



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.

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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 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

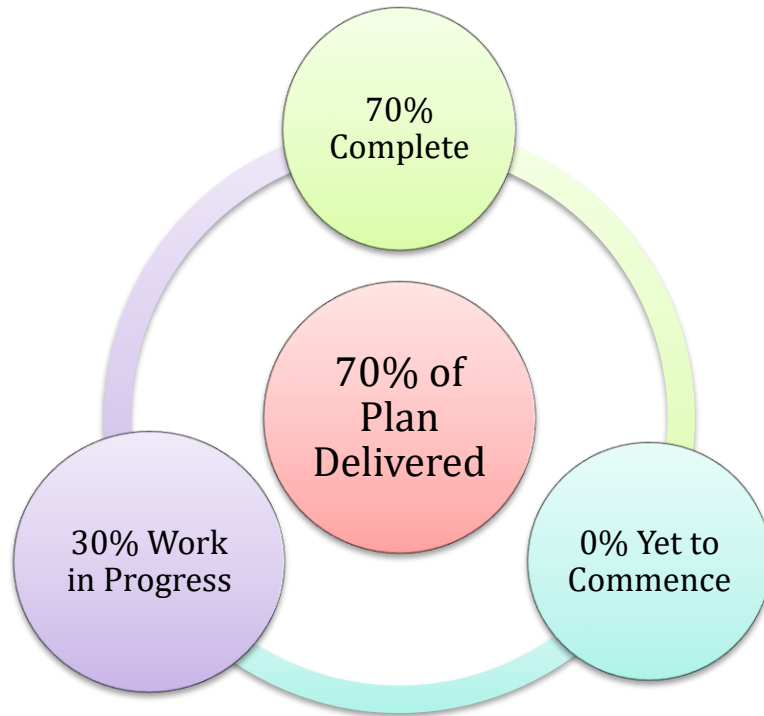
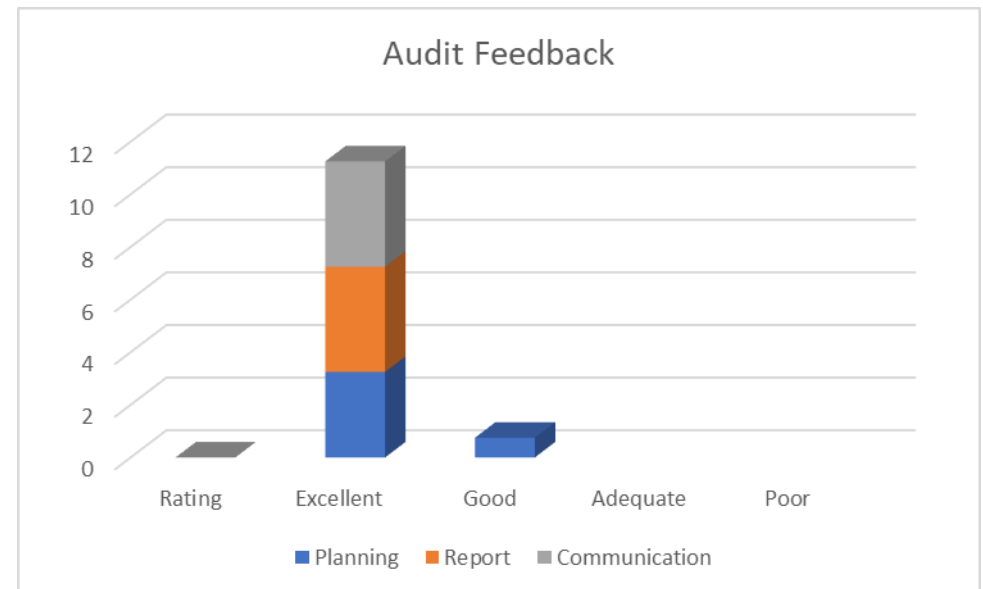


Figure 1 shows the completion of the internal audit plan to date. The team has been introduced to individually planning audit reviews to support timely delivery and reporting. Line managers are involved in the oversight of delivery plans for each audit and responsible for delivery on milestone agreed 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 five 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 **no high** priority findings which are overdue.

There are nine medium priority findings which are overdue. The oldest implementation date is 31/03/2020 Details of all overdue actions are recorded in Appendix 1.

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 November 2023 along with details of the position of actions as at 29 February 2024.

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Actions	Not Accepted	Not Yet Due	Completed				
								High	Medium	Low	Critical
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
S106 Follow Up	February 2024	M. Gildersleeves	Adequate	0	0	0	0	0	0	0	0
Building Control	February 2024	C. Allen	Substantial	0	0	0	0	0	0	0	0
Payroll Reconciliations Follow Up	February 2024	S151 Officer	Limited	5	0	5	0	2	3	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
TOTAL				21	0	21	0	12	8	1	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			
Section 151 officer	No	Low 0	Medium 2	High 10	Critical 0
<p>Summary of Key Observations:</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"> • Ineffective management and review of procurement card expenditure increases the risk of fraudulent or inappropriate purchases going undetected. 					

- 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.

- 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 2.

Audit Review Title: Follow Up Key Control testing – Payroll Control Account Reconciliation					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
Section 151 officer	Limited	Low 0	Medium 3	High 2	Critical 0
Summary of Key Observations:					
<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>					

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 PPSL and persistence of account coding issues between the payroll systems and financial systems.

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 3.

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: Strategic Risk Management					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
C. Marshall S151	Substantial	Low 0	Medium 1	High 0	Critical 0
<p>Summary of Key Observations:</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 & 2 of this year. ICT high risks review and SELCP recruitment & 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 & 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>					

Audit Review Title: Section 106 Follow Up					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
M.Gildersleeves.	WIP-Adequate?	Low 0	Medium 0	High 0	Critical 0
<p>Summary of Key Observations:</p> <p>An audit assignment was completed in September 2022 on this area receiving a limited assurance rating. This is a follow up audit to provide assurance that the recommendations from that audit have been implemented and are working efficiently.</p> <p>The audit found that most of the recommendations had been implemented and management of S106 had improved since the previous audit. There is improved monitoring of S106 funding and regular reporting on funds nearing the spend deadline is now presented to SLT.</p> <p>We made one high and one low recommendation to further strengthen the process -</p> <p>Whilst some key parties are informed of available funds for spending, this process could be strengthened with the introduction of a clear process to inform all interested parties when funds have been received and the spend deadline.</p> <p>A system code has been introduced to the planning software to identify S106 agreements and enable report production. Planning Officers should be reminded regularly to use the new code until this process becomes fully embedded.</p>					

Audit Review Title: Building Control					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
C. Allen	Substantial	Low 0	Medium 0	High 0	Critical 0
<p>Summary of Key Observations:</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>Summary of Key Observations:</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 PSPSL 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>					

Audit Review Title: Fraud Risk Register Development					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
SLT	Not Applicable	Low 0	Medium 0	High 0	Critical 0
<p>Summary of Key Observations:</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 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"> • Procurement • Assets • Revenues and Benefits <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
ASSURANCE WORK 2023/2024							
Peer Review	Senior Leadership Team (SLT)	✓	✓	✓	✓	✓	Not Applicable
ICT High Risks Review	SLT	✓	✓	✓	✓	N/A	Not Applicable
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
Audit Committee Workshop	Chair A&G	✓	✓	✓			Not Applicable
Follow Ups Payroll Reconciliation	SLT	✓	✓	✓	✓	✓	Limited
S106	SLT	✓	✓	✓	✓	✓	Adequate
Combined Assurance	SLT	✓	✓	✓	✓	✓	Assurance Report to Audit Committee
Management Time	SLT						Not Applicable
Financial Systems review – Banking, Treasury Management	SLT	✓					Postponed
Towns Fund	SLT						Postponed to 24/25
Financial Resilience	SLT	✓	✓				WIP
Fraud Risk Register Development	SLT	✓	✓	✓			N/A

Overdue Medium and Low priority actions

Audit Review	Audit Sponsor	Priority	Agreed Action	Owner	Original Due Date	Current Due Date	Comments
Strategic Alliance 2021/22-05 - Flood Management	SLT	Medium	Engage relevant members at both Councils and propose options for improving information sharing between the various flood risk management forums attended by Officers/Members at district county and regional level and the mechanisms, if any, considered appropriate and necessary to facilitate the effective exchange of information.	Christian Allen	31/03/2023	31/03/2024	Owing to the involvement of officers dealing with this being involved in the response to the recent storms and heavy rainfall we have had to postpone setting up this "summit" at this time. We are now looking to setup a review of this in the second quarter of this year.
ELDC 2021/22-06 - Key Controls testing	SLT	Medium	A process will be established for the reporting and monitoring of all invoices received without a purchase order having been raised in advance, including a process for feedback to the Budget Managers.	Colleen Warren	28/02/2023	31/07/2023	Project is underway; the team are working with the company and the Council to identify what suppliers and purchase types require a PO to ensure reporting is accurate once process goes live.

			<p>As part of this process:</p> <ul style="list-style-type: none"> - review the PO exemption list to confirm complete and appropriate to the needs of the Council. <p>Establish a date and approach for the launch of the 'No PO, no Pay' policy.</p>				
Audit Review	Audit Sponsor	Priority	Agreed Action	Owner	Original Due Date	Current Due Date	Comments
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	31/03/2023	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.
ELDC 2019/20 - 2019/20 Audits	SLT	Medium	Appropriate VAT KPIs will be introduced to monitor against.	Samantha Knowles	01/04/2020	31/03/2024	Project underway, the team are working with the company and the client to identify what suppliers and purchase types require a PO to ensure reporting is accurate once process goes live.

ELDC 2019/20 - 2019/20 Audits	SLT	Medium	P Card VAT adjustments will be reviewed on a quarterly basis.	Samantha Knowles	31/03/2020	31/07/2023	PSPS CFO actively reviewing Finance audit actions. Due to limitations with team capacity, time frames will form part of this review and feedback will be provided accordingly.
Strategic Alliance 2021/22-08 - Carbon Reduction & the Natural Environment	SLT	Medium	A Carbon Impact Assessment tool to be developed and embedded into all project initiation documents and Committee Reports which must be completed before SLT sign off is given.	Sarah Baker	31/03/2023	31/03/2023	Feb 24 No further update. New sub-regional strategy providing opportunity to review Environment Policy and therefore to pick this up again. Investors in Environment quote has now been received and being considered alongside other environmental performing monitoring frameworks but due to resource capacity this isn't progressing quickly at present.
Audit Review	Audit Sponsor	Priority	Agreed Action	Owner	Original Due Date	Current Due Date	Comments

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
SELCP 2022/23-01 - Key Controls - covers all three Councils and PSPS	SLT	Medium	Formal sign off will be undertaken each month by the Deputy Chief Finance Officer Corporate to confirm they have been reviewed.	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