BDO

South Kesteven District Council

Internal Audit Progress Report

March 2026

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Summary of 2025/26 work

Internal Audit

This report is intended to inform the Governance and Audit Committee of progress made against the 2025/26 internal audit plan. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Global Internal Audit Standards in the UK Public Sector. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks, which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

Internal audit methodology

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in Appendix 1 of this report and are based on us giving either 'substantial', 'moderate', 'limited' or 'no'. The four assurance levels are designed to ensure that the opinion given does not gravitate to a 'satisfactory' or middle band grading. Under any system we are required to make a judgement when making our overall assessment.
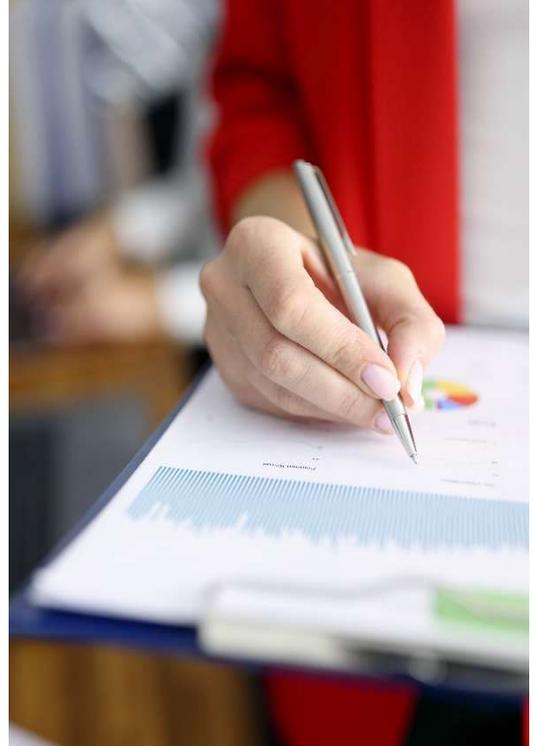
Internal audit plan 2025/26

We are pleased to present the following final report to this Governance and Audit Committee meeting:

▸ Accounts Payable

▸ Market Services

▸ Financial Systems and General Ledger.

Fieldwork is in progress in respect of the following audit:

▸ Stock Management.

We anticipate presenting this report at the next Governance and Audit Committee.

Review of 2025/26 work

AUDIT	EXEC LEAD	AUDIT COMMITTEE	PLANNING	FIELD WORK	REPORTING	DESIGN	EFFECTIVENESS
Climate Plan	Director of Housing	18 June 2025	✓	✓	✓	M	S
Payroll Access	Assistant Director of Finance	23 July 2025	✓	✓	✓	M	S
Voids Management	Director of Housing	24 September 2025	✓	✓	✓	M	M
Performance Management	Director of Housing	13 November 2025	✓	✓	✓	S	M
Treasury Management	Assistant Director of Finance	21 January 2026	✓	✓	✓	M	S
Building Control	Assistant Director of Planning	21 January 2026	✓	✓	✓	S	M
IT Strategy	Deputy Chief Executive	21 January 2026	✓	✓	✓	M	M
Accounts Payable	Assistant Director of Finance	18 March 2026	✓	✓	✓	M	S
Market Services	Deputy Chief Executive	18 March 2026	✓	✓	✓	S	M
Financial Systems and General Ledger	Assistant Director of Finance	18 March 2026	✓	✓	✓	M	S
Stock Management	Deputy Chief Executive	June 2026	✓	✓			

Accounts Payable

SRR REFERENCE: 4: INEFFECTIVE FINANCIAL MANAGEMENT

Design Opinion	**M** Moderate	Effectiveness Opinion	**S** Substantial

Recommendations	**0** **1** **1**

SCOPE

Areas reviewed

▸ Accounts Payable (AP) is a critical function within South Kesteven District Council (the Council), which is responsible for processing and managing payments to suppliers for goods and services received. Effective management of Accounts Payable processes ensures timely and accurate payments, helps maintain good supplier relationships, and supports in financial management and reporting.

▸ The Council's main financial system (Unit4) is used to process supplier invoices and payments. The Council transitioned to using Unit4 for more robust processing of transactions, with the old system lacking available updates to facilitate this.

▸ Most Accounts Payable transactions are recorded on Unit4, which records all aspects of the purchasing process; including requisitioning, goods receipted, invoice received, and payments. All payments must be approved through the appropriate approval limit as stated in the Scheme of Delegation (which forms part of the Unit4 Regulations). These purchases must still be processed using the requisition form and approved by the budget holder prior to an order being made.

▸ As part of the Internal Audit function's annual plan, a review of the Accounts Payable processes was conducted to provide assurance on the adequacy and effectiveness of the controls in place and to support the annual opinion on the Council's control environment.

AREAS OF STRENGTH

We identified the following areas of good practice:

▸ Accurate and Timely Processing of Accounts Payable Transactions were noted in all sampled transactions which confirmed that invoices were accurately recorded, correctly coded, and supported by appropriate documentation.

▸ Unit4 maintains a comprehensive workflow and transaction log that records invoice capture, coding, matching, approval, posting, and payment. This provides the ability to trace transactions from source documentation through to final payment, supporting transparency, accountability, and audit assurance.

▸ Purchase orders (PO) are consistently used across transactions processed in Unit4 with sufficient reasoning and approvals provided for transactions processed via old system without POs. Where invoices were PO-backed, matching, goods receipting, and approval controls were applied appropriately through Unit4 workflows.

▸ There is clear scheme of delegation evidenced in workflow evidence confirming that invoices were approved by officers with the appropriate level of delegated authority, including budget managers, project officers, and directors as applicable. There was clear evidence of compliance with approval requirements across all samples tested.

▸ Supplier setup, invoice processing, and payment runs, all operate within Unit4's workflow framework, providing a consistent control environment and reducing reliance on manual approvals outside the system.

	Finding	Recommendation and Management Response
AREAS OF CONCERN	Lack of formal management information and KPI reporting for Accounts Payable performance. While Unit4 contains relevant reporting functionality, this is not currently being used to support routine performance monitoring or risk identification **(Finding 1 – Medium).**	1a. Develop a formal Accounts Payable MI and KPI reporting framework. Key metrics such as invoice processing times, % paid within 30 days, PO compliance, aged creditors, unmatched invoices, supplier amendments and payment run exceptions should be agreed, monitored and routinely reported to senior management. 1b. Review the capability of Unit4 reporting and dashboards to support structured MI production, including the utilisation of Unit4's reporting and analytics functionality to automate monthly reports and enable consistent oversight of AP performance. Management Response 1a. The workflow functionality of the system providers daily reminders for council staff on what approvals are required to support efficient payment and processing of invoices. However, it is recognised this can be further developed with additional reporting. Officers are therefore actively working on updated metric reports for regarding accounts payable data taking learning and support from the software provider. 1b. As part of the scope for phase 2 regarding the ongoing development of the finance system the potential for developing dashboards regarding accounts payable metrics will be explored. Responsible Officer and Implementation Date 1a. Exchequer and Systems Manager 1b. Assistant Director of Finance 1a. June 2026 1b. June 2026

CONCLUSION

We conclude that the Council has a **Moderate** design and **Substantial** effectiveness of controls for the management of its Accounts Payable function.

Control Design

The control design is **Moderate** because there is generally a sound system of internal control designed to achieve system objectives with some exceptions. The Council has implemented a workflow-driven financial system (Unit4) with embedded approval routes, and sample testing demonstrated that invoices were accurately recorded, supported by appropriate documentation and approved in line with delegated authority.

However, overall control is weakened by the absence of a formal Management Information (MI) and key performance indicator (KPI) framework for Accounts Payable.

Control Effectiveness

The effectiveness of controls is assessed as **Substantial**, with controls in place noted as being consistently applied. Operationally, Accounts Payable transactions tested were processed accurately, appropriately authorised and supported by evidence, demonstrating that key processing controls are functioning in practice.

We recognise the scale and complexity of the Council's transition to a new financial system and acknowledge that Unit4 processes are still being embedded and refined. The improvement areas largely reflect the need to complete the formalisation and governance phase of the implementation, rather than fundamental failures in transactional processing.

Addressing these will strengthen the control environment, improve transparency and oversight, and provide greater assurance over the integrity and resilience of the Accounts Payable function.

Market Services

SRR REFERENCE: 3: SERIOUS HEALTH, SAFETY AND WELL-BEING FAILURE BY THE COUNCIL

Design Opinion	**S** Substantial	Effectiveness Opinion	**M** Moderate

Recommendations	**0**	**0**	**2**

SCOPE	**Areas reviewed**
	▸ We assessed the process for market fee collection, including reconciliation and record-keeping procedures, and assessed the progress in implementing cashless payment options.
	▸ We reviewed a sample of ten trader fee records across market days to verify whether correct rental charges were applied in line with published fees and charges.
	▸ We determined whether the Council had implemented steps to formalise market operatives' employment status and obtained a list of market operatives and for a sample of three employees tested their employment status to verify the existence (or absence) of signed contracts or terms of engagement.
	▸ We reviewed three past attendance records and shift rotas for selected markets to assess operational coverage and whether the markets were impacted by staff shortages or short notice cancellations.
	▸ We reviewed access controls to market facilities and validated whether unauthorised access, such as that by former employees or contractors, had been removed.
	▸ We reviewed progress against the Action Plan by assessing the status of each action item and identifying tasks that were incomplete or significantly delayed.
	▸ We reviewed supporting documentation, meeting minutes, and reports that tracked the progress of implementation. We assessed whether responsibilities were clearly assigned and whether management reporting provided adequate visibility into progress and challenges.
	▸ We assessed the status and adequacy of health and safety risk assessments and method statements to ascertain whether these had been completed and were up to date.
	▸ We investigated if the market operatives have completed appropriate training for manual handling and road safety by reviewing training records and materials.
	▸ We reviewed invoices and disposal records to determine if waste management expenses aligned with service use and confirmed whether waste disposal fees were consistently applied to traders generating excess waste.

AREAS OF STRENGTH	We identified the following areas of good practice:
	▸ Each of the three markets at Grantham, Stamford and Bourne has been identified as being well staffed on review of operational coverage as part of testing. This helps the Council mitigate any disruptions that might be caused by employee shortages or increased demand. The Markets Manager supervises planning of staffing levels, ensuring each market has sufficient coverage based on the expected number of traders.
	▸ The Council maintains risk assessments for both market operations and for driving to work. Market operation assessments are reviewed annually (with an observation

raised for the lack of annual update for the risk assessment for driving to work), with the next review due in March 2026, and are also revised accordingly in line with any incidents occurring at markets, ensuring they stay up to date with evolving health and safety issues. Incident reports are completed to help inform these updates, and the General Compliance Officer reviews the assessments to confirm adherence with the Council's health and safety arrangements.

AREAS OF CONCERN

Finding	Recommendation and Management Response
There were two low findings, the first being the lack of clear documentation of which training is mandatory for each role, which makes it difficult to confirm whether all necessary personnel are fully trained in line with their job requirements. The second, inconsistent and manual fee collection processes, with our tested sample of trader fees, noting instances of mischarging of fees.	Management Response and Responsible Officer and Implementation date Management has provided reasonable responses and has committed to show progress on improving these areas by 30 April 2026 for the finding regarding training and for dates ranging between 31 March 2026 and 30 September 2026 for the finding relating to trader fee collection and attendance sheets. The Responsible Officer for both findings is the Markets Manager.

CONCLUSION

We conclude that the Council has a **Substantial** design of controls and a **Moderate** effectiveness of controls for their Market Services and we have raised two low findings.

Control Design

The control design is **Substantial** because there is a sound system of internal control designed to achieve system objectives.

There was clear evidence of approved charging rates and mechanisms for this, training arrangements in place, and risk assessment arrangements. Therefore, core operational activity had the control designs in place to support the area to be set up to operate effectively.

Control Effectiveness

The control effectiveness is **Moderate** as there was evidence of non-compliance with some controls, that may put system objectives at risk.

There were areas of concern regarding the collection of fees across the three Council markets, with samples selected as part of testing identifying instances of traders either being undercharged (two occasions noted) or overcharged (one occasion noted).

We were also unable to confirm that all Market employees had completed role specific training to ensure compliance with Council policies and health and safety legislation, through the lack of structured tracking and escalation of non completion.

Financial Systems and General Ledger

SRR REFERENCE: 4: INEFFECTIVE FINANCIAL MANAGEMENT

Design Opinion	**M** Moderate	Effectiveness Opinion	**S** Substantial

Recommendations	**0**	**1**	**3**

SCOPE

Areas reviewed

▸ The Council's Financial Regulations and Scheme of Delegation to confirm the required approval thresholds for journals and virements.

▸ Tested a sample of five journals to assess whether these were authorised by an appropriate officer and supported by backing documentation.

▸ Selected a sample of five budget virements and tested to confirm that:

   ▸ Virements are supported by valid business justification and documentation

   ▸ Virements were authorised in line with the Council's Financial Regulations

   ▸ There are system controls to restrict virement processing to authorised staff only.

▸ Confirmed whether user access permission to the finance system is updated as required and user access logs periodically reviewed.

▸ Assessed the effectiveness of audit trail mechanisms for tracking user activities and changes to financial data:

   ▸ Verified whether audit logging is enabled for all critical financial data and processes

   ▸ Interviewed key system stakeholders from the Finance Team to assess the level of integrations between Unit4 and other feeder systems to determine the data flows and any inefficiencies or pain points identified.

▸ For a sample of control accounts from August 2025 onwards, we confirmed whether there have been reconciliations between Unit4 and other feeder systems and assessed the reconciliation processes between financial systems, including the frequency, timeliness, and accuracy of reconciliations.

▸ Examined the training plan developed for the new financial system, attendance records, ongoing support resources and change management process.

▸ For a sample of control accounts (three months from each of Payroll, Debtors, Creditors, VAT control accounts) we confirmed that reconciliations:

   ▸ Have been carried out in a timely manner, in line with Council expectations

   ▸ Reconciliations are signed and dated by both the preparer and an independent reviewer, maintaining a segregation of duties

   ▸ Discrepancies (where they exist) were investigated and documented.

AREAS OF STRENGTH

We identified the following areas of good practice:

▸ The Council has implemented some robust system controls within the Unit4 financial system to ensure user access is appropriately limited to the defined job role. Through a walk-through with the Exchequer and Systems Manager, it was demonstrated that user profiles are restricted to specific menus based on assigned roles and cost centres, preventing unauthorised access to functions outside the underlying responsibilities of

the user. However, it is important to note there were issues identified regarding the periodic review of access permissions, as detailed in Finding 1.

▶ Unit4 contains structured workflows that direct approval requests to users based on item value, ensuring efficient processing of key financial activities like purchase orders and invoices. Additionally, alerts for workflow blockages, such as when an employee leaves, allow administrators to promptly reroute tasks, maintaining smooth operations.

▶ The Council has collaborated with system developers to tailor the Unit4 system to meet operational needs, using feedback from Budget Managers to fine-tune workflows and authorisation limits.

▶ The Council's effective collaboration with developers during the Unit4 system's developmental stage ensured that data transfer from feeder systems, like Adelante, was smooth and tailored to operational needs. The Exchequer and Systems Manager, along with the Senior Accountant, confirmed no concerns regarding data transfer, supported by daily and monthly reconciliations to verify accuracy and comprehensiveness.

▶ The Council has established a comprehensive training programme for Unit4, ensuring staff are well-equipped to use the system effectively. This includes detailed process notes, quick cards, and videos accessible via the Unit4 SharePoint Hub, covering essential tasks and processes. Training presentations offer system demonstrations and guide attendees to additional resources. Similar materials are available for Procurement to Pay (P2P) and Source to Contract (S2C) processes. The Exchequer and Systems Manager monitors training completion, ensuring staff remain up to date, supported by accessible supplementary materials. While commendable practices have been identified regarding the resources available to staff managing financial processes within Unit4, it has been observed that the same level of quality in resources has not yet been established for system configuration processes, as detailed in Finding 2.

▶ Staff at SKDC have access to comprehensive support for the Unit4 system through both internal and external channels. Internally, queries can be raised with Unit4 leads, and a support ticket log is maintained to track and resolve issues, with guidance available via SharePoint. Externally, SKDC contracts Embridge for additional support, providing a ticketing system for key personnel to access expert assistance when needed.

AREAS OF CONCERN

Finding	Recommendation and Management Response
While the foundational elements of robust access controls have been established, certain controls have not yet been fully integrated into the Council's control environment. Specifically, these include periodic access reviews and mechanisms to monitor the activities of super users and system administrators. Additionally, we observed that formal procedures concerning the management of joiners, movers, and leavers have yet to be documented **(Finding 1 – Medium)**.	1a. The Council should implement a documented access management process for Unit4, defining the roles and responsibilities for access management, clearly stating what staff hold ownership for granting, amending and removing access. This should also include processes around how joiners/movers/leavers are added/amended/removed in Unit4. 1b. Unit4 access roles should be reviewed and reconfigured on a defined periodic basis, to take assurance that access rights and permissions are still reflective of current working practices. 1c. A defined periodic review of Unit4 audit logs should be undertaken to take assurance that those who do

		have enhanced system privileges are not abusing these powers.
		Management Response
		1a. There are some high-level process notes in place which will be further developed including who can approve system admin access. A new user access form is in place to formally record any changes to roles and when staff leave to support a full audit trail. There are safeguards in place with IT removing access to single sign on, so staff would be unable to access Unit4 after they have left in any eventually.
		1b. A user access report will be run and circulated to budget holders on a quarterly basis to check they are happy with the access their staff have to the system.
		1c. Unit4 audit logs will be reviewed by the Senior Accountant and Exchequer and Systems Manager on a quarterly basis to review system access activity.
		Responsible Officer and Implementation Date
		Senior Accountant and Exchequer and Systems Manager
		July 2026

CONCLUSION

We conclude that the Council has a **Moderate** design and **Substantial** effectiveness of controls for the management of general ledger processes and the Unit4 system.

Control Design

The control design is **Moderate** because there is generally a sound system of internal control designed to achieve system objectives with some exceptions. The Council has implemented a workflow-driven financial system (Unit4) with embedded approval routes, and some robust system controls around ensuring access is commensurate to job roles and that certain system functionalities are limited to individuals who require it.

However, overall control is weakened by the lack of controls around reviewing user access, checks to prevent unfettered access, journal authorisation, control account reconciliations and system procedural documentation.

Control Effectiveness

The effectiveness of controls is assessed as **Substantial**, with controls in place noted as being consistently applied. Operationally, general ledger transactions tested were processed accurately, appropriately authorised and supported by evidence, demonstrating that key processing controls are functioning in practice.

We recognise the scale and complexity of the Council's transition to a new financial system and acknowledge that Unit4 processes are still being embedded and refined. The improvement areas largely reflect the need to complete the formalisation and governance phase of the implementation, rather than fundamental failures in transactional processing.

Addressing these will strengthen the control environment, improve transparency and oversight, and provide greater assurance over the integrity and resilience of the financial processes conducted within Unit4.

Key performance indicators

QUALITY ASSURANCE	KPI	RAG RATING
The auditor attends the necessary, meetings as agreed between the parties at the start of the contract	All meetings attended including Governance and Audit Committee meetings, pre-meetings, individual audit meetings and contract reviews have been attended by either the Engagement Partner or Engagement Manager.	G
Positive result from any external review	Following an External Quality Assessment by the Institute of Internal Auditors in May 2021, BDO was found to 'generally conform' (the highest rating) to the International Professional Practice Framework and Public Sector Internal Audit Standards.	G
Quality of work	We received three responses to our audit satisfaction surveys for 2025/26 reviews, with an average score of 4.2/5 for the overall audit experience and for the value added from our work. The number of responses is lower than we would expect, and we will work with management team to increase the number of responses to our surveys during 2025/26.	G ↓ A
Completion of audit plan	We have progressed the 2025/26 Internal Audit Plan, with three audits presented to this Governance and Audit Committee meeting and other audits in the fieldwork or planning phase.	G

Appendix 1

OPINION SIGNIFICANCE DEFINITION

LEVEL OF ASSURANCE	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION	FINDINGS FROM REVIEW
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally, a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE DEFINITION

RECOMMENDATION SIGNIFICANCE	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

FOR MORE INFORMATION:

Gurpreet Dulay
Gurpreet.Dulay@bdo.co.uk

BDO