Eastern Internal Audit Services

South Holland District Council

Progress Report on Internal Audit Activity

Period Covered: 2 March 2021 to 20 July 2021

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 The revised Annual Internal Audit Plan was approved on 26 November 2020, to respond to the Coronavirus Pandemic. Since then there have been no significant changes made to the plan.

3. PROGRESS MADE IN DELIVERING THE AGREED AUDIT WORK

3.1 **Appendix 1** covers progress made against the revised 2020/21 internal audit plan. A total of 85 days of work has been allocated to Eastern Internal Audit Services (EIAS) to be delivered by TIAA ltd. A total of 65 days has been allocated to Audit Lincolnshire (formally East Lindsay District Council).

Audit Lincolnshire'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 Audit Lincolnshire when concluding on the overall Internal Audit Opinion. Progress in relation to completion of this work is provided to the Committee in quarter four.

3.2 **In summary:**

A total of 145 days of programmed work has been completed by Internal Audit equating to 100% of the (revised) Audit Plan for 2020/21.

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 the report Internal Audit has issued two reports, one of these is in draft awaiting management responses as can be seen in the table below:

Audit	Assurance	P1	P2	P3
Asset Management (DRAFT)	Reasonable	0	3	3
Remote Access	Reasonable	0	2	0

The Executive Summary of these reports are attached at **Appendix 2**, full copies can be requested by Members.

4.5 As can be seen in the table above, as a result of these audits eight recommendations have been raised and agreed by management.

4.6 In addition, one Operational Effectiveness Matter has been proposed to management for consideration.

4.7 Within this period, two position statements have been issued for Procurement Contract Management, and Coronavirus Response and Recovery. Coronavirus Response and Recovery remains in draft at the time of writing this report. We have however provided the suggested improvement actions for all position statements below:

Procurement Contract Management

The following actions have been suggested in relation to Procurement and Contract Management at South Holland District Council:

- Take into account the potential impacts of the decision of both Councils to pursue new strategic partners, current and future resourcing levels and updating assigned responsible officers, including on Pentana.

- Ensure provision is put in place in the longer term for procurement and contract management at both Councils, with the requisite skills and knowledge of procurement rules and regulations and contract management.

- Note the action taken for an initial review of both Councils' Constitutions with the purpose of looking for references to joint working/shared arrangements between South Holland and Breckland and the impact of any decisions made by the Government (e.g. Green Paper), following the UK's departure from the EU.

- Both Councils review their Procurement and Commissioning Intentions documents to ensure they are reflective of current practices, including any Government guidance; either as a consequence of the COVID-19 Pandemic or the UK's departure from the EU, and to ensure contact details are correct once the future of the procurement and contract management function has been determined.

- Access to the In-Tend system will need to be revisited once resourcing implications have been agreed/implemented, following the longer-term service provision as a consequence of both Councils arrangements for new strategic partners.

- Formal controls will need to be put in place going forward in relation to existing contracts – both short and longer term, to ensure that they are closely monitored so that any nearing expirations are being identified and correct arrangements are put in place for future provision.

- Consideration should be given to:

    i. Presenting the Exemptions Register to the respective Governance and Audit Committees for information and oversight on all exemptions to Contract Standing Orders.
    ii. That all Request for Exemption Forms are signed by the delegated approving officers rather than being supported by emails, even if signed retrospectively.
    iii. That details of the officers approving the exemption be recorded on the Exemptions Register for improved audit trail.

Coronavirus Response and Recovery

The following actions have been suggested in relation to Coronavirus Response and Recovery at South Holland District Council:

- A lessons learnt exercise be undertaken as to how the Council responded to COVID-19 including determining what worked well/went well and what could have been/ could be done better in the future; and how things worked with third parties such as the Lincolnshire Resilience Forum. This could also include, for example, how the Council would react/respond, should a secondary event occur whilst responding to another pandemic.

- Undertake a review of all Business Impact Assessments and Business Continuity Plans in light of their effectiveness during COVID-19, and to provide copies to the Council's Emergency Planning Officer.

- Consider undertaking a Business Impact Survey to obtain information about the impacts on local businesses or understand what support businesses will need afterwards, to respond to further changes such as reopening at the end of the furlough scheme.

4.8 The Audit Lincolnshire Audit reviews for 2020/21 have been completed and reviewed by the Head of Internal Audit for South Holland. Reliance has been placed on the work and the overall grading for each report is indicated below:

Audit	Report Grading
Revenues and Benefits	Substantial
Housing Rents	Reasonable
Accounts Payable	Limited
Accountancy Services	Substantial

Revenues & Benefits

One medium recommendation was raised in relation to backdate assessments. In one case a backdate had been applied without saving the relevant notes to demonstrate the decision and another case where backdated assessment was incorrectly assessed.

Housing Rents

One medium recommendation has been raised in relation to Accounts in credit. The audit identified that there were several accounts with large credits. Ten of which were over £1500 totalling more than £24,000 and, in all cases, eligible for a refund.

Accounts Payable

This report remains in draft at time of writing this report. Details of findings raised and shared with management are as follows.

- An urgent priority finding has been raised in relation to supplier set up's and changes to ensure that these are reviewed to prevent fraud from occurring. This recommendation has been raised in previous audits.

- A urgent recommendation has been raised relating to the identification of two retrospective purchase orders being raised after the invoices received. A 'no purchase order no pay' policy is due to launch in January 2022.

Accountancy Services

No recommendations were raised.

5. PERFORMANCE MEASURES – Eastern Internal Audit Services

5.1 The Internal Audit Services contract includes a suite of key performance measures against which TIAA 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 TIAA and agreed with the Internal Audit Consortium Manager to ensure that appropriate action is taken.

5.3 The Internal Audit Team has experienced delays in completing and finalising the work throughout 2020/21. However, all audits assigned have now been completed. A total of three reports (Coronavirus Response and Recovery Asset Management and Accounts Payable) from 2020/21 remain in draft at the time of writing this report.

Whilst the delays have not caused performance to reach amber or red status, discussions have been held with the contractor with the aim of ensuring next year's plan can be delivered by year end for 2021/22. We do recognise that 2020/21 has been a difficult year due to the pandemic, and late start of the revised Internal Audit Plan however we have received assurances that the contractor is committed to preventing the issues faced this year from reoccurring.

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											
TOTAL		0	0	0							
Quarter 2											
Assurance Mapping	SH2101	8	8	8	Final report issued 22 February 21						Mar-21
TOTAL		8	8	8							
Quarter 3											
Corporate Governance	SH2102	4	4	4	Final report issued 4 February 21	Substantial	0	0	2	1	Mar-21
Procurement Contract Management	SH2103	10	10	10	Final report issued 8 March 21						Jul-21
Accounts Receivable	SH2104	12	12	12	Final report issued 18 February 21	Reasonable	0	3	2	0	Mar-21
Income	SH2105	8	8	8	Final report issued 7 January 21	Reasonable	0	5	4	0	Jan-21
TOTAL		34	34	34							
Quarter 4											
Coronavirus Response and Recovery	SH2106	15	15	15	Draft report issued 28 May 2021						Jul-21
Safeguarding	SH2107	5	0	0	Cancelled						
Asset Management	SH2108	10	10	10	Draft report issued 4 May 2021	Reasonable	0	3	3	0	Jul-21
TOTAL		30	25	25							
IT Audits											
Remote Access	SH2109	8	8	8	Final report issued 21 June 2021	Reasonable	0	2	0	1	Jul-21
TOTAL		8	8	8							
Follow Up											
Follow Up	NA	5	5	5							
TOTAL		5	5	5							
TOTAL		85	80	80			0	13	11	2	
Percentage of TIAA plan completed				100%							

Audit Area	Audit Ref	No. of days	Revised Days	Days Delivered	Status	Assurance Level	Recommendations				Date to Committee
							Urgent	Important	Needs Attention	Op	
Audit delivered by Audit Lincolnshire											
Key Controls & Assurance	tbc	40	40	40							
Revenues & Benefits					Final report issued 13 April 2021	Substantial	0	1	0		Jul-21
Housing Rents					Final report issued 11 May 2021	Reasonable	0	1	0		Jul-21
Accounts Payable					Draft report issued 20 July 2021	Limited	2	0	0		Jul-21
Accountancy Services (general ledger, control accounts, treasury management & bank reconciliation)					Final report issued 3 June 2021	Substantial	0	0	0		Jul-21
Housing Benefit Subsidy	tbc	25	25	25	Complete						
TOTAL		65	65	65			2	2	0	0	
				100%							
OVERALL TOTAL		150	145	145			2	15	11	2	
				100%							

DRAFT Assurance Review of the Asset Management Arrangements

Executive Summary

OVERALL ASSURANCE ASSESSMENT

REASONABLE ASSURANCE

- SUBSTANTIAL ASSURANCE
- REASONABLE ASSURANCE
- LIMITED ASSURANCE
- NO ASSURANCE

ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Policies & Procedures	0	1	0	0
Leases	0	0	2	0
Access Rights	0	0	1	0
Maintenance and insurance	0	2	0	0
Total	**0**	**3**	**3**	**0**

SCOPE

The audit reviewed the systems and controls in place within Asset Management to help confirm that these are operating adequately, effectively and efficiently. The scope of the audit included strategies, policies and procedures, realising social value, roles and responsibilities, acquisitions and disposals, lease renewals, rent, voids/re-letting and rental arrears and dilapidations, maintenance and insurance, property valuation, and asset reconciliation.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Reasonable' assurance in managing the risks associated with the audit. The assurance opinion has been derived as a result of three 'important' and three 'needs attention' recommendations being raised upon the conclusion of our work.

- This area was given a limited assurance grading in 2017/18 (SH/18/09) having raised five 'Urgent', two 'Important' and one 'Needs attention' recommendations. A follow up review was undertaken as part of the 2018/19 audit plan, focusing specifically on progress with the previous eight recommendations. The outcomes of that review were reported in a Position Statement (SH/19/04) issued April 2019. It concluded that some recommendations were still to be implemented including review and update of the Asset Management Strategy (AMS).

- The overall assurance also takes in to account the fact that two previous audit recommendations remain outstanding; one with a revised implementation date agreed (end of May 2021) in respect of lease renewals and one superseded with an expanded recommendation in this report, in respect of further updating the AMS.

- It is recognised that the overall level assurance has improved since the original review in 2017/18, with clear evidence of progress having been made, although further work is still required, in particular, to implement the one outstanding previous recommendation and those included as a consequence of this current review.

POSITIVE FINDINGS

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

- An Interim Recovery Management Arrangements governance structure was put in place in response to the outbreak of Covid-19. Within the current interim structure, the Executive Manager Property and Development has oversight of the Property, Building and Partners Mobilisation Cell, while the Place Manager is responsible for the Housing and Homelessness Cell, at the Council.

- From 1st May 2021, a new structure will be put in place whereby South Holland District Council (SHDC) and Breckland Council (BC) will become two separate entities. In the new structure, Executive Director Place and Delivery will have complete oversight of SHDC communities, operations and housing.

- An Asset Register is in place which has details of the SHDC's donated, owned, freehold, and lease own assets. The Asset Register includes details such as the asset purchase cost, gross book and net book values, depreciation, date purchased and date capitalised. This ensures the Council's assets are accurately accounted for.

- Rent review is included in the updated lease tenancy agreement(s) with rent review date(s) being the third anniversary of the date of commencement of the lease term.

- Reminder letters are sent to tenants, thereby ensuring rent arrears are pursued.

- A deposit is obtained from new tenants leasing the industrial units, which helps recoup any monies for rent owed or damages to the property.

- The new Letting Policy reflects a modern standard commercial approach to letting of the industrial units with tenants no longer having automatic right of renewal. This makes the industrial units available for letting in accordance with the new policy thereby providing the flexibility of realising social value on new letting.

- The fixed asset register is reconciled to the General Ledger annually.

ISSUES TO BE ADDRESSED

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

Policies and Procedures

- The AMS be updated and this should incorporate the Asset Management Procedure, Land and Property Policy and the Land Sales Procedure thereby ensuring consistent approach to asset management across the Council. The completion of the AMS has been raised in the two previous audit reviews and although had been considered to have been implemented, along with the Corporate Land and Property policy, it required further amendment to reflect the new Corporate Plan and strategic aims of the Council. This included maximising support for the affordable housing programme, to fulfil the objectives of the Business Plan and support strategic business opportunities.

Maintenance and Insurance

- The overdue actions in the health and safety inspection action plan be completed.

- A planned maintenance programme be developed for relevant assets and this be subjected to regular review, to reduce the risk of health and safety issues and asset deterioration.

The audit has also highlighted the following areas where three 'needs attention' recommendations have been made.

Leases

- The schedule of assets be updated to include annual service charges where appropriate, to ensure adequate monitoring of lease performance.

- Recovery report be signed off by the recovery manager to evidence that tenants in arrears have been chased by the Council reducing the risk of potential loss of income to the Council.

Access Rights

- The Asset Register be password protected with access only granted to relevant staff at the Council to reduce the risk unauthorised access to the Asset Register.

Operational Effectiveness Matters

There are no operational effectiveness matters for management to consider.

Previous audit recommendations

The audit reviewed the previous internal audit recommendations and confirmed that two remain outstanding. The first relates to the review of leases which had been extended to 31st March 2021 for implementation. Following an update from the Strategic Asset and Compliance Manager, the deadline was extended to 31st May 2021. The second recommendation relates to the completion of the AMS and is referred to above with a new recommendation raised in this report.

Other issues noted

- A properties and contents insurance policy is in place covering the period of 4th May 2020 to 3rd May 2021. However, evidence of renewal beyond the current expiry date was not provided.

- The asset register has been updated in accordance with the 31st March 2020 asset valuation report. However, evidence of subsequent / ongoing valuations, was not provided.

Assurance Review of Remote Access

Executive Summary

OVERALL ASSURANCE ASSESSMENT

SUBSTANTIAL ASSURANCE

REASONABLE ASSURANCE

LIMITED ASSURANCE

NO ASSURANCE

ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Policies and Procedures	0	1	0	0
Remote Access Monitoring	0	1	0	0
Total	**0**	**2**	**0**	**1**

No recommendations were raised in the area of Network Protection, Access Controls and Remote Access Change Controls

SCOPE

The objective of the audit is to review the adequacy, effectiveness and efficiency of the systems and controls in place within the Council, with particular focus on how they have changed as a result of the coronavirus pandemic. The audit looked at the following areas: Policies and Procedures, Remote Access Monitoring, Remote Access Change Controls, Network Protection; and Access Controls.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Reasonable Assurance' in managing the risks associated with the audit. The assurance opinion has been derived as a result of two 'important' recommendations being raised upon the conclusion of our work.

- The audit has also raised one 'operational effectiveness matter', which sets 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.

POSITIVE FINDINGS

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

- We noted that Council staff are effectively agreeing to all relevant IT polices, including the Remote Access Policy, whenever they log into the Council network.

- Logs of remote access connections are retained and are available for review on demand. It is also noted that there is an information security function that is responsible for log reviews to detect potential anomalies that may require further investigation.

- Public Sector Partnership Services Ltd. (PSPSL), who provide support for the Council's IT infrastructure, has implemented processes whereby it is possible for up to 500 remote access connections to be running at the same time. They have advised that their peak connections has been between 150 and 200. Hence, there is capacity to support more than twice that number.

- We have noted the presence of appropriate change management policies and procedures and that 3rd party changes are also subject to those policies and procedures.

- The firewall appliances have Intrusion Detection System (IDS) capability, although this not currently configured. However, we are advised that this functionality will be deployed as part of a wider infrastructure refresh project in 2022. The project is expected to include the procurement and implementation of a replacement firewall infrastructure.

- We have noted that the Council has undertaken appropriate annual penetration testing as required by PSN. The current PSN certification expires in February 2022.

- The audit noted adequate and effective processes for managing the timely disablement and deletion of leaver network accounts.

- We have noted that there is testing of a new two-factor authentication service that is ongoing and progressing well. All relevant Council devices will be required to use this service as part of a staged rollout once the testing has been successfully completed.

- Third party support providers have an Active Directory network account allocated to them so that they are able to access the systems they support. The accounts are disabled by default and only enabled on request when support is required. The accounts are configured such that they automatically expire at the end of the day, thus disabling the accounts without having to remember to do this manually.

ISSUES TO BE ADDRESSED

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

Policies and Procedures

- There is a need for PSPSL to work with Council Management to formally approve the Information Security Framework and the related policies that make up that framework.

Remote Access Monitoring

- There is a need to ensure that the risk of not implementing appropriate resilience in the firewall infrastructure and, hence, the remote access service, is formally documented to ensure appropriate accountability for accepting the risk has been documented and is monitored through the Council's risk management processes and procedures.

Operational Effectiveness Matters

The operational effectiveness matters, for management to consider relate to the following:

- Consideration to be given to implementing posture checking for remote connections, in particular for devices that are not managed by PSPSL. An example of this is devices used by 3rd parties that connect to the network remotely to provide support for relevant applications.