Internal Audit
Progress Report

East Lindsey District Council
September 2022

Assurance LINCOLNSHIRE
For all your assurance needs

East Lindsey DISTRICT COUNCIL

Contents

Lucy Pledge - Head of Internal Audit
Lucy.Pledge@lincolnshire.gov.uk

Matthew Waller- Audit Manager
Matthew.Waller@lincolnshire.gov.uk

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period February 2022 to July 2022
- Advise on progress with the 2022/23 Plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

Progress is being made on delivering assurance, with nine audits currently in progress, three are at draft report stage, two are at fieldwork stage and three pieces of work are being prepared (Appendix 3 contains the full detail). We have completed 21% of the revised plan. There are currently 5 actions which are overdue.

Assurances

In this period 7 reviews have been completed:-

SELCP
- Workforce Plan – Substantial
- Patch Management - Substantial
- Carbon Reduction – Substantial
- Towns Fund - Consultancy

ELDC
- Contract Management - Substantial
- ICT - User Education and Awareness - Substantial
- Payroll - Substantial

Work in progress

SELCP
- Flood Management – Draft Report
- Good Governance Health check - report being agreed
- Key Controls – finalising testing
- Section 106 agreements – report being agreed
- Invest East Lindsey – draft report being finalised
- Payroll – TOR drafted
- ICT Cloud Hosted – TOR issued
- VFM - Preparation

ELDC
- Housing Benefit Subsidy – testing

0
HIGH ASSURANCE

6
SUBSTANTIAL ASSURANCE

0
LIMITED ASSURANCE

0
LOW ASSURANCE

1
CONSULTANCY

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 1.

Substantial Assurance

Workforce Plan	A Workforce Development Strategy (WDS) 2020-2024 was approved by BBC Cabinet and ELDC Executive Board in late 2020 and sets out the joint approach the Councils will take to develop their culture, working practices and people across six strategic (priority) themes. There are high levels of engagement with staff and a board is in place to oversee and drive progress. The planned measures set out in the Strategy represent a sound framework of control; with overriding objectives of the Strategy clearly aligned to the Councils' wider strategic objectives (priority themes). The formation of the wider SELCP with SHDC in October 2021 has necessitated changes to the WDS delivery plan with certain planned measures temporarily put on hold until the WDS and associated delivery plan could be re-shaped under the context of the new joint approach. Improvement areas were identified; the main one being to formally monitor key risks.
Patch Management	A patch is a piece of software designed to update a computer program or its supporting data, to fix or improve it. Patch management is the process of using a strategy and plan of what patches should be applied to which systems at a specified time. Research has shown that poor patch management can lead to increased downtime and costs. Patch management is generally operated effectively; policies are in place and responsibility for patching systems is allocated to specific staff, with designated members of staff who can stand in allowing for resilience and operational continuity. Patches are deployed securely using a combination of well-known Microsoft solutions and where these solutions cannot be used then change control procedures are followed and documented. Some areas for improvement were identified; the main ones being improved Patch performance reporting and clear timelines being agreed for migrating away from unsupported systems, which can represent a weakness in security.

Substantial Assurance

Carbon Reduction	The current governance arrangements and delivery of the Annual Service plans are operating effectively to support delivery of the strategic aims relating to climate change, thereby enabling achievement of net zero carbon emissions by 2040. We have found that the Councils' Carbon Reduction Plans (CRP) and associated net zero action plans are aligned with the environmental policies and aims highlighted within the Corporate Strategies. Carbon Reduction Plans include baseline carbon footprints and high level actions to achieve net zero. Some recommendations for improvement were made around stakeholder engagement (both internal and external). Continuous monitoring of the Carbon Reduction Plans and delivery. Managing interdependencies between initiatives, and preparedness for securing future project funding for the programme.
Contract Management	We have provided a substantial level of assurance that effective arrangements are in place to ensure all contracts are recorded, allocated to contract managers, and managed effectively. Improvements to the Council's Contract and Procurement Procedure Rules (CPPRs) and development of a separate contract management guidance document are areas where improvements can be made to ensure clearer contract management guidance is available. Contracts are appropriately signed, including clear and detailed terms and conditions and comply with the CPPRs. The originals are held securely with electronic copies held by Service Areas. There is no central record of contracts held which could result in additional time/resources to locate contracts or result in non-compliance with data retention periods. Contract Managers assigned responsibility for contracts are appropriate, with managers involved from the outset. Contract Managers and their responsibilities are clearly detailed within contract documentation. Contracts include detailed information on how performance will be reported, monitored and managed, enabling quality of service and value for money achieved to be effectively measured. Variations to contracts are formally recorded, with checks carried out and advice/guidance sought prior to approval.

Substantial Assurance

ICT User Education and Awareness	The review looked at the processes in place for security awareness and training provided to users of ICT within the Council. Overall we have provided a substantial level of assurance as these arrangements are good. The Council has been developing the arrangements in place and these continue to evolve. Activities in place include training, support materials and ad-hoc and routine activities. As well as traditional training, quizzes and behavioural trials such as test (fake) phishing* emails have taken place. The results from the most recent phishing test showed an improvement with only 2% responding to the e-mail down from 30%. The Council has also recently approved funding for three years for a 'Cyber Safe' programme of activities which is a clear demonstration of management's commitment to this issue. We also found an increasing prominence and importance within the Council with training and awareness being driven by a dedicated role within PSPS Ltd. There were some improvements identified such as improving attendance for the mandatory training and including the awareness prominently within any relevant policy with a clear statement of it as a management objective or goal to demonstrate a high level, top-down commitment.
Payroll	Our review of the implementation of the new payroll system has provided Satisfactory assurance. There is an ongoing project to work with the provider to manage remaining system development issues and workarounds, this is being lead by Payroll and Reward Manager with oversite from HR Project Manager. The project board for this project is still in place. A project plan is in place tracking the remaining tasks and milestones met. There were some areas which require improvement:- • The three payroll officers have super user access to the Payroll and HR system therefore there is no separation of duties. • Finance are provided with reports to verify during their liaison with line managers; there is no acknowledgement that this has taken place. • The snag list of actions still to be completed showed that some actions were incomplete and had passed their deadline date for resolution. • The Council (client) receive verbal updates on the progress and delivery of the new system. More robust evidence based assurance should be sought to provide certainty on delivery and issues solution.

Consultancy

Towns Fund

The Town Fund is a highly complex programme of projects involving the Council and multiple partners delivering on three separate Town Investment Plans, Boston, Skegness and Mablethorpe.

The Council has acted quickly to secure funding and progress projects and we found some good examples of project management and governance in place for such a key complex area of work.

Overall programme management and progress is good and this is demonstrated through the current position of projects and grant offers made. There are also four projects which are likely to receive advanced funding following completion of early (final) business cases.

To support the programme and progress delivery we identified the following areas to strengthen;

- Assurance around Procurement and compliance with regulations and procedures.
- A single contracts register for improved oversight,
- Programme and project plans to support good project management

A single oversight board would be a key part of good governance for Towns Fund projects. Including project expertise on legal, financial, procurement and internal audit, that can support the successful delivery of the Towns Fund projects over the life cycle of the programme.

Further audit work is planned for 2022/23 to continue to provide independent assurance on progress and delivery. Updates will be reported to the committee in future progress reports.

Internal Audit Work

Audit Reports at Draft Stage

- Good Governance health check – draft report issued and awaiting a response
- Flood Management – draft report issued and awaiting a response
- Invest East Lindsey – Draft report being finalised before being issued
- Section 106 agreements – report being agreed

Work in Progress

SELCP
- Key Controls – final testing being completed
- Payroll – Terms of Reference has been drafted and issued for comment
- ICT Cloud Hosted – Terms of Reference issued
- VFM – Preparation, awaiting information to prepare the Terms of Reference

ELDC
- Housing Benefit Subsidy 21/22 – testing

Audits Deferred

- There are none at this point in time.

Other Significant work

Precepts error – The Section 151 officer requested a review of the precept setting process after an error came to attention of management. Our review identified some areas of improvement and made recommendations to address controls and oversight of the process. An agreed action plan is in place to monitor and track improvement recommendations.

PSPS Client Management - Assurance Lincolnshire recently completed a review of PSPS's client management arrangements The review received High assurance and found that:-

- Regular communication and reporting is taking place between both sets of organisations (the company and councils) at strategic and operational levels

- The company's formal governance framework (including the Management Agreement and Master and Service SLA's) collectively sets out management responsibilities, routes for decision-making, approvals and escalation pathways; and is providing a robust and clear structure under which the various current liaison and engagement practices are functioning. The councils' client liaison officers all reported good relationships with PSPS senior management and the Chief Executive, and that communications between them are open, honest and constructive.

Internal Audit Work

Audit Recommendations

Progress in implementing the recommendations made to date has been obtained from the responsible officers and recommendations have been closed off where advised. Overall for East Lindsey and the Partnership there are 45 recommendations to be implemented of which 5 are overdue. Of these, 20 specifically relate to East Lindsey. with 5 of these being overdue. The overdue recommendations include:-

ELDC General Ledger and Financial reporting – 1 High, 2 Medium. All due by 31 July 2022
ELDC Payroll – 2 Medium. Both due by 31 March 2022

A full recommendation update is shown at Appendix 2.
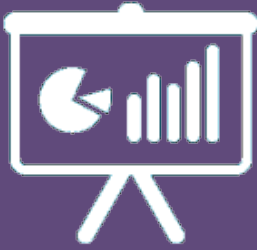
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators as at 31st July 2022

Performance Indicator	Year-end Target	Actual at 31st July 2022
Percentage of revised plan completed .	100%	21%
Percentage of recommendations agreed	100%	N/A*
Percentage of agreed actions implemented	100% or escalated	N/A*
Draft report issued within 10 days of fieldwork completion	100%	100%
Final report issued within 5 days of management response	100%	N/A*
Draft report issued within two months of fieldwork commencing	80%	25%

The plan was not agreed and scheduled until June so completion is slightly behind where we would normally be.

*There have been no final reports issued as yet so some of the indicators cannot be reported upon.

Audit Committees and Scrutiny Committees – Working Together

The Centre for Governance and Scrutiny (CfGS) produced a paper for councillors on audit committees and scrutiny committees on how member-level activity on audit, and councils' scrutiny functions, can work more closely. It focuses in particular on how scrutiny can contribute productively to the core functions of Audit committees.

The paper states that whilst Audit and Scrutiny require their own focus and resources, there will be matters of common interest where it makes sense to collaborate including:
• Action on mindset and culture
• Securing good governance
• Risk
• Value for money
• Wider policy issues, and the impact of council strategy on financial management

The report explores opportunities for collaboration within each of the areas listed above and provides practical examples of how it may work in practice.

The full report can be found using this link:
Audit committees and scrutiny committees: working together - Centre for Governance and Scrutiny (cfgs.org.uk)

Audit Committee Update 36

CIPFA issued update 36 in August 2022 covering the Guidance on Audit Committees in Local Authorities and Police and Internal Audit Untapped Potential.

Guidance on Audit Committees in Local Authorities and Police

Position statement issued in April 2022 replacing the 2018 edition. It take into account the changes in legislation and other developments that affect the role of the Committee. The guidance document to support the position statement is due for publication in September 2022.

The guidance covers the purpose of the committee and sets out good practices that the committee should follow. These include:-

- Establishing an independent and effective model

- Ensuring that the committee covers the core functions:
  - Supporting the maintenance of governance, risk, and control arrangements
  - Financial and governance reporting
  - Appropriate and effective arrangements for audit and assurance • Establishing a committee with the necessary expertise and understanding

- Engaging with those charged with governance, senior officers, auditors, and other committees

- Reporting annually

- Evaluation of its own impact and identifying areas for improvement

The statement puts a stronger emphasis on the Committee being independent of executive decision making and for financial reporting and external audit reporting to build on themes considered under the Redmond Review. It also recommends that Committee should have at least two lay members to provide appropriate technical expertise.

Internal Audit Untapped Potential

This is a research report of internal audit across the public services. The report highlights how internal audit is having an impact and supporting their organisations. It also identifies opportunities to do more and for audit committees and management to better support internal audit.

A full copy of the Update is included here

PDF

Microsoft Edge
PDF Document

High

Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.

The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

Substantial

Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.

Limited

Our critical review or assessment on the activity gives us a a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.

The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.

Low

Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

Summary of the number of outstanding Agreed Actions for all audits at 31 July 2022

Activity	Issue Date	Assurance	Total Agreed Actions (AAs)	AAs Imp	Priority of Overdue Agreed Actions		AAs Not Due
					High	Medium	
SELCP - Carbon Reduction 2021/22	May 22	Substantial	9	4	0	0	5
SELCP – Contract Management 2021/22	Jul-22	Substantial	11	0	0	0	11
SELCP – Patch Management 2021/22	Apr 22	Substantial	9	0	0	0	9
ELDC – Value Added Tax 2019/20	Oct-19	Substantial	7	5	0	0	2
ELDC Financial Services Key Controls 2019/20	Jul-20	Substantial	2	1	0	0	1
ELDC Procurement 2020/21	Aug-21	Low	13	9	0	0	4
ELDC New Finance System Support 2020/21	Nov-21	Consultancy	15	12	0	0	3
ELDC Health and Safety Magna Vitae 2021/22	Nov-21	Substantial	3	2	0	0	1
ELDC General Ledger and Financial Reporting 2021/22	May-22	Substantial	3	0	1	2	0
Sub Total					1	2	36

Activity	Issue Date	Assurance	Total Agreed Actions (AAs)	AAs Imp	Priority of Overdue Agreed Actions		Aas Not Due
					High	Medium	
ELDC – Payroll 2021/22	Jan-22	Substantial	9	7	0	2	0
ELDC - ICT User Education and Awareness 2021/22	Aug-22	Substantial	4	0	0	0	4
TOTALS					1	4	40

Details of overdue actions for all audit at 31 July 2022

Audit	Priority	Agreed Action	Owner	Original Due Date	Current Due Date	Comments
ELDC General Ledger and Financial Reporting 2021/22	High	The suspense account will be reconciled and reviewed on a monthly basis, and outstanding items dealt with more promptly. Due to the nature of the account, balances will always remain.	Deputy Chief Finance Officer (Corporate) (PSPSL)	31/07/22	31/10/22	Month end reconciliations have recommenced at the end of July 2022 following the year end closedown process, and the suspense account reconciliation is currently in progress. A full review will be undertaken of all outstanding items in this account by the Deputy Chief Finance Officer (Corporate), once the reconciliation is completed (by the end of August). In order to embed this process and resolve any queries on the suspense accounts, please roll to the end of October.
ELDC General Ledger and Financial Reporting 2021/22	Medium	As above	Deputy Chief Finance Officer (Corporate) (PSPSL)	31/07/22	31/10/22	As above
ELDC General Ledger and Financial Reporting 2021/22	Medium	The payroll account will be reconciled and reviewed on a monthly basis, with variances resolved promptly. The reconciliation will be redesigned to make it clearer and easier to complete and follow.	Deputy Chief Finance Officer (Corporate) (PSPSL)	31/07/22	31/10/22	As above

Audit	Priority	Agreed Action	Owner	Original Due Date	Current Due Date	Comments
ELDC – Payroll 2021/22	Medium	HR Manager – Operations to ensure that the council are kept informed of project milestones through the monthly client meetings	HR Manager – Operations (PSPSL)	31/03/22	31/03/22	Ongoing CIPHR charged with providing a project implementation plan to CX and Head of HR &OD providing solutions for the priority issues with confirmation of what can be done and what cannot be done.
ELDC – Payroll 2021/22	Medium	As above	HR Manager – Operations (PSPSL)	31/03/22	31/03/22	As above

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
SELCP Flood Management	Adequate arrangements to prevent and respond to flooding are in place.	Q4	Feb 22		Draft Report
ELDC Good Governance Health check – Phase 1	To provide assurance that the Council's has a robust Governance Framework that is fit for purpose and aligns to best practice and the CIPFA framework.	Q3	Oct 21		Draft report
ELDC Key Controls	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.	Q3	Mar-22		Finalising testing
ELDC - Housing Benefit Subsidy	To complete the review of the Housing Benefit Subsidy Claim.	Q1-2	May 22		In progress
SELCP - Value for Money	To provide assurance that the Council takes all reasonable steps to achieve Value for Money in the delivery of its services.	Q2			Being prepared – awaiting information
SELCP - Payroll	Full system review of new payroll system to provide assurance that the system is set up, operating effectively and appropriate controls are in place throughout the processes.	Q2			Being prepared – delayed until end of Sept by client.
SELCP - Towns Fund	To continue with our corporate governance work by providing assurance and support through benchmarking and testing the Council against CIPFA Good Governance standards and Framework.	Q2			Being prepared

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
SELCP - Cloud Hosted Services	To review recent instances of cloud/hosted services to establish the due diligence undertaken in arriving at the selected option and security deployed through that arrangement	Q2			Terms of Reference agreed.
SELCP - Good Governance Phase 2	To continue with our corporate governance work by providing assurance and support through benchmarking and testing the Council against CIPFA Good Governance standards and Framework.	Q2-3			Being prepared
SELCP - Risk Management	To provide assurance that there are effective arrangements in place to manage strategic, project, partnership and operational risks for the Council.	Q3			
SELCP - ICT – Systems Security	A review of the arrangements for managing system access and restrictions, monitoring and reporting unauthorized attempts or challenges.	Q3			
ELDC - Finance System Review	Full system review of new finance system to provide assurance that the system is set up and operating effectively	Q3			
ELDC - Assurance Mapping	Updating the assurance map and completing the Combined Assurance report	Q3-4			

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
ELDC - Audit Follow Ups	To provide management with assurance that actions from previous key audits have been implemented and this has led to improved outcomes	Q3-4			Insurance started
SELCP - Virus Protection & Malware	To provide assurance that the risk associated with malware and viruses is mitigated through the use of appropriate security measures.	Q4			
SELCP - ICT Project Management	A key area of low assurance raised in assurance mapping, we will provide assurance on ICTs ability to manage multiple projects for the Council.	Q4			
SELCP - Key Controls	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.	Q4			
ELDC – Review the Fraud Risk Register	Review and support the update of the client's fraud risk register to support the identification and mitigations for fraud risk.	Q3			

There is one request.

Additions to the plan.			
Audit	Rationale	Change	Approval
ELDC – Review the Fraud Risk Register	Review and support the update of the client's fraud risk register to support the identification and mitigations for fraud risk.		C. Marshall S151 Officer.