

Eastern Internal Audit Services



SOUTH HOLLAND DISTRICT COUNCIL

Annual Report and Opinion 2019/20

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 2019/20, 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 14 March 2019. 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 2019/20 a total of 18 internal audit reviews have been completed at South Holland District Council. A total of 13 of these concluded in a Reasonable grading and for two areas a Substantial assurance grading was given. This was for Revenues and for Benefits.

A total of two reports received a Limited assurance grading. The first in relation to Markets and the second Car Parks however, no urgent recommendations were raised during either of these reviews.

A No Assurance grading was given in the area of Private Sector Housing. A total of 28 recommendations were raised during this review of which 68% have now been addressed by management. Two urgent, three important and four needs attention recommendations remain outstanding and we therefore recommend that these are referenced within the Councils Annual Governance Statement until they are completed.

Two audit reports from 2019/20 remain unfinished due to the impact that the Coronavirus pandemic has had on the Council, and the need for staff to be redeployed to urgent tasks. These reports were for Asset Management and Remote Access. We are satisfied that whilst we were not been able to complete this work in these areas, our ability to provide an overall opinion on the Governance Risk Management and Control framework at the Council has not been affected as 95% of the 2019/20 Internal Audit Plan has now been delivered.

Three urgent historical recommendations, one for Asset Management from 2017/18, and two from Financial Services remain outstanding from 2018/19 and are also referenced in Section 3.4 for inclusion in the Councils Annual Governance Statement.

We have been able to conclude a Reasonable assurance grading overall for the Council's Governance, Risk Management and Control framework by considering that for most of the areas audited a positive assurance grading was given. We have also taken into consideration the swift action of management in quickly addressing the majority of urgent recommendations raised in the Private Sector Housing review. Some risks do however remain, and we would urge management to monitor these closely until completion can be verified.

This opinion has been discussed with the Section 151 Officer, and Senior Management 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 Audit Lincolnshire) in 2019/20 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 completed, with 15 of these being positive, and three of these being a negative assurance grading. Details of the limited and no assurance reports are provided at 3.4 of this report.

Two position statements have been issued this year by TIAA Ltd providing suggested action and improvements to management for Strategic Enforcement and IT Strategy.

Due to the impact of the Coronavirus pandemic on the Council, Internal Audit's ability to complete two audits has been impacted. These areas were Asset Management and Remote Access. In addition, Internal Audit were not able to finalise the following reports in time for this committee, However, they have been issued to management in draft and the Executive Summary indicating an overall grading has been presented to the Committee in the Internal Audit Progress Report.

- Procurement and Contract Management
- Disaster Recovery

The significant changes to the internal audit plan this year include the deferral of the Accounts Receivable and Income reviews due to PSPS finance system implementation and the postponement of the Office 365 review to allow this product to be installed.

All rationale and reasoning for changes to the 2019/20 audit plan have been presented to the Committee in the Internal Audit Progress Report throughout the year. Overall the 2019/20 plan has been reduced by 25 days to take account of the needs of the business and to ensure the Internal Audit Service was able to add value where required. A further 10 days were not delivered due to the impact of the Coronavirus pandemic as mentioned above.

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 71 recommendations agreed by TIAA Ltd and Audit Lincolnshire in 2019/20, 39 are now complete, 9 are outstanding (two urgent, three important and four needs attention and 23 are not yet due. A further 15 recommendations have been raised with management in reports that are not yet finalised and are not included in this total.

A total of 14 recommendations remain outstanding from 2018/19, two urgent and seven important and five needs attention. All 14 outstanding recommendations are previously referred to in the follow up report in more detail earlier on in the agenda.

A total of four recommendations (one urgent and three important) also remain outstanding from 2017/18. These recommendations are also referred to in more detail within the follow up report earlier 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 always kept

up to date and that responses are provided as needed for corporate reporting and monitoring of services. Audit Lincolnshire are 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 2018/19 Internal Audit Annual Opinion, the following issues remain for the Council to address.

A limited assurance opinion and eight recommendations were raised for Asset Management in 2017/18. One urgent and one important recommendation remain outstanding. The urgent recommendation relates to completing a programmed review of all leases, the important recommendation relates to updating the lettings policy. We were unable to complete our follow up review of Asset Management in 2019/20 due to the impact of the Coronavirus pandemic. We therefore suggest that these recommendations are referenced within the Council's Annual Governance Statement until independent verification can take place to demonstrate completion.

A total of two urgent and four important recommendations remain outstanding from the 2018/19 Financial Services report which was given a limited assurance grading. These recommendations relate to ensuring that during the implementation of the new finance system, financial control in areas of segregation and approval can be automated. We expect the new PSPS system to be live in October 2020 and will be able to verify that these controls have been implemented at this point during key controls testing. Until then we recommend that the two outstanding urgent recommendations are referenced in the Council's annual governance statement. They relate to the review of restrictions and limits and segregation of duties within the new system.

Significant findings raised in 2019/20

In 2019/20, the private sector housing report was given a No Assurance grading. A total of 28 recommendations; 16 urgent, six important and six needs attention recommendations were raised of which nine remain outstanding. The two urgent outstanding recommendations relate to; developing an empty homes strategy and completing a review of Private Sector Housing budgets. Until these recommendations can be verified as complete, we recommend that the Council refers to these in the Annual Governance Statement.

A further two areas were given a Limited assurance grading in 2019/20. They relate to Markets and Car Parks. For Markets a total of four important and one needs attention recommendations were raised. Three important recommendations are now complete. For Car Parks three of the four important recommendations raised have now been addressed. Whilst a limited assurance grading was given for both areas, no urgent priority recommendations were raised during this review that we feel would need to be referenced in the Council's Annual Governance Statement.

Due to it being of urgent priority, we recommend that the recommendation raised in the reasonable Financial Services report completed by Audit Lincolnshire is referenced in the AGS as this relates to ensuring that Authorisation Matrix is adhered to in respect of purchase requisitions and creditor invoices. We expect this will be resolved as the new financial system is able to automate this control. Implementation is due for October 2020.

One other urgent recommendation was raised during the Housing Rents review in relation to ensuring that the write off position of former tenant arrears should be determined and actioned accordingly. Implementation has been agreed for 31 March 2021. We recommend that this is referenced within the Council's Annual Governance

Statement until it is resolved.

4. **THIRD PARTY ASSURANCES**

- 4.1 In arriving at the overall opinion reliance has been placed on third party assurances provided by Audit Lincolnshire, formally East Lindsay District Council. 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.

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 2019/20. 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.

5.2 Performance Indicator outcomes EIAS (TIAA)

5.2.1 The Internal Audit Service is benchmarked against several 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 9 out of a possible 11 performance measures have been achieved, with four of these exceeding targets. Client feedback has been provided which has been positive recognising the professional service provided and the value that internal audit has brought to the Council. However, we acknowledge that questionnaire responses from Officers following each internal audit has been less than in previous years. To ensure that we obtain higher levels of feedback we will be working with the Performance Risk and Audit Board in 2020/21 to ensure that requests for feedback are actioned.

In relation to performance measure four, one performance report was received outside of the 15 working day deadline, however this was received the next working day and therefore represents an isolated incident.

In relation to performance measure three, as mentioned earlier within this report for reasons outside of the control of the Internal Audit team a total of two internal audit reviews were not completed in time for year end.

We are however pleased to report that a total of 18 planned internal audit reviews assigned to TIAA were issued to management in draft by 14 April 2020.

Area / Indicator	Frequency	Target	Actual	Comments
<u>Audit Committee / Senior Management</u>				
1. Audit Committee Satisfaction – measured annually	Annual	Adequate	Excellent	Exceeds
2. Chief Finance Officer Satisfaction – measured quarterly	Annual	Good	Good	Achieved
<u>Internal Audit Process</u>				
3. Each quarters audits completed to draft report within 10 working days of the end of the quarter	Quarterly	100%	100%	Not achieved. 2/18 draft reports were not issued within deadline due to the Coronavirus pandemic.
4. Quarterly assurance reports to the Contract Manager within 15 working days of the end of each quarter	Quarterly	100%	100%	Not achieved – one quarterly report received over the 15 working day deadline.
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%	n/a

<u>Clients</u>				
8. Average feedback score received from key clients (auditees)		Adequate	Excellent	Exceeded, 5 responses received.
9. Percentage of recommendations accepted by management		90%	100%	Exceeds
<u>Innovations and Capabilities</u>				
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 2019/20

Audit Area	Assurance	No of Recs	Implemented	P1 OS	P2 OS	P3 OS	Not yet due
Annual Opinion Audits							
Strategic Enforcement	Position Statement						
Private Sector Housing	No Assurance	28	19	2	3	4	0
Strategic Housing	Reasonable	2	0	0	0	0	2
Environmental Protection	Reasonable	2	2	0	0	0	0
Section 106 Agreements	Reasonable	4	4	0	0	0	0
Leisure	Reasonable	2	2	0	0	0	0
Corporate Plan, Performance	Reasonable	4	4	0	0	0	0
Markets	Limited	5	3	0	0	0	2
Corporate Governance	Reasonable	2	0	0	0	0	2
Procurement & Contract Management DRAFT	Reasonable	8	0	0	0	0	8
Housing Repairs and Maintenance	Reasonable	1	0	0	0	0	1
Car Parks	Limited	5	3	0	0	0	2
IT audits							
IT Strategy	Position Statement						
Disaster Recovery DRAFT	Reasonable	7	0	0	0	0	7
PSPS audits							
Housing Rents	Reasonable	5	0	0	0	0	5
Revenues	Substantial	1	1	0	0	0	0
Benefits	Substantial	1	1	0	0	0	0
Financial Services	Reasonable	2	0	0	0	0	2
HR and Payroll	Reasonable	3	0	0	0	0	3
Accountancy Services	Reasonable	4	0	0	0	0	4
Total		86	39	2	3	4	38

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.	2
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.	1

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	Reasonable
Risk Management	Postponed to 2017/18	Substantial		
Compass Point - Governance / Finance			Reasonable	
Corporate Performance and Corporate Plan		Substantial		Reasonable
Procurement and Contract Management			Limited	Reasonable
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			Reasonable
Housing Right to Buy	Reasonable			
Welland Homes		Reasonable		
Asset Management		Limited	Position Statement	
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	Reasonable
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	Reasonable
Strategic Enforcement, including Community Safety & ASB				Position Statement
Leisure	Position Statement		Substantial	Reasonable
South Holland Centre	Substantial			
Ascoughfee	Reasonable			
Planning - development control, enforcement and land charges		Reasonable		
Section 106 Agreements		Limited		Reasonable
Private Sector Housing				No Assurance
Building Control			Substantial	
Markets				Limited
Car Parking				Limited
Environmental Services - waste, recycling and depot services			Reasonable	
ICT Audits				
Cybersecurity	Limited		Reasonable	
CRM Application				
Office 365				
Remote Access				
Disaster Recovery				Reasonable
IT Strategy				Position Statement
Service Desk			Substantial	

Eastern Internal Audit Services	2016-17	2017-18	2018-19	2019-20
ISO27001: 2013 Gap Analysis	Position Statement			
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		
Housing Rents	Reasonable		Reasonable	Reasonable
Accounts Receivable	Reasonable			
Revenues	Reasonable	Limited	Reasonable	Substantial
Benefits	Reasonable	Reasonable	Reasonable	Substantial
Financial services Includes AP, AR, AM, Income, Budget	Reasonable	Reasonable	Limited	Reasonable
Accounts Payable		Reasonable		
Accountancy Services Includes General Ledger, Control Accounts, Treasury, Bank Rec			Reasonable	Reasonable
Payroll		Limited		Reasonable
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 2019/20 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 2020. 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.

