



# **Internal Audit Progress Report – March 2024**

The Head of Internal Audit is required to provide a written status report to Senior Management and Members, summarising internal audit activity.

# Table of contents

- Role of Internal Audit .....3
- The purpose of the document ..... 4
- Performance dashboard..... 5
- Update on Internal Audit Activity..... 6
- Analysis of ‘live’ audit reviews ..... 7
- Executive summaries ..... 9
- Planning and resourcing .....19
- Work programme .....21

**Appendices:**

- Appendix 1 – Overdue high priority actions .....22
- Appendix 2 – Overdue medium/low priority actions.....23

Additional Report - Final Report Procurement Cards and Payroll Reconciliation.

# Role of Internal Audit

The requirement for an internal audit function in local governance is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body 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 and guidance.'*

The standards for 'proper practices'; are laid down in the Public Sector Internal Audit Standards [the Standards -updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

*'Independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes'.*

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the District Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

# The Purpose of the Report

In accordance with the proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter, the Head of Internal Audit is required to provide a written status report to Senior Management and Members summarising:

- the status of live internal audit reports.
- an update on progress against the internal audit plan.
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact of the Head of Internal Audits annual opinion.

Assurance opinions are categorised as follows:

**Substantial** A reliable system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

**Adequate** There is a generally reliable system of governance, risk management and control in place. Some issues of non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

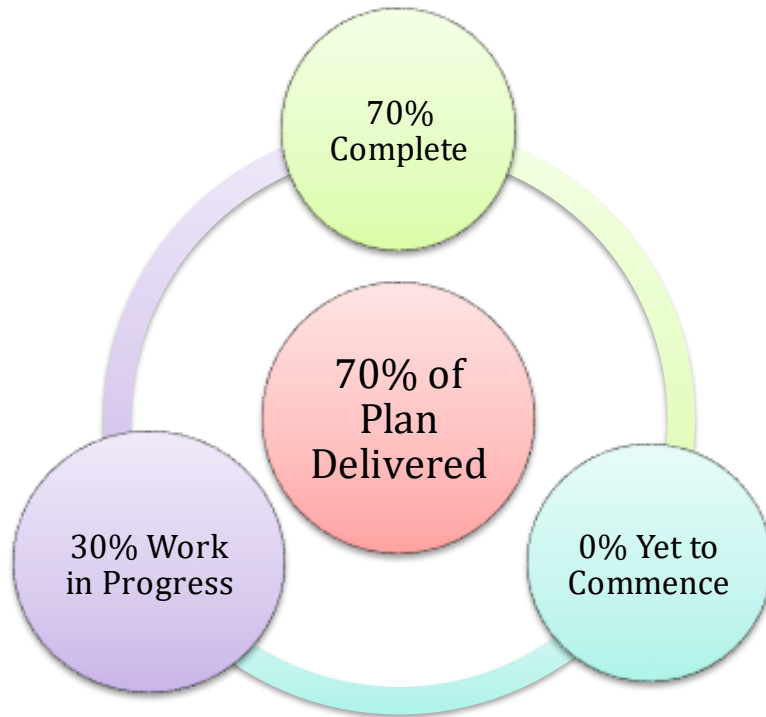
**Limited** Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

**No**

Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks in the achievement of the objectives for the area audited.

# Performance Dashboard

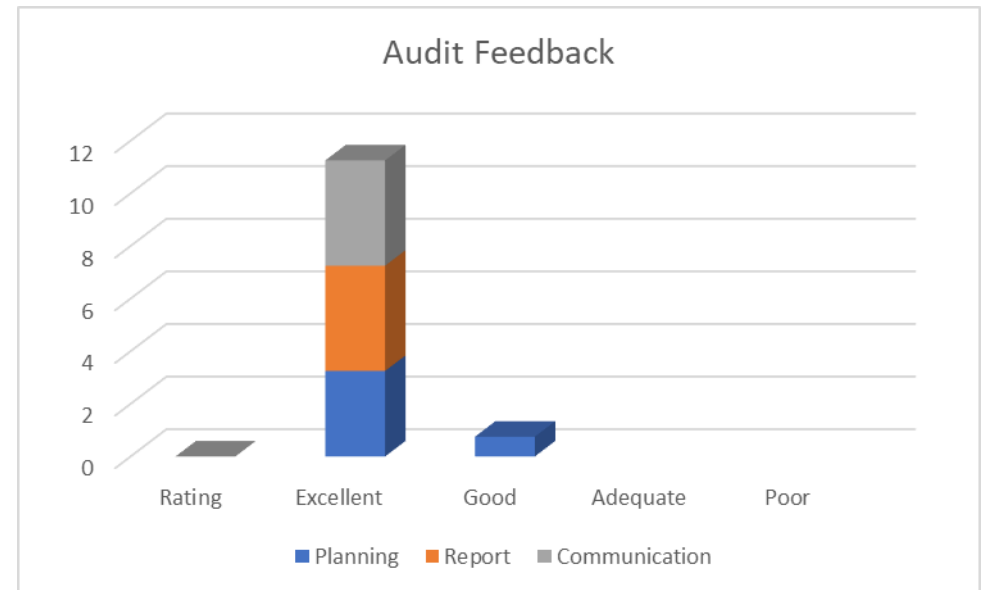
Figure 1



**Figure 1** shows the completion of the internal audit plan to date. The team has been introduced to individually planning audit reviews to support timely delivery and reporting. Line managers are involved in the oversight of delivery plans for each audit and responsible for delivery on milestone agreed during the planning stage. The audit managers are responsible for the effective and timely delivery of their audit plans across the service.

**Figure 2** shows the feedback received from officers for work completed. There is an expectation that all clients will provide feedback on their audit experience with the team. The results of audit feedback will be used by managers in developing team and individual improvements as well as to inform training requirements and quality learning across the entire audit team.

Figure 2



# Update on Internal Audit Activity

Since the last progress report, one **no** assurance review and one **limited** assurance review have been finalised. These are for the Procurement Card system and the Payroll Reconciliation follow up review.

The full assurance reports are attached as additional documents to be reported with the progress report to committee.

A further six reviews have been completed since our last progress report. Details of all work completed by audit is included in the report.

We regularly report on whether agreed management actions from audits have been implemented by the agreed implementation date.

There are two high priority findings which are overdue. The oldest implementation date is 30/09/2023.

There are seven medium priority findings which are overdue. The oldest implementation date is 28/02/2023. Details of all overdue actions are recorded in Appendix 1 & 2.

Two planned audit reviews have been postponed, these are Treasury Management and Banking finance reviews. The finance team is

experiencing high work demands from budget setting and external audit, working with both the current external audit provider and the new incoming external audit provider at the same time.

Finance audits are planned for quarter two, in next year's plan, avoiding the busy quarter four period for the finance service. The two postponed audits will be considered for next year's finance coverage, based on a risk assessment.

# Analysis of Audit Reviews

The table below shows the audits completed since 01 November 2023 along with details of the position of actions as of 29 February 2024.

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Actions	Not Accepted	Not Yet Due	Completed				
<b>2023/24</b>								<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Critical</b>
Procurement Card Review	January 2024	SLT & PSPSL	No	12	0	12	0	10	2	0	0
Strategic Risk Register Review	January 2024	SLT	Substantial	1	0	1	0	0	1	0	0
Leisure Highlight Report	November 2023	P. Perry	Consultancy	3	0	3	0	0	3	0	0
ICT Disaster Recovery	February 2024	J. Wright PSPSL	Adequate	2	0	2	0	0	1	1	0
Payroll Reconciliation Follow Up	February 2024	S151 Officer	Limited	5	0	5	0	2	3	0	0
Building Control	January 2024	C. Allen	Substantial	0	0	0	0	0	0	0	0
Precepts	February 2024	S151 Officer	Adequate	3	0	3	0	0	2	1	0

Fraud Risk Register Development	February 2024	John Medler	n/a	0	0	0	0	0	0	0	0
<b>TOTAL</b>				26	0	26	0	12	12	2	0



# Executive Summaries of ‘Limited’ or ‘No’ Assurance Opinions

The table below provides a summary of the limited or no assurance reports published since the last progress report. It also contains any management updates and progress made since the report was issued.

Audit Review Title: Procurement Cards					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
SLT & PSPSL	No	Low 0	Medium 2	High 10	Critical 0
<p><b>Summary of Key Observations:</b></p> <p>SELCP Senior Management have requested this review of P-Card controls including policy and processes after an isolated incident of suspected fraudulent activity was identified at South Holland District Council. A separate investigation is being undertaken in respect of this incident and will not form part of this internal audit review.</p> <p>We found that whilst there is a sufficient process in place for the use of P-Cards in SELCP this is not being followed by all card holders and their managers. This noncompliance with procedure leaves the partnership open to an increased risk of fraudulent or misuse of P-Cards and potential financial loss through unclaimed VAT. The underlying root cause to this noncompliance is the lack of robust monitoring of expenditure.</p> <p>During our audit work we identified the following significant or high risks that we feel should be considered for inclusion on your service Operational Risk register:</p> <ul style="list-style-type: none"> <li>• Ineffective management and review of procurement card expenditure increases the risk of fraudulent or inappropriate purchases going undetected.</li> <li>• Lack of understanding of which officers are responsible for obtaining supporting documentation for Boston Borough Council increases the risk of fraudulent or inappropriate purchases going undetected.</li> </ul>					

- Where valid VAT receipts are not obtained for procurement card transactions the council cannot claim back VAT resulting in a financial loss to the partnership.

We have agreed a set of actions to support a robust control environment and improved management overview, the final report was issued **The full report is attached as Appendix 3.**

<b>Audit Review Title:</b> Follow Up Key Control testing – Payroll Control Account Reconciliation					
<b>Audit Sponsor</b>	<b>Assurance Opinion/ Equivalent</b>	<b>Management Actions</b>			
SLT	Limited	Low 0	Medium 3	High 2	Critical 0
<p><b>Summary of Key Observations:</b></p> <p>The focus of this review was to follow up evidence and evaluate the implementation of management actions on outstanding recommendations from the audit report issued in 2022.</p> <p>Progress has been made but at the time of the audit (November 2023) we found that several key management actions, arising from the previous audit review have not been implemented. This means the risks and control gaps identified previously have remained and the Council has remained exposed to error and a lack of timely payroll reconciliation.</p> <p>Our testing and review of the previous recommendations revealed some gaps in the areas of prompt payroll reconciliations, independent review of reconciliations, formal process to escalate critical issues affecting reconciliations to management of PSPSL and persistence of account coding issues between the payroll systems and financial systems.</p>					

Whilst the delay in preparing reconciliations can be attributed to staff capacity, this issue has overlapped from the previous accounting period and the remediation timeline was not achieved. Independent review of reconciliations by a senior officer was also not addressed from the previous period which led to a re-occurrence of the issue.

**The final report is attached as Appendix 4.**

# Executive Summaries of ‘Substantial’ or ‘Adequate’ Assurance Opinions

The table below provides a summary of the substantial or adequate assurance reports published since the last progress report.

Audit Review Title: SHDC Financial Leisure Review					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
P. Perry AD Leisure and Culture	Consultancy – no opinion	Low 0	Medium 3	High 0	Critical 0
<p><b>Summary of Key Observations:</b></p> <p>A meeting was held between Internal Audit and the PSPS Finance Business Partner responsible for Leisure in early August 2023 to determine how Parkwood’s financial obligations were being monitored. From these discussions and evidence provided, some potential issues have been identified which Internal Audit deemed important to bring to the attention of management.</p> <ol style="list-style-type: none"> <li>1. There has been no close monitoring of the amounts of outstanding loan capital or interest owed to SHDC by Parkwood.</li> <li>2. During 2022/2023, SHDC has not invoiced Parkwood for any deferred payments of loan capital or interest, following covid related closures and restrictions imposed on the leisure sites during 2020/2021 and 2021/2022.</li> <li>3. The monthly invoices to Parkwood contained VAT on the total net amounts invoiced. However, repayments of loan capital and interest included within the invoiced amounts are not vatable.</li> </ol> <p>Looking forward, the following lessons can be drawn from the Parkwood Leisure provision, which can inform and improve oversight over future leisure contracts and reduce the Council’s financial risk exposure:</p> <ul style="list-style-type: none"> <li>•The wording of future LOBTA agreements should be clearer, so that the provider’s financial obligations are fully understood by all parties and can be closely monitored.</li> </ul>					

- The LOBTA and finance arrangements in future contracts are reviewed by the Council's Finance Business Partner, as well as the Finance Analyst from a VAT perspective, as part of the contract approval process. This should ensure that the correct accounting (including VAT) treatment is applied from the start of each agreement.
- The financial obligations are monitored as part of the routine budget monitoring meetings held between the Budget Manager and Finance Business Partner. Any issues identified are followed up as part of the regular contract meetings with the provider.

<b>Audit Review Title:</b> Strategic Risk Register					
<b>Audit Sponsor</b>	<b>Assurance Opinion/ Equivalent</b>	<b>Management Actions</b>			
SLT	Substantial	Low 0	Medium 1	High 0	Critical 0
<p><b>Summary of Key Observations:</b></p> <p>The audit focussed on the high level identified strategic risks and assess how effective the existing control measures in place are. The audit scope did not include the cyber incident and technology infrastructure failure risks or the staff retention risk as these were covered in separate audits, completed in quarters 1 &amp; 2 of this year. ICT high risks review and SELCP recruitment &amp; retention audits both received adequate assurance opinions.</p> <p>The audit team can confirm that reasonable and relevant controls are in place, supported by regular review, reporting and monitoring. There is a register for each council and a new register for risks affecting the partnership as a whole. Oversight of these registers is provided by the governance &amp; audit committee and full council with quarterly risk management reports and register review. The reports highlight any changes in the risks and provide updates on how they are being managed.</p> <p>The oversight process allows Members to regularly comment on and challenge risks, scores and mitigating controls, giving the whole process a robust level of monitoring and transparency.</p>					

<b>Audit Review Title:</b> ICT Disaster Recovery					
<b>Audit Sponsor</b>	<b>Assurance Opinion/ Equivalent</b>	<b>Management Actions</b>			
J. Wright Head of Department	Adequate	Low 1	Medium 1	High 0	Critical 0
<p><b>Summary of Key Observations:</b></p> <p>To provide a level of assurance that the design and operation of controls in place are operating effectively to mitigate the impact of interruptions to business activities.</p> <p>We reviewed the design and effectiveness of controls in the following areas: disaster recovery policies and procedures; critical infrastructure resilience; governance framework; critical system identification, alignment of disaster recovery plans with SHDC requirements and testing of resilience and recovery plans and assumptions.</p> <p>Overall, the Council and shared ICT service demonstrated a pro-active approach to disaster recovery, through the development of well defined plans, policies and procedures. One medium-rated and two low-rated recommendations have been made which would enhance the disaster recovery arrangements even further, these are summarised below.</p> <ul style="list-style-type: none"> <li>• A schedule to carry out scenario based disaster recovery exercises on an agreed periodic basis (i.e. quarterly or six-monthly) had not been developed.</li> <li>• Although priority recovery orders for each partnership Council's key systems and infrastructures were included in the Disaster Recovery Plan, an overall recovery order if all three Councils were to have a disaster at the same time had not been agreed or documented.</li> </ul>					

<b>Audit Review Title:</b> Building Control					
<b>Audit Sponsor</b>	<b>Assurance Opinion/ Equivalent</b>	<b>Management Actions</b>			
C. Allen	Substantial	Low 0	Medium 1	High 0	Critical 0
<p><b>Summary of Key Observations:</b></p> <p>To provide management with assurance on the ongoing work aimed at supporting the Building Control service is future focussed, income generating and fit for purpose.</p> <p>The Audit opinion is that the internal controls are operating effectively to support the effective management and delivery of the building control service. Audit can provide a substantial level of assurance that the service demonstrates effective oversight and management of legislative changes, integrating them into standard procedures. Effective responses to recruitment and retention issues show proactive future planning, and an increase in performance and income, to mitigate service risks.</p>					



Audit Review Title Precepts					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
S151	Adequate	Low 1	Medium 2	High 0	Critical 0
<p><b>Summary of Key Observations:</b></p> <p>In 2022, a consultancy review of the inaccurate payment of precepts to the parish councils on behalf of ELDC (East Lindsey District Council) was completed by Internal Audit.</p> <p>Recommendations from the review had been agreed to strengthen controls and governance to mitigate against any future occurrence. It is important that adequate procedures have been implemented to ensure that disbursement of precepts to parish councils are accurate and timely.</p> <p>This review revealed that precepts payments to the parishes across the districts in the 2023/24 financial year were accurate with multiple checks and review of payment files prior to bank processing and disbursement.</p> <p>The review noted that there is no formal process guiding the end-to-end precept payment process.</p> <p>There was clear communication via mail exchanges between staff of the PPSL finance team on the procedure for processing payment. This is not supported by clear instruction or documented process. There remains a risk that staffing changes and a lack of a formal process may impact on the accuracy and timeliness of the precept process.</p> <p>The implementation and adherence to a formal process document will support consistency, clarity and mitigate risks associated with the process.</p>					

<b>Audit Review Title:</b> Fraud Risk Register Development					
<b>Audit Sponsor</b>	<b>Assurance Opinion/ Equivalent</b>	<b>Management Actions</b>			
SLT	Not Applicable	Low 0	Medium 0	High 0	Critical 0
<p><b>Summary of Key Observations:</b></p> <p>The South East Lincolnshire Council Partnership (SELCP) are implementing a new risk management policy, with a new risk template introduced. There is currently regular review of Strategic Risk Registers and Operational Risk Registers. Risk management is also part of the partnership's adopted project management methodology. This will be strengthened by a fraud mapping process, resulting in a risk register with a highlight report to become part of become part of the future standard risk management process.</p> <p>In line with the new risk framework introduced by the South East Lincolnshire Council's Partnership (SELCP), we were asked to undertake counter-fraud risk mapping for the following areas:</p> <ul style="list-style-type: none"> <li>• Procurement</li> <li>• Assets</li> <li>• Revenues and Benefits</li> </ul> <p>The results from the updated risk assessment will be used to shape counter fraud work planning and identify areas where proactive work (preventative and detective) should be carried out as a priority. This will also form the blueprint for future counter-fraud risk mapping.</p>					

# Planning and Resourcing

Quarter 1 and 2 work is complete, all remaining work is complete or underway. All work to be delivered up until the year end 31/03/24. We have experienced some delays with progressing audit work, as referenced by the two delayed finance audits and some delays in finalising other work. This represents a decline on the good delivery improvements that we reported in our previous progress report. Work is ongoing to improve scheduling and communications with staff on the audit delivery plan.

Section 7 shares an update on the delivery programme for the Council audits to allow the progress and delivery to be monitored.

## Work Plan

Audit Review	Audit Sponsor	Scoping	Audit Objective	Fieldwork	Draft Report	Final Report	Assurance Opinion or Equivalent
<b>ASSURANCE WORK 2023/2024</b>							
Peer Review	Senior Leadership Team (SLT)	✓	✓	✓	✓	✓	Not Applicable
ICT High Risks Review	SLT	✓	✓	✓	✓	N/A	Not Applicable
Grant Work	PSPSL Finance	✓	✓	✓			Not Applicable
Leisure	SLT	✓	✓	✓	✓	✓	Consultancy
Recruitment & Retention	SLT	✓	✓	✓	✓	✓	Adequate
Procurement Card Review	SLT	✓	✓	✓	✓	✓	No
Precepts	SLT	✓	✓	✓	✓	✓	Adequate
Budget Setting	SLT	✓	✓				WIP

Strategic Risk Register Review	SLT	✓	✓	✓	✓	✓	Substantial
Decision Making	SLT	✓	✓	✓	✓		WIP
Building Control	SLT	✓	✓	✓	✓	✓	Substantial
Follow-Ups Payroll Reconciliation	SLT	✓	✓	✓	✓	✓	Limited
Combined Assurance	SLT	✓	✓	✓	✓	✓	N/A
Management Time	SLT	✓	✓	✓	✓	✓	N/A
Financial Systems review – Banking, Treasury Management & Payroll Reconciliations.	SLT	✓					Postponed under review for 2024/25
Towns Fund	SLT						Postponed – scheduled in 2024/25 plan.
Financial Resilience	SLT	✓					WIP
ICT Disaster Recovery	SLT	✓	✓	✓	✓		Draft
Fraud Risk Register Development	SLT	✓	✓	✓	✓		

## Overdue High priority actions

Audit Review	Audit Sponsor	Agreed Action	Owner	Original Due Date	Current Due Date	Comments
SELCP 2023/24-05 - SHDC Leisure	SLT	Produce risk registers for the 3 leisure sites	Phil Perry	30/11/2023	30/11/2023	Partially Completed, due for full completion by 31/03/24
Audit Review	Audit Sponsor	Agreed Action	Owner	Original Due Date	Current Due Date	Comments
SHDC 2021/22-06 - Financial Services Key Controls	SLT	Develop authorisation workflows for credit notes (and sales invoices) that align with the authorisations for purchase orders and invoices.	Samantha Knowles	30/09/2023	30/09/2023	The priorities of the system team and future system enhancements is currently under review and this will be included in that process.

## Appendix 2

### Overdue Medium and Low priority actions

Audit Review	Audit Sponsor	Priority	Agreed Action	Owner	Original Due Date	Current Due Date	Comments
SHDC 2021/22-06 - Financial Services Key Controls	SLT	Medium	<p>2.1 A process will be implemented for duplicate invoice reporting and we will confirm whether such reporting can be produced prior to invoice payment.</p> <p>2.2 The formatting requirements of invoice / payment requisition reference numbers will be incorporated into the AP team procedures and a reminder of these will be issued to the AP team.</p> <p>2.3 Duplicate invoice payments will be reported to</p>	Colleen Warren	31/03/2023	31/03/2024	Report has been produced and currently being tested; it will be implemented by 31st March 2024

			the S151 / Deputy S151 Officer				
SELCP 2022/23-04 - Risk Management	SLT	Medium	The introduction of inherent risk scoring is being considered as part of the new risk management policy and a final decision will be made as part of quarterly reporting.	John Medler	31/12/2023	31/03/2024	The introduction of inherent risk scoring is still under consideration. The pros and cons will be debated at the risk workshops in Q4 and a final decision made before the new financial year. Revised due date 31/3/24.
<b>Audit Review</b>	<b>Audit Sponsor</b>	<b>Priority</b>	<b>Agreed Action</b>	<b>Owner</b>	<b>Original Due Date</b>	<b>Current Due Date</b>	<b>Comments</b>
SELCP 2023/24-05 - SHDC Leisure	SLT	Medium	Issues identified which are within SHDC's remit are raised to the Assets team and fed into the registers of maintenance related risks.	Phil Perry	30/11/2023	30/11/2023	Will form part of the risk register
SHDC 2021/22-06 - Financial Services Key Controls	SLT	Medium	3.1 A process will be established for the reporting and monitoring of all invoices received without a purchase order having been raised in	Samantha Knowles	28/02/2023	31/07/2023	Project underway, the team are working with the company and the client to identify what suppliers and purchase

			<p>advance, including a process for feedback to the Budget Managers.</p> <p>As part of this process:</p> <ul style="list-style-type: none"> <li>- review the PO exemption list to confirm complete and appropriate to the needs of the Council.</li> <li>- establish a date and approach for the launch of the 'No PO, no Pay' policy.</li> </ul>				types require a PO to ensure reporting is accurate once process goes live.
SELCP 2022/23-01 - Key Controls - covers all three Councils and PSPS	SLT	Medium	2.1 Corrections will be made to the subscription's issues highlighted.	Sharon Hammond	31/08/2023	31/08/2023	The priorities of the system team and future system enhancements is currently under review and this will be included in that process
SELCP 2022/23-01 - Key Controls - covers all three Councils and PSPS	SLT	Medium	Accounts Receivable reconciliations will include a download of the balances once resolved.	Sharon Hammond	30/09/2023	30/09/2023	The priorities of the system team and future system enhancements is currently under review and this will be included in that process
<b>Audit Review</b>	<b>Audit Sponsor</b>	<b>Priority</b>	<b>Agreed Action</b>	<b>Owner</b>	<b>Original Due Date</b>	<b>Current Due Date</b>	<b>Comments</b>
SELCP 2022/23-01 - Key Controls - covers all three	SLT	Medium	Formal sign off will be undertaken each month by the Deputy Chief Finance	Sharon Hammond	31/08/2023	31/08/2023	The priorities of the system team and future system



Councils and PSPS			Officer Corporate to confirm they have been reviewed.				enhancements is currently under review and this will be in included in that process
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