

Internal Audit

Progress Report



South Holland District Council March 2023

Contents

Key Messages

Page 3

Introduction

Summary

Assurances

Page 3

Internal Audit work completed

Overview of Assurances

Audit Reports at Draft

Work in Progress

Benchmarking

Page 8

Key Performance Indicators

Other Matters of Interest

Page 9

Appendices

1 2022/23 Audit Plan to Date

2 Assurance Definitions

3 Changes to the Audit Plan

Lucy Pledge - Head of Internal Audit

Lucy.Pledge@lincolnshire.gov.uk

Matthew Waller- Audit Manager

Matthew.Waller@lincolnshire.gov.uk

This report has been prepared solely for the use of Members and Management of South Holland District Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan. 2

Introduction

The purpose of this report is to:

- Provide details of the audit work from Oct – Feb 2023
- Advise on progress with the 2022/23 Plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

Since the previous report we have completed 3 audits. (Appendix 1 contains the full detail). Overall, we have completed 58% of the plan for the whole year. The remainder of the plan is in progress and on target to be completed in time to support the Annual opinion.

Performance is shown on page eight of the report. It has not been possible to achieve most of the indicators as there have been delays incurred in receiving information and responses for the reports issued where financial information was required. This has been raised with Management who were aware of the issues and are working to resolve them.

We have recently appointed a new Team Manager, Principal and Senior officers to support continued effective delivery to our clients. The new Head of Audit and Risk Management has started and the handover is underway. Further detail is provided within the report.

Assurances

In this period 3 reviews have been completed: -

- Key Controls – Accounts Receivable
- Key Controls – Accounts Payable
- ICT – Problem and change Management (TIAA)

The summaries of these reports are included in the following pages. Appendix 2 includes the assurance definitions.

Work in progress

- Car Parks and Markets (TIAA) – nearing completion
- Housing Compliance (TIAA) – fieldwork
- Key Controls – Revenues and Benefits – fieldwork
- Risk Management – fieldwork
- Key Controls - Finance – fieldwork
- Finance System Review – planning
- Good Governance – TOR agreed.

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 2.

0

**SUBSTANTIAL
ASSURANCE**

3

**REASONABLE
ASSURANCE**

0

**LIMITED
ASSURANCE**

0

**NO
ASSURANCE**

0

CONSULTANCY

Reasonable Assurance

IT Problem and Change Management

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 one 'important' and two 'needs attention' 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.

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

- There is a documented Change Management and separate Problem Management policy and procedure in place, both of which have undergone recent review.
- Appropriate Change and Problem Management roles and responsibilities have been defined within each of the documents.
- There are processes and procedures in place for the planning and implementation of changes. These vary depending on the nature, business risk and size of the change.
- There is a formally documented process for managing emergency changes which has not been needed to date.
- The Halo Service Desk system is used to record all changes and problems.
- Documentation reviews have recently been added as a mandatory part of all changes.
- There is a process in place whereby a problem review will take place on an occasional basis. Typically, the reviews will be undertaken for a major problem that has been classed as a Priority one or two.

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

- There is a need to look at the development of more strategic Problem Management reporting looking at the ongoing effects of Problem Management and the related change efforts required (Important).
- There is a need to ensure that the priorities of changes are recorded more accurately and at the beginning of the change process (Needs Attention).
- There is a need to enhance the Problem Management process by ensuring that problem workaround advisories received by third parties are updated into the Service Desk knowledge base as well as those identified internally (Needs Attention).

Reasonable Assurance

Our review found that overall there is clear separation of duties within transaction processing and we confirmed that the following key controls are in place and operating as expected, including:

- Independent authorisation of sales invoices
- Sales invoices promptly raised with supporting documentation
- Separation of duties between invoice request, production and recovery action
- Debt reminder letters issued in accordance with debt recovery protocol
- Debt write off authorisation in line with financial procedures

We identified the following areas where improvement can be made so have provided a reasonable audit opinion: -

- We found an overall lack of oversight around the level of credit notes raised. During the period April to July 2022 total credit notes raised were valued at 4% Council turnover. A review of credit note usage should begin at the earliest opportunity to establish a benchmark for the Council and identify any areas of concern for analysis and further action. We established that monetary limits for credit notes are not embedded within Unit4 workflow, so a budget holder is able to authorise a credit note of any value. Greater controls around the approval and monitoring of credit notes should reduce the risk of financial loss or misstatement.
- Recovery action has not always been undertaken on a timely basis in the absence of agreed working protocols or timescales between the AR team and service areas. Closer collaboration between the teams should help reduce the risk of unrecoverable debt and ensure more timely recovery action.
- Corporate Payment Terms, we identified three sales invoices where corporate payment terms had not been applied and an explanation for the change was not available. Use of corporate payment terms provides a consistent approach for customers and any non-standard terms should be supported with fully documented reasoning

Reasonable Assurance

Financial Services Key Controls – Accounts Payable

Accounts Payable (AP) processes were found to be well controlled within Unit4. The new finance system has strengthened controls around the approval of purchase orders and invoices and removed the need for manual checks for compliance with the authorisation matrix.

We found that all purchase orders and invoices were authorised in accordance with delegated authorities and new suppliers and supplier amendments were independently approved in Unit4.

Unit4 has also introduced enhanced reporting capability around supplier amendments and invoices with / without purchase orders. Some control improvements were identified in respect of manual AP processes, which were primarily due to the focus of AP team resource on the implementation of Unit4 and migration of Boston Borough Council onto the new system, and due to staff absence during 2021/22:

- The verification of a change made to a supplier's bank details could not be confirmed and greater focus is required on the documentation of such checks. Independent verification of supplier bank details is a key control against mandate fraud and robust documentation should be maintained to confirm that the bank details provided are genuine.
- The Finance team identified at least £26K of duplicate invoices paid during 2021/22. A process for the reporting of duplicate invoices and greater focus on the accurate entry of invoice reference numbers should reduce the risk of financial loss to the Council.
- 50% of the non-Purchase Order (PO) invoices tested did not meet the criteria within the PO exemption listing. A process for monitoring and reporting on this area will assist budget holders to accurately monitor spend and increase use of POs where appropriate.

Internal Audit Work

Audit Reports at Draft Stage

- None

Work in Progress

- Car Parks and Markets – nearing completion
- Housing Compliance – fieldwork
- Key Controls – Revenues and Benefits – fieldwork
- Risk Management – fieldwork
- Key Controls - Finance – terms of reference
- Finance System Review – planning
- Good Governance - fieldwork

Audits Deferred

There are two audits which have been deferred to 2023/24:-

- Leisure
- ICT Disaster Recovery

Increasing Capacity

We have had a recruitment exercise which has led to the successful recruitment of an Audit Manager, two Audit Principals and two Senior Auditors. All these roles will further enhance and develop the services quality, performance, capacity and capability to meet client needs and remain an effective forward-thinking service. We are developing a number of our existing Senior Auditors and Audit Officers through the apprenticeship scheme which is paying dividends. We are also working with our Finance colleagues and engaging with the Local Government national graduate scheme.

Lucy Pledge will be leaving Assurance Lincolnshire on the 30th March 2023. She will be retiring from the role a Head of Audit and Risk Management having helped build the Assurance Lincolnshire partnership into the success it is today. Following a successful recruitment process, we are delighted to confirm that Claire Goodenough has been appointed as Head of Audit and Risk Management at the County Council – heading up the Assurance Lincolnshire Partnership. Claire has a good background of working within the public sector at a senior level and with the Institute of Internal Audit. Claire started with us on the 23 January, to enable a detailed handover, which will incorporate meeting with our clients.



Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators as at 31st January 2023

Performance Indicator	Year-end Target	Actual at 31 st Jan 2023
Percentage of revised plan completed*	100%	58%
Percentage of recommendations agreed**	100%	100%
Percentage of agreed actions implemented **	100% or escalated	N/A
Draft report issued within 10 days of fieldwork completion**	100%	0%
Final report issued within 5 days of management response**	100%	0%
Draft report issued within two months of fieldwork commencing**	80%	0%

* Combined TIAA and Assurance Lincolnshire

** Measures relate to Assurance Lincolnshire only

There have been two reports issued by Assurance Lincolnshire where the performance information is relevant. These were the Finance key control reports. Delays were experienced with these audits including delays in providing information to the Auditor whose time was then scheduled elsewhere which meant that the audit could not be progressed. There were also delays in responses being received for the draft and final reports. This has been fed back to management and processes are being strengthened to support continuous improvement to the audit process and reduce delays on future work.



Other matters of interest

A summary of matters that will be of particular interest to Audit committee members

CIPFA

Guidance for Audit Committees – updated October 2022

This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement.

It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee's development. We will be looking to provide the Committee with training in the new financial year which will include providing the Committee with the key headlines of the guidance and benchmark current arrangements with this new best practice guidance.

<https://www.cipfa.org/services/support-for-audit-committees>

Croydon Council Governance Failing

Fairfield Hall is an arts, entertainment and conference centre situated in Croydon. Refurbishment of this building was agreed by Croydon Council and work was undertaken between June 2016 and September 2019. It was delivered late and cost substantially more than the original £30m budget agreed by cabinet. Originally a Value for Money review, this became a Report in the Public Interest by their Internal Auditors Grant Thornton which highlighted failings of financial control and governance of this project.

The report found that the 'governance gaps' at the time 'prevented scrutiny and challenge that may have allowed corrective action to have been taken.' The report found that the statutory officers and chief officers throughout the time of the refurbishment, including the then chief executive, the two Section 151 officers and the then monitoring officer, failed to fulfil their statutory duties. All have since left the council. An action plan will be put in place to address the recommendations arising from this report.

This has led the Council putting in place new measures to address the findings. The Council has overhauled and strengthened its financial, legal, decision-making and other governance processes, and through its Croydon Renewal Plan is creating a new culture of good decision-making, transparency, accountability, and value for money.

It also led the council to undertake an external independent review of its companies and company structures. Following that review, the council's intention is to wind down its development company Brick by Brick once it has completed its outstanding building work. The Fairfield Halls refurbishment contracts were taken back under direct Council control. The full report can be seen here:

[Report in the Public Interest Fairfield Halls | Croydon Council](#)

Appendix 1

2022/23 Audit Plan to Date

Audit Area	Audit Ref	No of days	Revised Days	Days Delivered	TIAA/AL	Status	Assurance Level	Recommendations				Date to Committee
								Urgent	Important	Needs Attention	Op	
Quarter 1												
Housing Benefit Subsidy		25	25	25	AL	Final report issued October 22	Substantial	0	0	0	0	November 2022
Economic Growth	SH2302	10	10	10	TIAA	Final report issued on 30 August	Substantial	0	2	5	0	September 2022
Housing Compliance	SH2303	15	15	10	TIAA	Fieldwork underway						
Procurement and Contract Management	SH2301	12	12	12	TIAA	Final report issued on 5 September 2022	Reasonable	0	2	5	0	September 2022
Quarter 2												
Leisure	SH2304	12	0	0	AL	Client request to move to 2023/24 plan.						
Car Parks and Markets	SH2305	10	10	6	TIAA	Fieldwork underway						
Quarter 3												
Corporate Governance		8	8	0	AL	Planning						
Risk Management		8	10	0.3	AL	Terms of Reference agreed. Additional 2 days to cover highest scoring strategic risks.						
Key Controls and Assurance		15	15	8	AL	Fieldwork underway - Revenues and Benefits						
Finance System Review (Joint with ELDC)		5	5	0.25	AL	Terms of Reference being researched and drafted.						
Quarter 4												
Key Controls and Assurance		20	20	2	AL	Terms of Reference Agreed. Fieldwork to commence.						
ICT Audits												
Problem and Change Management	SH2213	10	10	10	TIAA	Final report Issued November 22	Reasonable	0	1	2	1	March 2023
Disaster Recovery	SH2306	10	0	0	AL	Client request to move to 2023/24 plan.						
Follow Up of audit												
All previous audits		20	20	10	Both							
TOTAL		180	160	93.55								
Percentage of Plan	TIAA	85%	AL	41%	Combined 58%							

Assurance	Definition
Substantial	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	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	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	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.

Appendix 3

Record of changes to the Internal Audit Plan 2022/23

been made to the original plan

The following changes have

Audits			
Audit	Rationale	Change	Approval
Leisure	Client requested to move to 2023/24. Now part of 2023/24 audit plans.	Deferred to 2023/24.	S151
ICT Disaster Recovery	Client requested to move to 2023/24. Now part of 2023/24 audit plans.	Deferred to 2023/24.	S151