



SOUTH
KESTEVEN
DISTRICT
COUNCIL

Internal Audit Progress Report – September 2023

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’.

South Kesteven District 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.

South Kesteven District 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.

From June 2023, internal audit reviews culminate in a revised 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.

This is a change to the assurance categorisation used during 2022/2023.

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

Performance Dashboard

Figure 1

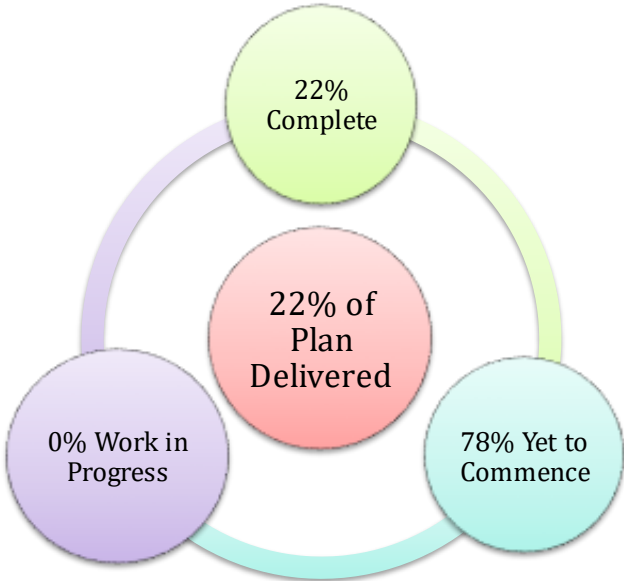


Figure 1 shows the completion of the internal audit plan to date. The team has been introduced to individually planning audit reviews to support timely delivery and reporting. Line managers are involved in the oversight of delivery plans for each audit and responsible for delivery on milestone agreed 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 South Kesteven 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. As no work for the 2023/24 Internal Audit Plan has been delivered, there is no feedback to share with the Committee.

We have requested feedback from the 22/23 finance audits, delivered since our last progress report but none has been received.

Figure 2



Update on Internal Audit Activity

There have been concerns raised with South Kesteven District Council about the conduct of officers involved in overseeing internal audit delivery, which had been escalated to the Head of Paid Service. During the internal audit work conducted to provide assurance on whistleblowing delivery, activity constituting a material breach of the Internal Audit Charter took place. This resulted in the termination of the contract for internal audit services with South Kesteven District Council. The contract for internal audit services will expire on 27 September 2023.

Since the last progress report, two reviews have been finalised, outstanding from 2022/23. These are for the accounts payable/creditors and accounts receivable/debtors assignments. An additional audit was completed outside the 2023/24 Internal Audit Plan looking at whistleblowing practices.

The debtors and whistleblowing reviews both received a no assurance opinion. The full debtors report is attached as Appendix 3.

None of the audits in the 23/24 internal audit plan have been scheduled for delivery or had engagement with developing the scope.

We regularly report on whether agreed management actions from audits have been implemented by the agreed implementation date. For the September Committee responses were received but we did

not receive a response to a follow-up request for clarification and update on the actions within the debtors' report. The overdue actions have been updated to reflect the limited response received with 19 being overdue, 11 of which are high priority. Further details are included in the following pages of this report.

The report is not able to provide any further information on audit recommendations agreed with the previous Internal Audit provider, as our requests for access to the system have not been responded to. Internal Audit recommends that the Committee should take steps to gain assurance that controls have been strengthened as a result of the internal audit work undertaken.

Since the commencement of 2023/24, internal audit has not had any liaison meetings with the Council's Section 151 Officer. Our requests for setting up regular liaison meetings have not resulted in arranging the required meetings. This represents a fundamental barrier to having an effective internal audit service and in creating a working relationship to support effective governance, risk management and internal control assurance.

Analysis of Audit Reviews

The table below shows the audits completed since April 2023 along with details of the position of (actions) as at 31 August 2023.

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Actions	Not Accepted	Not Yet Due*	Completed	Overdue			
								High	Medium	Low	Critical
Key Control Testing - Capital	Aug-23	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Substantial** Adequate	4	0	1	2	0	1	0	0
Key Control Testing - Accounts Receivable / Debtors	Aug-23	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Low** No	17	0	1	0	11	5	0	0
Key Control Testing - Accounts Payable / Creditors	Aug-23	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Substantial** Adequate	1	0	0	0	0	1	0	0
Whistle Blowing	Aug-23	Chair of the A&G Committee & Chief Executive	No	17	0	17	0	0	0	0	0
TOTAL				39	0	19	2	11	7	0	0
* This includes the actions which have extended their original due date.											
** Previous Assurance rating											
Overdue Management Actions - Direction of Travel since previous Progress Report								11	7	0	0
Previous report								0	0	0	0

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The table below shows the actions remaining to be implemented from reports issued prior to April 2023:-

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Actions	Not Accepted	Not Yet Due*	Completed	Overdue			
								High	Medium		
Risk Management	Sep-22	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Substantial	2	0	1	1	0	0		
Cyber Security	Nov-22	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Substantial	18	0	3	15	0	0		
Health and Safety	Mar-23	Director and Housing and Property	Substantial	9	0	2	6	0	1		
Housing Void Management	Mar-23	Director and Housing and Property	Limited	8	0	4	4	0	0		
TOTAL				37	0	10	26	0	1		
* This includes the actions which have extended their original due date.											
Overdue Management Actions - Direction of Travel since previous Progress Report								-	1	-	4

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: Key Controls – Accounts Receivable/Debtors					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
Chief Finance Officer (S151 Officer) & Deputy Chief Executive	Low / No	Low 0	Medium 5	High 12	Critical 0
Summary of Key Observations:					
<p>The review was undertaken as part of our routine audits of financial controls. We found significant issues with the oversight and monitoring, reporting arrangements, compliance with Financial Regulations, adherence to policy and roles and responsibilities. Specific areas include: -</p> <ul style="list-style-type: none"> • There is no internal policy or protocol for the management of sundry debts which sets out the expected standards of service and defines the responsibilities of the debt raising services and the Sundry Debtors Team. • Segregation of duties is a key principle of internal control but is severely limited within the finance system. Transactions such as raising invoices, credit notes and write offs are undertaken in the debtor’s system by one officer without the intervention of another. A new finance system is due to be implemented in April 2024. • There is an overall lack of transparency and oversight around credit notes raised. There is no formal approval process for credit notes, nor any independent checking, close monitoring or analysis for accuracy, legitimacy or compliance with the Financial Regulations. • No further action is routinely taken to collect or recover outstanding debts following the issue of reminder letters by the Sundry Debtors team. • No approved debts for write off between £50-£2000 were countersigned by an Assistant Director, as stipulated in the Financial Regulations. • The process for bad debts write offs has not been working effectively with £2.99 of bad debts written off since April 2022. 					

- There is no clear ownership or oversight of the customer master data, nor any robust controls in place to ensure its integrity such as the independent approval, checking or monitoring of new customers or amendments.
- The bank details used in the processing of refunds are not confirmed with the customer immediately prior to processing. In addition, there is no system reporting and monitoring of refunds processed or investigation of customer balances in credit.

The final report was issued to the CFO in July 2023, the full report is attached as Appendix 3.

Audit Review Title: Whistleblowing Incident					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
Chair of the G&A Committee	Low / No	Low 1	Medium 5	High 10	Critical 1
<p>Summary of Key Observations:</p> <p>The review has highlighted a significant number of high-risk areas that are not compliant with the required effective and transparent delivery around a whistleblowing investigation. The review found minimal evidence to support the outcome communicated to the Chair of the Governance & Audit Committee. The investigation presented as inadequate with minimal record keeping, structure, transparency and objectivity. There was no evidence of sufficiency checks or quality assurance processes being deployed. Statements made during the initial investigation could not be substantiated through the audit work and it was not possible to determine the content and content volume of the barrels sold. The full extent of following Health and Safety protocols could not be ascertained, and the timing and content of internal reporting was redacted from the evidence returned to the review. As a result of the restrictions placed upon the audit in determining actions, along with the unrecognised and inadequate investigation, a no assurance rating has been awarded.</p>					

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: Key Controls – Capital Programme Monitoring					
Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
Chief Finance Officer (s151 officer) & Deputy Chief Executive	Substantial/ Adequate	Low 0	Medium 3	High 1	Critical 0
Summary of Key Observations:					
<p>The review was undertaken as part of our planned audits of financial controls. There is a proactive accounting Team in place with a wealth of experience who regularly engaged with budget holders. There are also policies in place on Capital Programme management which include reporting and guidance on responsibilities. Clear processes are in place for the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee to scrutinise the financial update reports and specific projects.</p> <p>A number of recommendations were made to strengthen the processes in place, which included: -</p> <ul style="list-style-type: none"> • Reviewing the fault with the reports produced by the system to ensure that the monthly statement is accurate and negates the need for detailed checks. This has now been rectified and monitoring is being undertaken to ensure the output remains accurate. • The current process document did not fully reflect the actual processes in place and there were multiple versions in use. These have now been reviewed and version control implemented. • Introduce a job code function within the finance system to reduce the manual process of allocating purchase orders to projects. Whilst this was not possible within the current system it is something which is an aspiration for the new system so should be in place in April 2024. 					

- Review the commentary provided within the Committee reports to ensure that it contains sufficient accurate detail. Management have agreed to update the commentary within the reports to ensure that they are transparent and informative for Members.

Audit Review Title: Key Controls – Accounts Payable/ Creditors

Audit Sponsor	Assurance Opinion/ Equivalent	Management Actions			
Chief Finance Officer (s151 officer) & Deputy Chief Executive	Substantial/ Adequate	Low 0	Medium 1	High 0	Critical 0

Summary of Key Observations:

We reviewed a sample of invoices, supplier set ups and payment runs to confirm that controls were working as expected. Testing established in most cases controls were in place and operating as expected. Areas of good practice included adherence to financial procedures, monitoring and approval of payment runs. Our review of invoices found that they had been approved as expected, depending on their value in accordance with Financial Procedure rules. We were able to see on the E-financials system that budget managers had approved purchase orders where necessary and that invoices had been goods received.

New suppliers testing confirmed that satisfactory details had been received to ensure the supplier was bona fide. This includes independent verification of new supplier details, ensuring new supplier forms are completed and that details are received on headed paper. Evidence was held in all cases to support the creation of the supplier.

There was one area where we made a recommendation to help strengthen the controls,

- Processes within the Exchequer Team are revised to ensure that invoices are paid within the 30 days payment terms.
- The number of days taken to pay suppliers should be monitored with a target set to ensure as many invoices as possible are paid within 30 days.

Planning and Resourcing

Quarter 1 work has mainly focused on completing the audits carried over from 2022/23 and the Combined Assurance work. We have also taken time to discuss the requirements of the Council, reviewing our processes and putting an action plan in place to address the points raised following our first year of providing the service.

Section 7 shares an update on the delivery programme for the Council audits. This includes audit assignments from 2022/23 and 2023/2024. The report holds a maximum of two years of internal audit work to allow the progress and delivery to be monitored. As there has been a change to the assurance ratings applied to assurance work from 2023/2024, the equivalent updated rating has been included in blue for clarity.

Work Plan

Audit Review	Audit Sponsor	Scoping	Audit Objective	Fieldwork	Draft Report	Final Report	Assurance Opinion / Equivalent
ASSURANCE WORK 2022/2023							
Key Control Testing - Capital	Chief Finance Officer (s151 officer) & Deputy Chief Executive	✓	✓	✓	22/05/23	29/06/23	Substantial/Adequate
Key Control Testing – Accounts Receivable/Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	✓	✓	✓	19/05/23	19/07/23	Low/No
Key Control Testing – Accounts Payable / Creditors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	✓	✓	✓	01/06/23	14/08/23	Substantial/Adequate

Audit Review	Audit Sponsor	Scoping	Audit Objective	Fieldwork	Draft Report	Final Report	Assurance Opinion or Equivalent
ASSURANCE WORK 2023/2024							
Additional Work - Whistle Blowing Audit	Chief Executive, Chair of the Audit Committee	✓	✓	✓	✓	✓	No
Management Time	Chief Finance Officer (s151 officer) & Deputy Chief Executive & Chief Executive	✓	✓	✓	✓	N/A	Not Applicable
Payroll	Chief Finance Officer (s151 officer) & Deputy Chief Executive						
Asset Management	Chief Finance Officer (s151 officer) & Deputy Chief Executive						
Recruitment and Retention	Chief Executive						
Housing and Income Management	Director of Housing and Property						
S106	Director of Growth and Culture						
Operations	Chief Finance Officer (s151 officer) & Deputy Chief Executive						

Audit Review	Audit Sponsor	Scoping	Audit Objective	Fieldwork	Draft Report	Final Report	Assurance Opinion or Equivalent
Public Protection	Chief Finance Officer (s151 officer) & Deputy Chief Executive						
Risk Management	Chief Finance Officer (s151 officer) & Deputy Chief Executive						
Follow-Ups	CMT						
Combined Assurance	CMT						
Cyber Security	Chief Finance Officer (s151 officer) & Deputy Chief Executive						
Key Control Testing – Areas to be confirmed	Chief Finance Officer (s151 officer) & Deputy Chief Executive						

Appendix 1

Overdue High priority actions

Audit Review	Audit Sponsor	Agreed Action	Owner	Original Due Date	Current Due Date	Comments
SKDC 2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	A document to be produced to clearly show responsibilities; each service area, requester, authoriser, and authorisation limits.	Income Recovery Team Leader	19/06/2023	19/06/2023	Response not received
SKDC 2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Monthly reports to be included as additional information for budget monitoring meetings to show the number and value of customers set up, invoices & credit notes raised and write offs actioned.	Income Recovery Team Leader	01/08/2023	01/08/2023	Response not received
SKDC 2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Income Recovery Team Leader to review activities; identification of trends / patterns within a material threshold limit.	Income Recovery Team Leader	01/08/2023	01/08/2023	Response not received

Audit Review	Audit Sponsor	Agreed Action	Owner	Original Due Date	Current Due Date	Comments
SKDC 2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Monthly reports to be included as additional information to the budget holder to show number and value of credit notes raised.	Income Recovery Team Leader	01/08/2023	01/08/2023	Response not received
SKDC 2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Spreadsheet to be completed by the Sundry Debt Officer providing reason for credit note being raised, service area and requesting officer; identification of trends / patterns within a material threshold limit.	Sundry Debt Officer	01/08/2023	01/08/2023	Response not received
SKDC 2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Review the level of service provided by the external agency and will consider any changes to improve collection of aged debts.	Head of Revenues, Benefits and Customer Service	01/08/2023	01/08/2023	Response not received
SKDC 2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Additional information could be provided in the form of monthly reports to the budget holder to show number and value of aged debts.	Income Recovery Team Leader	01/08/2023	01/08/2023	Response not received

Audit Review	Audit Sponsor	Agreed Action	Owner	Original Due Date	Current Due Date	Comments
SKDC 2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	The Sundry Debt Officer will provide details of aged debt to the originating service area; relevant action to be taken by the service area.	Sundry Debt Officer	01/08/2023	01/08/2023	Response not received
SKDC 2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	A document will be produced to clearly show responsibilities; each service area, requester, authoriser, and authorisation limits. This will be produced in conjunction with the preparation for the introduction of Unit 4 in April 2024 as part of the project.	Income Recovery Team Leader	01/08/2023	01/08/2023	Response not received
SKDC 2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Reference tab linked to the financial regulations showing authorisers and their limits for each service area.	Income Recovery Team Leader	01/08/2023	01/08/2023	Response not received
SKDC 2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Additional information could be provided in the form of monthly reports to the budget holder to show number and value of write offs.	Income Recovery Team Leader	01/08/2023	01/08/2023	Response not received

Appendix 2

Overdue Medium and Low priority actions

Audit Review	Audit Sponsor	Priority	Agreed Action	Owner	Original Due Date	Current Due Date	Comments
2022/23 Key Control Testing - Capital	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Medium	Review the commentary reported, so although condensed, provides sufficient accurate detail.	Assistant Director of Finance	31/08/23	31/08/23	Aug 2023 - In the absence of a Q1 report to members the comments for P4 have been aligned to the most recent CMT report comments. Currently working closely with budget holders to improve the quality of monitoring comments.
2022/23 Health and Safety	Director of Housing and Property	Medium	Service areas will complete and retain a risk assessment log and provide to Corporate H&S for oversight	Health and Safety Manager	30/06/23	30/06/23	Aug 23 - This is ongoing business with all areas aided by the Corporate H&S officers to complete. As a result of the newly formed H&S working group work is ongoing to standardise the recording and management of risk assessments.

Audit Review	Audit Sponsor	Priority	Agreed Action	Owner	Original Due Date	Current Due Date	Comments
2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Medium	Additional information could be provided in the form of monthly reports to the budget holder to show number and value of write offs.	Income Recovery Team Leader	01/08/2023	01/08/2023	Response not received
2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Medium	Income Recovery Team Leader to review activities; identification of trends / patterns within a material threshold limit	Income Recovery Team Leader	01/08/2023	01/08/2023	Response not received
2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Medium	Name and job title of officers to also be included on the ATR	Sundry Debt Officer	01/08/2023	01/08/2023	Response not received
2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Medium	Clear line of authorisation to show officer/team leader, team leader/manager, manager/head of service etc	Sundry Debt Officer	01/08/2023	01/08/2023	Response not received

Audit Review	Audit Sponsor	Priority	Agreed Action	Owner	Original Due Date	Current Due Date	Comments
2022/23 Key Control Testing Accounts Receivable / Debtors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Medium	Income Recovery Team Leader to review activities; identification of trends / patterns within a material threshold limit	Income Recovery Team Leader	01/08/2023	01/08/2023	Response not received
2022/23 Key Control Testing Accounts Payable / Creditors	Chief Finance Officer (s151 officer) & Deputy Chief Executive	Medium	Processes to be reviewed and updated to ensure undisputed invoices are paid within 30 day payment terms.	Assistant Director of Finance	31/08/2023	31/08/2023	Response not received