporate Plan, Performance Measures - Joint BRK	SH2007	8	8	8	Final report issued 28 October 2019	Reasonable	0	4	0	1	Jan-20
Car Parks and Markets	SH2008	12	12	12	Final report issued 24 February 2020	Limited	0	4	1	0	Mar-20
Accounts Receivable PSPS - awaiting confirmation	SH2017	12	0		Deferred to 2020/21						
Income - PSPS - awaiting confirmation	SH2018	8	0		Deferred to 2020/21						
TOTAL		40	20	20							
Quarter 4											
Corporate Governance - Joint BRK	SH2009	4	4	2	Audit Underway						
Procurement & Contract Management - Joint BRK	SH2010	6	6	3	Audit Underway						
Asset Management	SH2011	10	10	5	Audit Underway						
Housing Repairs and Maintenance	SH2012	18	18	10	Audit Underway						
TOTAL		38	38	20							
IT Audits											
CRM replaced with IT Strategy reduced 1 day	SH2013	6	5	5	Final position statement issued 3 October 2019						Nov-19
Office 365	SH2014	5	5		Deferred to 2020/21						
Disaster Recovery - Joint BRK	SH2015	5.5	5.5	3	Audit Underway						
Remote Access - Joint BRK	SH2016	7.5	7.5	3	Audit Underway						
TOTAL		24	23	11							
Follow Up											
Follow Up	NA	10	10	10							
TOTAL		10	10	10							
TOTAL		170	154	124			16	16	15	5	
Percentage of TIAA plan completed				81%							

APPENDIX 2 – AUDIT REPORT EXECUTIVE SUMMARIES

Assurance Review of Markets Arrangements

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Strategies, Policies and Procedures	0	2	0	0
Income and Banking	0	2	1	0
Total	0	4	1	0

SCOPE

This audit was carried out to provide assurance over Markets, to help confirm that these are operating adequately, effectively and efficiently.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Limited Assurance' in managing the risks associated with the audit. The assurance opinion has been derived as a result of four 'important' and one 'needs attention' recommendations being raised upon the conclusion of our work.
- A direction of travel has not been provided since the scope of this audit has not been subject to previous audit scrutiny.

POSITIVE FINDINGS

It is acknowledged there are areas where sound controls are in place and operating consistently:

- Annual invoices for the rental of permanent stall holders are raised automatically at the beginning of April each year, thereby reducing the need for manual intervention, which is only necessary for non-payers.

ISSUES TO BE ADDRESSED

The audit has highlighted the following areas where four 'important' recommendations have been made.

Strategies, Policies and Procedures

- The Council to undertake a strategic review of all its markets to determine their viability in terms of demand and cost benefits. This is to reduce the risk of both financial losses and reputational damage to the Council.
- To produce written procedures detailing the cash collection and banking arrangements and to clearly define the roles and responsibilities of PSPS and Council staff in the raising of invoices, chasing non-payers (permanent stall holders) and ensuring all income (cash) is correctly accounted for. This is to reduce the risk of inconsistent practices developing with key processes being overlooked, leading to financial losses to the Council.

Income and Banking

- The Markets, Bus Station and Car Parks Inspector to bank all cash received from temporary market stall holders on the day it is received, in order to reduce the risk of loss or theft of that income through keeping it at the Council's premises unnecessarily.

- The Markets, Bus Station and Car Parks Inspector to create an additional income return to record sufficient information to allow independent check over cash collections for casual market traders, in order to reduce the risk of theft of income at the point of receipt, resulting in financial losses to the Council.

The audit has also highlighted the following area where one 'needs attention' recommendation has been made.

Income and Banking

- For the Council to request payment for stall rental in advance, where initial instalments have been missed, thereby reducing the risk of debts accruing, which may end up irrecoverable, resulting in financial loss to the Council.

Operational Effectiveness Matters

No operational effectiveness matters have been raised.

Previous audit recommendations

The areas within the scope of this audit have not been subject to previous audit scrutiny and hence there are no previous audit recommendations.