



Internal Audit Progress Report – January 2025

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.....	7
Analysis of 'live' audit reviews.....	8
Executive summaries	9
Planning and resourcing	17
Work programme	17
 Appendices:	
Appendix 1 – Overdue medium/low priority actions.....	19

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.

Internal audit reviews culminate in an opinion rating on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. 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.

The ratings align with terminology widely used across the public sector. They provide objective definitions and improved understanding for areas of non-compliance or in monitoring the work required for any fundamental deficiency identified.

Internal quality assurance checks are undertaken at multiple points during all assurance and advisory reviews. This culminates in the Head of Audit signing off each audit report prior to its release. This provides consistency of assurance rating and robustness in the assurance the committee can take from the assurance levels awarded.

The audit manager is responsible for the effective and timely delivery of all audit plans across the council. The audit 2024/25 strategy sets out clear aims and outcomes for achieving an effective skilled workforce to deliver high quality audit assignments.

Performance Dashboard

Figure 1

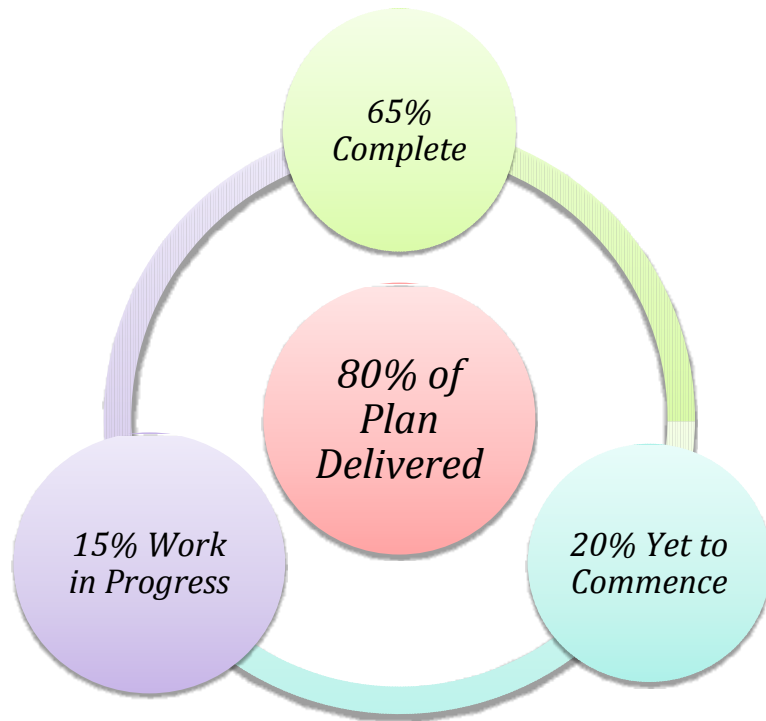


Figure 1 shows the completion of the 2024/25 internal audit plan to date. The ELDC audit team has remained stable and fully resourced throughout the year. This stability and improvement in high-quality assurance work and timely delivery of the annual audit plan has its roots in evidential based testing, triangulated discussion, strong quality oversight and developmental support.

80% plan delivery at the end of quarter three, represents good planning and delivery to timescale.

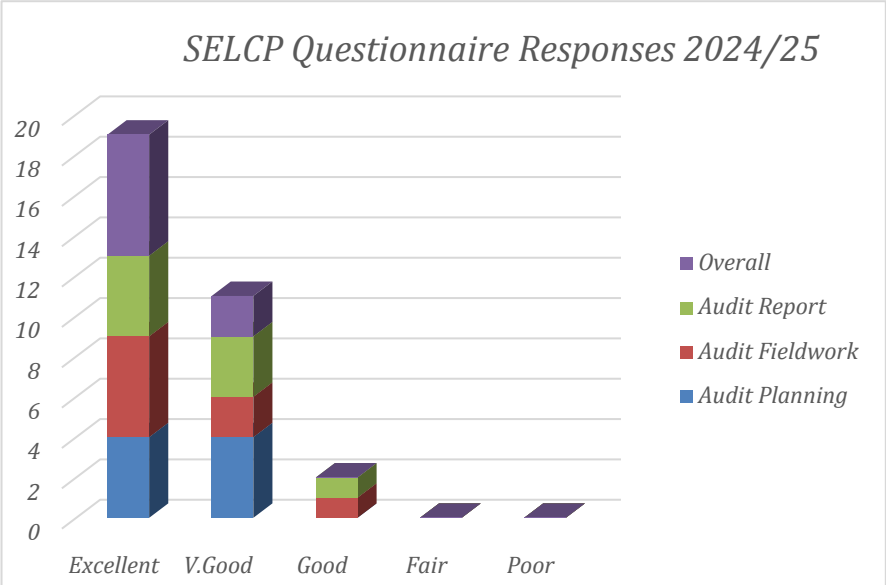
Feedback is an essential aspect of the audit programme and feeds into our internal quality assurance process. The format for feedback has been revised for 2024/25 to provide greater clarity on behaviours and actions of auditors from a client perspective and naturally supports the effective use of resources and conformance evidence with the new Global Internal Audit Standards.

ELDC officers have provided feedback responses for all requests from completed assignments. This supports a high level of management engagement with the feedback received being utilised to support continuous improvement within the audit team.

As part of the internal audit obligation to deliver continuous improvement the feedback process was digitised to aid efficiency for clients and improve internal analysis. The content for feedback was developed with a focus on each stage of audit delivery as well as professional attributes and engagement.

Figure 2 shows the feedback received to date from across the council for completed assignments. 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



	Excellent	V.Good	Good	Fair	Poor
Audit Planning	4	4	0	0	0
Audit Fieldwork	5	2	1	0	0
Audit Report	4	3	1	0	0
Overall	6	2	0	0	0

Update on Internal Audit Activity

The new Global Internal Audit Standards (GIAS) come into effect from April 2025. The audit team have maintained a focus on modifying procedures to demonstrate alignment with the revised Standards. Analysis of current practice against the revised Standards has been completed and an action plan developed for preparedness. There are no significant changes required to the methodology and delivery plans across the team. Work has focused on formalising aspects of current informal planning and preparation work. The Standards will require additional involvement from the Audit Committee which the Audit Manager will assist and support with.

The new Standards have a greater emphasis on accountability, purpose, wider understanding and professional behaviour as well as independence and audit committee communication. Shaped into five domains with underlying principles. Each principle contains standards relevant to that principle, there are in total 15 principles and 52 standards.

Domain three covers governing the audit function, there is greater emphasis and evidence required of engagement around the purpose of internal audit with senior management and members of the audit committee.

Since the last progress report in September 24, three audits have been delivered in accordance with the internal audit plan, which was approved by the Audit Committee on March 2024. The remaining audits planned for delivery in quarter four are progressing in line with plans. The outstanding audits are:

- Cyber Security.
- Staff awareness and training on cyber security.
- Capacity aims and priorities.
- Invest EL Follow Up.

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

Through an agreed formal follow up process internal audit follow up, test and evidence that management actions have been implemented. Greater reliance can be placed on this evidential testing that control improvements are implemented in a timely way.

Where actions have not been implemented new dates for completion are required from management. Changes to dates are reported to senior management and the audit committee, ensuring there is effective oversight and approval that agreed improvements to the control environment have not been actioned in the agreed timescales.

Analysis of Audit Reviews

The table below shows the audits completed since September 2024 along with details of the actions. The details of any overdue actions can be found in Appendix 1 and 2.

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Actions	Not Accepted	Not Yet Due	Completed				
								High	Medium	Low	Critical
2024/2025 Audits											
SLA's – SELCP and PSPS	September 2024	S151 Officer	Adequate	5	0	5	0	0	3	2	0
Treasury Management	September 2024	S151 Officer	Substantial	1	0	1	0	0	0	1	0
Bank Reconciliations	November 2024	S151 Officer	Limited	3	0	3	0	1	2	0	0
Housing Benefits and Council tax Support	December 2024	SLT	Substantial	1	0	1	0	0	1	0	0
Insurance	January 2025	S151 Officer	Limited	8	0	8	0	7	1	0	0
TOTAL				18	0	18	0	8	7	3	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. **There are two limited assurance reviews to report.**

Audit Review Title: Bank Reconciliations					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
Section 151 officer	Limited	Low 0	Medium 2	High 1	Critical 0
Summary of Key Observations:					
<p>Audit testing identified that bank account reconciliations were completed for eight of the nine accounts operated by the three councils in September 2024. The remaining account reconciliation is planned to be completed by the end of September 2024.</p> <p>Audit testing found that it had taken the team five months to improve the bank reconciliation position from where it was in April 2024. There remains one account unreconciled. As a result of the audit work undertaken and the available evidence showing the residual risks, the instability of routine, and inconsistent timely reconciliations, a rating of limited assurance has been awarded.</p> <p>Areas for improvement include:</p> <ul style="list-style-type: none"> Limited documented procedures in place meaning processes are not formalised or centrally recorded. Knowledge is retained by individual staff members. There are multiple accounts with different manual processes for reconciling them. There are continued impacts from staff turnover with two experienced leavers in August/ September 2024, one returning from long term absence, and a new starter joining in September. There is no documented service plan specific to bank reconciliation to inform training, develop formalised processes and support improved staff retention. 					

Bank reconciliation involves a different process for each account with high levels of manual intervention and limited system automation. This increases the risk of error and inaccuracies and may impact negatively from staff turnover due to loss of specific knowledge and experience.

A Unit 4 income system implementation project has commenced which aims to add functionality to bank accounts management by February 2025. No further systems improvement programmes are under development for bank reconciliations as the current management focus is attaining up to date bank reconciliations and then maintaining that status.

The service level agreements (SLAs) between the councils and PSPS set out expected delivery and performance reporting, including an agreed standard for monthly account reconciliations and related quarterly performance target reporting. Audit testing confirmed that reconciliations for seven accounts had been completed monthly in the last quarter, but two had not been. The timing and procedures for reporting details for quarterly performance targets had not been agreed at the time of the audit but management have confirmed they are now agreed and in place.

Audit Review Title: Insurance					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
Section 151 officer	Limited	Low 0	Medium 2	High 1	Critical 0
<p>Summary of Key Observations:</p> <p>The insurance service was outsourced to PSPSL as part of the SLA. PSPSL outsourced administration of the insurance service to TRF which included insurance contract renewal. Testing and staff interviews identified minimal evidence of overall responsibility, contract management, documented procedure and agreement and understanding of roles to support effective service delivery. The council were at risk of not being compliant with the 2015 insurance act. The financial and reputational risks of an ineffective insurance service will impact the councils.</p> <p>Internal audit review identified that there were no established processes for maintaining the council’s asset registers for insurance purposes. Consequently, this led to the 2024/25 insurance contracts re-tender exercise requiring postponement for a year and existing contracts being extended, which is not compliant with the councils’ procurement and contract regulations.</p> <p>Internal audit tested the current asset registers to insurance asset records and identified that records did not reconcile and presented as incomplete. From a sample test of 20 assets, six from council records could not be found on the insurance records resulting in a possible underinsured value of £426,000. This represents a 30% error rate against all identified insurable assets for the councils.</p> <p>Internal audit has identified high priority recommendations in this report. They are summarised below:</p> <ul style="list-style-type: none"> • Roles and responsibilities are defined and documented to ensure that across the three organisations, there is understanding on ownership, contract management, governance, risks and process. • Robust project management and planning is put in place to ensure the required insurance information is up to date and available for the 25/26 re-tender. • Risk management forms a key part of any insurance service improvement plan, and risks are developed and recorded on the appropriate registers with effective management oversight. 					

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: SLA’s – SELCP and PSPS					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
section 151 officer	Adequate	Low 2	Medium 3	High 0	Critical 0
Summary of Key Observations:					
<p>There is a process in place to agree annual SLAs and KPIs. The audit found that six SLAs had been completed on time and two had missed their deadline. A delay had occurred in signing off the HR SLA as a key piece of activity for the HR work programme (terms and conditions alignment) was to be considered at Council at each Authority in May. The Finance SLA although agreed after the deadline, represents a stepped improvement on previous years, when there was no SLA in place.</p> <p>Internal audit confirmed there are processes and policies in place that support effective monitoring and delivery of the expected outcomes set out in the SLA’s and supporting KPI’s. There are robust governance processes in place for liaison and reporting to senior management. Minutes from the meetings evidenced that KPI performance has improved on previous years and any individual service area concerns are discussed with actions recorded for monitoring and management.</p> <p>The audit found that there is an effective documented escalation process which provide the councils and PSPS with a process to support resolving operational issues. There are four stages to the escalation process and audit testing confirmed that all issues raised were resolved at the first stage of escalation.</p>					

Communication between the councils and PSPS is an area requiring improvement. Earlier notification of future projects which will have a major impact on council services would improve effective planning and collaboration.

The review identified three medium level recommendations that will strengthen processes. The findings relate to improved communications, documented process for additional mid-year new projects and agreeing SLAs on time.

Audit Review Title: Treasury Management					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
SLT	Substantial	Low 1	Medium 0	High 0	Critical 0
<p>Summary of Key Observations:</p> <p>The internal audit of the council’s treasury management function has provided a substantial level of assurance over the internal controls and processes tested. The review found that investment decisions were operated within the financial limits and other specific criteria approved in the treasury strategy for the three councils. There is a set borrowing position and testing confirmed compliance.</p> <p>There is adequate resource to manage treasury activities and appropriate cover is available while the recruitment for a vacant position is in progress. Internal Audit confirmed that treasury staff have received relevant training, and this is communicated to the respective audit committees on a regular basis</p> <p>A comprehensive record of investment activities is maintained and updated regularly while there is adequate segregation of duties in making investment decisions in alignment with the delegation of authority provisions.</p> <p>The review identified one low level recommendation that will strengthen the treasury process. To provide consistency and to mitigate against staff turnover impacting on service delivery in cash flow operations, documented processes/procedures should be completed and regularly reviewed.</p>					

Audit Review Title: Housing Benefits and Council tax Support					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
SLT	Adequate	Low 0	Medium 1	High 0	Critical 0
<p>Summary of Key Observations:</p> <p>The internal audit of the council’s housing benefit, council tax support and discretionary housing payments system provided a substantial level of assurance over the internal controls and processes tested.</p> <p>For a sample of claims covering all three councils, internal audit testing confirmed controls were working effectively to:</p> <ul style="list-style-type: none"> • Ensure the assessment process established the claimant’s eligibility against a set of criteria described by the department of work & pensions guidance. • Benefit entitlement was determined accurately for eligible claimants. • The correct amount of benefit entitlement was paid to the claimant. • Adequate arrangements were in place to recover overpayments. <p>In 2023/24, the value of local authority error for each council was: BBC £30,464, ELDC £76,402 & SHDC £16,477. Compared to the threshold set in the housing subsidy claim of: BBC £62,250, ELDC £136,335 & SHDC £54,785. As a percentage each council was below the threshold by 49% at BBC, 56% at ELDC & 30% at SHDC. As a result, all three councils were able to claim back 100% of their subsidy.</p> <p>The project to introduce enhanced revenues & benefits software at BBC has not yet been implemented. A previous internal audit in February 2024 found that BBC were operating a manual quality assessment process that was not as robust as the automated process in place at SHDC & ELDC and required additional resource. An action was agreed to align the software across the three councils to allow online service access for customers and online completion of key enquiries. The project was put on hold as the required funding was not available. There the audit was unable to provide any assurance for this area.</p>					

Funding has since been allocated (September 2024). There will be a programme developed to implement individual modules of the software as several individual projects. The planned start date is March 2025.

One medium recommendation has been made to ensure further delays to the project are avoided through efficient programme management and oversight arrangements being in place.

Planning and Resourcing

For 2024/25 we currently have sufficient resource in place to deliver the plan agreed for 2024/25, as agreed by the Committee in March 2024. The table below shows delivery progress for the audit assignments planned for the whole year of 2024/25. Whilst there is an indicative plan agreed, we retain a flexible approach to regularly reviewing our plan to ensure we can respond adequately to the council's risk needs and

profile should that change mid-year. Any changes or amendments will be shared with the committee along with risk-based rationale and any arising implications.

There has been one addition to the audit plan. Through discussion with the S151 officer, we have identified risks within the insurance function and have included an audit in Q2 to assess the controls and governance for insurance tendering processes and staff capacity and capability to manage the service.

Work Plan 2024/25

Audit Review	Audit Sponsor	Scoping	Audit Objective	Fieldwork	Draft Report	Final Report	Assurance Opinion or Equivalent
ASSURANCE WORK 2024/2025							
Q1 - PSPS SLAs and Performance	Senior Leadership Team (SLT)	Y	Y	Y	Y	Y	Adequate
Q1 - Performance Management	SLT	Y	Y	Y	Y	Y	Adequate
Q1 – Governance Consultation	SLT	Y	Y	Y	Y	Y	Consultancy
Q1 - Update CF policies	SLT	Y	Y	Y	N/A	N/A	Advisory
Q2 – Finance systems – Treasury Management.	SLT	Y	Y	Y	Y	Y	Adequate
Q2 – Finance systems – Housing Benefits	SLT	Y	Y	Y	Y	Y	Substantial
Q2 – Finance systems – Bank Reconciliations.	SLT	Y	Y	Y	Y	Y	Limited
Q2 – P-Card Follow Up	SLT	Y	Y	Y	Y	Y	Adequate
Q2 - Budget Monitoring	SLT	Y	Y	Y	Y		

Q2 – Insurance - NEW	SLT	∩	∩	∩	∩	∩	Limited
Q3 - Capital Programme / Towns Fund	SLT	∩	∩	∩			
Q3 - Follow Up Payroll Reconciliation	SLT	∩	∩	∩	∩	∩	
Q3 - Transformation	SLT	∩	∩	∩			
Q3 – Depots	SLT	∩	∩	∩			
Q3 - Combined Assurance	SLT	∩	∩	∩	∩		Assurance Report to Audit Committee March 2025
Q1/4 - Management Time	SLT						Not Applicable
Q4 - Capacity Aims and Priority	SLT						
Q4 – ICT Areas cyber security	SLT	∩	∩				
Q4 – Invest EL Follow Up	SLT						

Appendix 1

Overdue Medium and Low priority actions

Audit Review	Audit Sponsor	Priority	Agreed Action	Owner	Original Due Date	Current Due Date	Comments
Strategic Alliance 2021/22-08 - 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	31/12/2024	Sarah Baker A new Climate Change and Environment Impact Assessment Tool has been developed for the South and East Lincolnshire Councils Partnership and will be a requirement of all committee reports and new initiatives as part of the Project Management Framework from 1 February 2025. Officer and Member training will be undertaken in January prior to implementation - Evidence of the tool has been requested on 19/12/2024

SELCP 2024/25 - Governance Consultation	SLT	Medium	Set out the process for addressing non-compliance in the SLT report from Q1 24/25 and gather evidence of outcomes each quarter.	Suzanne Rolfe	31/12/2024	31/12/2024	<p>Quality assurance (QA) process implemented, to review the responses prior to sending them to SLT. This will include asking ADs for more information, discussing together at Corporate Governance Clinic, and advising the relevant DCX of issues in advance of the SLT report/meeting.</p> <p>There will also be trend analysis to identify persistent and/or wide-ranging issues and to encourage proactive management and continuous improvement.</p> <p>Request for an extension to the end of March 2025, to be able to provide evidence of implementation.</p>
SELCP Treasury Management 2024/25	SLT	Low	The cashflow forecast procedure will be documented and communicated to relevant staff.	Ellie Stacey	31/12/2024	31/12/2024	<p>Ellie Stacey-</p> <p>The work on statutory accounts backlog to meet the backstop date, and work on the income management project testing ready for the new system implementation in the new year has impacted our resource to deliver this action.</p>

							Request for an extension to the end of March 2025.
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