

Eastern Internal Audit Services



SOUTH HOLLAND DISTRICT COUNCIL

Annual Report and Opinion 2020/21

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

CONTENTS

1. INTRODUCTION	2
2. ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT	2
2.2 <i>The opinion itself</i>	3
3. AUDIT WORK UNDERTAKEN DURING THE YEAR	3
4. THIRD PARTY ASSURANCES	6
5. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT	6
APPENDIX 1 – AUDIT WORK UNDERTAKEN DURING 2020/21	10
APPENDIX 2 ASSURANCE CHART	12
APPENDIX 3 – LIMITATIONS AND RESPONSIBILITIES	15

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 2020/21, 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 with the Management Team and key stakeholders and then approved by Governance and Audit Committee.

The original Internal Audit plan was approved at the meeting held in March 2020. As the Covid-19 pandemic forced the UK into lockdown at the end of March 2020, the Internal Audit Team revised the Internal Audit plan with senior management to ensure that the coverage more accurately reflected the key risks facing the Council at that time and that Officers were able to focus on the immediate response to the Covid-19 pandemic.

The revised 2020/21 Internal Audit Plan was approved by the Governance and Audit Committee in November 2020. A reduction of 80 days was agreed, and the plan split into five key themes to provide adequate coverage over the Governance, Risk Management and Control framework informing this opinion.

This opinion does not imply that internal audit has reviewed all risks and assurances, but it is one component to be considered during the preparation of the AGS. It is important to note that the decrease in days is in response to unprecedented circumstances and represents the minimum assurance required to form an opinion on the governance, risk management and control framework for 2020/21. We have been able to revert to our usual levels of audit coverage in the 2021/22 Internal Audit Plan.

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 2020/21 a total of nine assurance reviews have been completed at South Holland District Council. Eight of these reports concluded in a positive assurance grading. One review Accounts Payable received a limited assurance grading. For three areas; Corporate Governance, Revenues and Benefits and Accountancy Services a Substantial assurance grading was given.

A total of three reports have been issued to management for consideration but remain in draft at time of writing this report. They are for Asset Management, Coronavirus Response and Recovery, and Accounts Payable.

In none of the areas reviewed as part of the revised 2020/21 Internal Audit Plan did the findings indicate that the Covid-19 pandemic had severely impacted the Council's ability to deliver core services to its residents however the Council's budgeting challenges as a direct result of the pandemic have been highlighted and an internal audit review of budget sustainability is scheduled for 2021/22 to provide assurance over this risk.

We have been able to conclude a Reasonable assurance grading overall for the Council's Governance, Risk Management and Control framework by considering that in all but one area audited, a positive assurance grading has been given.

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 Internal audit was divided into five broad themes for the revised 2020/21 plan in response to the risks facing the Council from the Covid-19 pandemic;

Theme	Audit
Theme 1: Assurance Mapping	A questionnaire style enquiry was carried out to gather information and determine any changes to the control environment and document any available assurance showing that controls are working effectively. One area of focus was to evaluate the strength of controls for the prevention of fraud and support staff with remote working.
Theme 2: Key Controls	In order to provide an opinion over the key financial and governance controls of the Council, the annual key controls testing regime was enhanced, and the assurance mapping exercise mentioned above used to develop testing for new controls. This review provides independent assurance to Senior Management and the Committee that governance and financial risks have been appropriately mitigated during the Pandemic period.
Theme 3: Response and Recovery	Assurance in this area evaluates whether the Council has where possible reacted sufficiently to the pandemic and considered its response to recovery. The Response and Recovery review was carried out across the Consortium comparing the approaches taken by each of our members in areas such as: Supporting the Local Economy, staff reintegration, financial modelling and business plan revision and preparedness for ongoing disruptions.
Theme 4: Partnerships	The Procurement and Contract Management position statement evaluates the impact of the Pandemic on the Council's ability to deliver key projects and services through third party contracts during and in the recovery phase of the pandemic.
Theme 5: Essential Assurance	Work in this theme has provided assurances in areas from the originally agreed 2020/21 Internal Audit Plan that are integral to forming an opinion on the governance, risk and control framework for 2020/21. This included audits where limited assurance or no assurance has been given in previous years and where control weaknesses remain or have increased due to the Coronavirus Pandemic.

3.2 Summary of the internal audit work

The work undertaken by Eastern Internal Audit Services (TIAA Ltd) and Audit Lincolnshire) in 2020/21 has resulted in both assurance opinion reports being concluded and suggested improvements through position statements.

A total of nine assurance reports have been completed, eight of which have received a positive assurance grading. One report for Accounts Payable received a limited assurance. Three audits received a substantial grading with Accountancy Services not receiving any recommendations.

Two position statements have been issued this year by TIAA Ltd providing suggested action and improvements relating to the Covid-19 Pandemic. These are Coronavirus Response and Recovery and Procurement and Contract Management.

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 20 recommendations agreed by management, 10 are now complete, two needs attention recommendations are outstanding and eight are within deadline. A further eight recommendations have been raised with management in reports that are not yet finalised and are not included in this total.

Of the 84 recommendations agreed by TIAA Ltd and Audit Lincolnshire in 2019/20, 70 are now complete, 12 are outstanding (one urgent, 8 important and three needs attention) and two are not yet due.

One urgent recommendation also remains outstanding from 2017/18.

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. Officers have however been engaging with Internal Audit to address historical recommendations.

3.4 Issues for inclusion in the Annual Governance Statement

Looking back over the issues raised in previous opinions, 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 recommendation remains outstanding. The urgent recommendation relates to completing a programmed review of all leases. A subsequent review of this area has been completed in 2020/21 and a reasonable assurance grading given, indicating a positive direction of travel in this area. We recommend that this recommendation is referenced within the Council's Annual Governance Statement until it is completed.

One important recommendation remains outstanding from the 2018/19 Financial Services report which was given a limited assurance grading. This recommendation relates to ensuring accounts receivable reconciliation processes are defined within the financial system.

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 one remains outstanding. The urgent outstanding recommendation relates to caravan site inspections.

We recommend that the above recommendations are referenced within the Council's annual governance statement until they are completed.

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 remain outstanding. 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.

Significant recommendations raised in 2020/21

A total of two urgent priority recommendations have been raised for Accounts Payable in 2020/21 by Audit Lincolnshire. They relate to ensuring that independent checks are undertaken and evidenced for supplier amendments. Due to this being a fraud related risk we recommend it is highlighted within the Council's annual governance statement until such time that it is resolved. A further urgent priority recommendation was raised in relation to raising purchase orders in advance in accordance with policy.

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 2020/21. 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 to be 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 Actual performance against these targets is outlined within the following table:

5.2.2 Performance has been impacted in 2020/21 by the Covid-19 pandemic. The Internal Audit contractor took the decision to furlough most of its workforce during the first lockdown as each Council prioritised front-line response over Internal Audit work. Following revision and approval of the revised Internal Audit plan in November 2020, the Internal Audit team have experienced delays to delivery, however the plan of work has now been completed.

5.2.3 Performance has not been in line within the boundaries of our agreed targets in some areas during 2020/21 such as the issuing of draft reports 10 day after quarter end. Discussions and a lessons learnt exercise will be undertaken in Q1 of 2021/22 to determine the root cause of delays and ensure that these issues are resolved for the year ahead.

Area / Indicator	Frequency	Target	Actual	Comments
<u>Audit Committee / Senior Management</u>				
1. Audit Committee Satisfaction – measured annually	Annual	Adequate	Adequate	Achieved
2. Chief Finance Officer Satisfaction – measured quarterly	Annual	Good	TBC	TBC

<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%	12.5%	1/8 issued within deadline. Not achieved.
4. Quarterly assurance reports to the Contract Manager within 15 working days of the end of each quarter	Quarterly	100%	0%	Not achieved. Quarterly report received over the 15 working day deadline in all cases.
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	Achieved
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 2020/21

Audit Area	Assurance	No of Recs	Implemented	P1 OS	P2 OS	P3 OS	Not yet due
Annual Opinion Audits							
Assurance Mapping Exercise	N/A						
Corporate Governance	Substantial	2	0	0	0	0	2
Coronavirus Response and Recovery - DRAFT	Position Statement						
Accounts Receivable	Reasonable	5	3	0	0	0	2
Income	Reasonable	9	7	0	0	2	0
Asset Management - DRAFT	Reasonable	6	0	0	0	0	6
Procurement Contract Management	Position Statement						
IT audits							
Remote Access	Reasonable	2	0	0	0	0	2
PSPS audits							
Housing Rents	Reasonable	1	0	0	0	0	1
Revenues and Benefits	Substantial	1	0	0	0	0	1
Accounts Payable DRAFT	Limited	2	0	0	0	0	2
Accountancy Services	Substantial	0	0	0	0	0	0
Total		28	10	0	0	2	16

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.	5
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.	1
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	2020-21
Annual Opinion / Corporate Audits					
Corporate Governance	Reasonable	Reasonable	Reasonable	Reasonable	Substantial
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	Position Statement
Transformation Programme - benefits realisation	Position Statement	Position Statement			
Fundamental Financial Systems					
Housing Rents / Management		Reasonable			
Payroll & Human Resources			Reasonable		
Income					Reasonable
Accounts Receivable					Reasonable
Service Area Audits					
Strategic Housing	Reasonable			Reasonable	
Housing Right to Buy	Reasonable				
Welland Homes		Reasonable			
Asset Management		Limited	Position Statement		Reasonable
Delivery Unit Team			Position Statement		
Economic Development (GFG 1718)		Position Statement			
Licensing and Business Support	Reasonable				
Corporate Health and Safety	Reasonable				

Eastern Internal Audit Services	2016-17	2017-18	2018-19	2019-20	2020-21
Environmental Protection		Limited	Reasonable	Reasonable	
Food, Health & Safety			Reasonable		
Legal Services					
Democratic Services			Reasonable		
Elections and Electoral Registration		Reasonable			
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		
Remote Access					Reasonable
Disaster Recovery				Reasonable	

Eastern Internal Audit Services	2016-17	2017-18	2018-19	2019-20	2020-21
IT Strategy				Position Statement	
Service Desk			Substantial		
ISO27001: 2013 Gap Analysis	Position Statement				
IT Project Delivery		Reasonable			
Change and Patch Management		Reasonable			
Software Licencing			Reasonable		

Audit Lincolnshire reports	2016-17	2017-18	2018-19	2019-20	2020-21
Key Controls and Assurance					
Income	Reasonable	Reasonable			
Housing Rents	Reasonable		Reasonable	Reasonable	Reasonable
Accounts Receivable	Reasonable				
Revenues	Reasonable	Limited	Reasonable	Substantial	Substantial
Benefits	Reasonable	Reasonable	Reasonable	Substantial	
Financial services Includes AP, AR, AM, Income, Budget	Reasonable	Reasonable	Limited	Reasonable	
Accounts Payable		Reasonable			Limited
Accountancy Services Includes General Ledger, Control Accounts, Treasury, Bank Rec			Reasonable	Reasonable	Substantial
Payroll		Limited		Reasonable	
Service Area Reviews					
Accounts Payable	Limited				
Payroll	Reasonable				
Accounts Receivable		No assurance			

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 2020/21 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 2021. 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.

