

# **AUDIT AND RESOURCES COMMITTEE**

**7 September 2021**

## **INTERNAL AUDIT MONITORING STATEMENT FOR THE PERIOD 1 APRIL 2021 TO 30 JUNE 2021 Report of the Chief Internal Auditor (Acting)**

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### **Recommendations**

**It is recommended that Audit and Resources Committee considers the Internal Audit Monitoring Statement for the first quarter of 2021/22.**

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### **Summary**

- The Annual Internal Audit Plan 2021/22 was approved by this Committee on 9 March 2021. Progress made against the plan for quarter 1 is now reported (Appendix A).
- Progress made on the implementation of Internal Audit recommendations is detailed in Appendix B.

### **Statutory Powers**

S.151 Local Government Act 1972  
Accounts & Audit Regulations 2015

## **Strategic Implications**

1. The Internal Audit Team provides independent assurance that the Council's risk management, governance and control processes are efficient, compliant, work effectively and support the ambitions of the Council. Internal Audit helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

## **Introduction**

2. The Internal Audit Plan 2021/22 was approved by this Committee on 9 March 2021. Performance against the Annual Audit Plan for 2021/22 will be reported to Members of the Committee periodically throughout the year as per the Internal Audit Charter which was approved by this Committee on 9 March 2021. This report is the first monitoring statement for the current financial year (2021/22) and outlines audit activity for the period 1 April 2021 to 30 June 2021, as summarised in appendices A and B.

## **Resources**

3. From 1 April 2021 the in-house Internal Audit Team comprises a Head of Internal Audit (currently vacant), one full-time Senior Internal Auditor (currently Acting Chief Internal Auditor), one full-time Auditor and one Audit Apprentice.
4. The Internal Audit Apprentice completed the Level 4 apprenticeship scheme early in 2021/22. The Chief Internal Auditor (Acting) is pleased to report that he will then continue his professional development with the Council through embarking on the Level 7 Internal Audit apprenticeship scheme. This will take approximately 3 years to complete and will result in the achievement of the professional qualification, Chartered Internal Auditor CIIA due to be completed by September/October 2024.
5. The Annual Internal Audit Plan 2021/22 requires 584 days, of which 491 will be resourced in house. The shortfall in resource of 93 days will be met by appointment of a casual auditor at a cost of £10,500.

## **Internal Audit Activity**

6. The Internal Audit Annual Opinion for 2020/21, presented to this Committee on 13 July 2021 confirmed that 12 of the 18 planned audits for 2020/21 had been completed with reviews of Asset Management, Corporate Governance, Treasury Management, Partnership Arrangements, Accounts Receivable and Payroll still to be completed. Work continues into quarter 2 of 2021/22.
7. Appendix A shows an analysis of planned days against actual days for the period 1 April 2021 to 30 June 2021. The Plan remains fluid and flexible and continues to be closely monitored by the Chief Internal Auditor (Acting). Further revisions may be necessary over the coming months and any revisions to the Plan will be agreed with this Committee.

8. During quarter 1, a total of 8.75 days was provided by the Internal Audit Team to support the Covid-19 response and 22 days to support the delivery of the May 2021 elections.
  
9. During the first quarter the following reviews carried forward from 2020/21 continued and will be subject to comment in a later Monitoring Report:
  - Asset Management
  - Corporate Governance
  - Treasury Management
  - Partnership Arrangements
  - Accounts Receivable
  - Payroll
  
10. During the first quarter the following reviews from the 2021/22 Annual Internal Audit Plan commenced which continue into the second quarter and will be subject to comment in a later monitoring report:
  - Fleet Management
  - Accounting for Fixed Assets
  - Strategic Planning
  - Small Works
  
11. During the quarter Internal Audit continued working with officers responsible for the development of new systems and processes and, as reported to this Committee previously, is responsible for reviewing and commenting upon systems of internal control prior to going live.

## **Audit Recommendations**

12. Appendix B provides details of the recommendations that remain outstanding from the 2019/20 and 2020/21 internal audits, along with the level of assurance given. It will develop over the coming year as 2021/22 audit work is completed.

At the time of writing this report 5 grade 2 (high risk) recommendations remain outstanding from 2020/21 and 10 grade 2 (high risk) recommendations from 2019/20. The Chief Internal Auditor (Acting) is currently satisfied that appropriate action is being taken to address the outstanding recommendations and considers that there are no matters that require escalation or further input from this Committee.

13. 2020/21 Audit Reviews:

- Local Taxation (Follow up review) (1 recommendation) - the 2019/20 review concluded that there was an adequate system of control but that the compliance against controls was limited. 26 recommendations were made, 4 of which were graded as priority 2 (high risk). All recommendations were followed up and eight recommendations have been restated, two of which are graded as priority 2 (high risk) and one further recommendation has been made. It should be noted that the impact of the Covid-19 pandemic has meant the payment of business support grants has taken priority and unfortunately staff have not been able to give the audit recommendations their full attention. An update has been provided to Internal Audit by the Senior Revenues Specialist which confirms that one of the priority 2 recommendations has been implemented and the second, regarding consideration to be given to alternative means of collecting money from long term debtors is in the process of being implemented; recovery methods are dictated by legislation but the Revenues Team will be taking part in a multi-agency risk management meeting which helps vulnerable residents who have multiple debts.
- Building Control Partnership – (1 recommendation) The review concluded that there was an adequate framework of control in place, however there is limited compliance with this framework of control. Although a Partnership Agreement between Eastleigh Borough Council and Southampton City Council is in place, the signing of a Deed of Variation to this agreement was placed on hold pending a complete review of the Partnership Agreement. As such, compliance to these 'control' documents is weak. Current Building Control processes and procedures between the Councils are not wholly reflected in the Partnership Agreement and therefore the governance is not adequately controlled. As a result, 9 recommendations were made, one of these was assessed as priority 2 (high risk) regarding the need to draft a new Building Control agreement immediately that reflects current practice, processes and procedures. Discussion between parties have taken place and a draft amended Partnership Agreement is under review by each authority. Adoption of the Agreement is anticipated this autumn.
- Accounts Payable – (1 recommendation) The review found that there is an adequate system of internal control for the Council's Accounts Payable process. 12 recommendations were made, 2 were priority graded 2 (high risk), 8 were priority 3 (medium risk) and 2 were priority 4 (low risk). The first of the grade 2 high risk recommendations was regarding the need to publish the revised contract standing orders; this has since been completed. The second high risk recommendation was the need to publish Late Payment Interest paid in line with the Public Contract Regulations 2015. The Chief Internal Auditor (Acting) has been advised that this will be completed by 27<sup>th</sup> August 2021.
- Commercial Rents Follow Up Review – (2 recommendations) Our last full review of Commercial Rents was carried out in 2019/20. That review concluded that there was a limited system of control and that the compliance against controls was also limited. The 25 recommendations arising from that review were followed up and it was found that 10 have been fully implemented, 3 have been partially implemented and 11 are still outstanding. One recommendation has not been restated as the risk has been accepted

and 1 new recommendation has been made. The outstanding 2 high risk recommendations are around storage and management of documents and electronic information, and maintaining adequate audit trails. The risks around data management were found to be managed as far as possible with the current system, and priority should be given to development and implementation of a new data management system.

- As the Petty Cash fund has been determined as no longer required and alternative satisfactory processes are in place should the need for this sort of expenditure arise utilising corporate credit cards, the creditor system, and payroll expenses; the recommendations have been removed.

#### 2019/20 Audit Reviews:

- Bank Reconciliation (2 recommendations) – these recommendations are regarding the need to produce a balanced reconciliation. The Executive Head of Finance and Housing Programme has advised that work continues to identify the specific cause of an imbalance of approximately £330 and should be completed by the end of the financial year.
- Accounting for Fixed Assets (Land and Property) (1 recommendation) – this recommendation is to reconcile the Computerised Land and Property System (CLP) with the Finance Asset Register as part of the development of a new Asset Management System. This has been delayed due to the new system not yet having been implemented; however, work is progressing to ensure data management is optimal for the reconciliation of both systems annually.
- Planning Fees (6 recommendations) – A plan for implementation of audit recommendations has been drafted and implementation dates are being agreed. Four of the original 10 grade 2 (high risk) recommendations have been implemented to date. Of the remaining 6 recommendations, 4 are unable to be resolved without a wider digital strategy input due to a wider corporate impact that expands beyond a Planning Fees issue that the Development Management service can resolve. The timetable for addressing these will need to be agreed as part of a wider review of the Digital Strategy. The final two recommendations are subject to ongoing work.
- Event Management (1 recommendation) – three grade 2 recommendations were originally made regarding a review by Legal Services of the published terms and conditions of using Council owned land to host events and a review of use of Salesforce Discussion Groups as a way of administering events. Two of the three have been implemented and it is planned that the remaining outstanding recommendation will be fully implemented by Autumn 2021.

14. Corporate Leadership Board has reviewed the positions with the implementation of audit recommendations and where necessary any outstanding non-responses to audit reports/recommendations are being pursued; or Corporate Leadership Board have considered the risk is worth delaying the implementation of the recommendations as other higher priority works have been undertaken instead.

## **Financial Implications**

15. There are no significant financial implications arising from this report. The report is intended to report on progress made against the Annual Internal Audit Plan 2021/22.

## **Risk Assessment**

16. The Chief Internal Auditor (Acting) must establish and maintain a system to monitor the disposition of audit results communicated to management. By not monitoring the progress made with the implementation of audit recommendations, the Chief Internal Auditor (Acting) would be failing to meet requirements of the Public Sector Internal Audit Standards and Internal Audit Charter. This report provides Management and this Committee with details of the progress made.
17. The Internal Audit team has been working remotely since 17 March 2020. The team are now able to access Eastleigh House where necessary to review physical records.

## **Equality and Diversity Implications**

18. The Equality Act is not relevant to the decision in this report and an Equality Impact Assessment has not been carried out.

## **Climate Change and Environmental Implications**

19. There are no proposals within this report to assess with regard to climate change and environmental implications.

## **Conclusion**

20. The planned time and actual time are closely monitored to ensure where possible any variation is kept to a minimum. However, variations do occur and where necessary any impact on the plan is reported to this Committee.
21. Work to complete the Audit Plan 2021/22 is being closely monitored against the impact of the Covid-19 pandemic as work to support the response and recovery is continuing.

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Appendices Attached: Two

## **LOCAL GOVERNMENT ACT 1972 - SECTION 100D**

The following is a list of documents which disclose facts or matters on which this report or an important part of it is based and have been relied upon to a material extent in the preparation of this report. This list does not include any published works or documents which would disclose exempt or confidential information.

- Internal Audit Plan 2021/22
- Internal Audit Charter 2021/22

## Appendix A

Internal Audit Monitoring Statement - Quarter 1 2021/22				
	2021/22 Total Plan Days*	Q1 Planned days	Q1 Actual Days	Variance
<b>Direct time (attributable to a specific audit review)</b>				
Major Systems	130	40.00	20.25	-19.75
Corporate Governance	26	0.00	0.50	0.50
Corporate Support	109	23.50	38.00	14.50
Corporate Systems	10	10.00	0.50	-9.50
Finance & Housing Programme	20	0.00	0.00	0.00
Assets & Project Delivery	20	0.00	0.75	0.75
Governance	35	11.25	2.50	-8.75
Customer Care	15	0.00	0.00	0.00
Organisational Development	30	10.00	10.75	0.75
Strategic Development	10	10.00	0.00	-10.00
Environment	10	0.00	0.00	0.00
Health & Wellbeing	8	0.00	0.00	0.00
Planning & Economy	15	0.00	0.25	0.25
Neighbourhood Services	30	10.00	15.25	5.25
Contract Audit	6	0.00	0.00	0.00
Members Scrutiny	10	0.00	0.00	0.00
Consultancy/Improvement (VFM)	20	0.00	2.50	2.50
Investigations	20	2.00	11.25	9.25
Prior Year Audit Completion	20	12.00	4.00	-8.00
Help & Advice	20	2.75	2.75	0.00
Covid-19 - Response and Support	20	3.00	8.75	5.75
<b>Total direct days</b>	<b>584</b>	<b>134.50</b>	<b>118.00</b>	<b>-16.50</b>
<b>Indirect time (not attributable to a specific audit review)</b>				
Annual Leave/Sick leave/Other leave		19.75	12.50	-7.25
Training/Management/Development/Admin		33.75	57.50	23.75
<b>Total in-direct days</b>	<b>243</b>	<b>53.50</b>	<b>70.00</b>	<b>16.50</b>
<b>Grand Total</b>	<b>827</b>	<b>188.00</b>	<b>188.00</b>	<b>0.00</b>

\* as approved by Audit & Resources Committee 9th March 2021



## Appendix B

### Progress of the implementation of Internal Audit recommendations - 2021/22 Quarter 1

Audit Title	Audit Risk Index* High (H), Medium (M), Low (L)	Evaluation Assessment	Testing Assessment	Date of Final Report	Date of Response	Grading						Agreed implementation date
						Total No. of recommendations (graded 1-4)	No. of Grade 1 (critical risk) recommendations - immediate action**	No. of Grade 1 recommendations fully implemented	No. of Grade 2 (high risk) recommendations***	No. of Grade 2 recommendations fully implemented	No. of Grade 1 or 2 recommendations outstanding/in progress	
<b>2021/22 Internal Audit Reviews:</b>												
Accounting for Fixed Assets	H	In progress										
Cash Collection & Banking	H	In progress										
Recruitment & Selection	M	Paused; the OD executive area is carrying out a corporate review and once completed then the audit can commence										
Fleet Management	H	In Progress										
Strategic Planning	H	In progress										
Construction & Maintenance	M	In progress										
<b>2020/21 Internal Audit Reviews:</b>												
Accounts Receivable (Debtors)	H	In progress										
Asset Management	H	In progress										
Petty Cash	L	Limited	Limited	28.10.2020	28.10.2020	9	0	-	2	2	0	n/a
Car and other Travel Loans	L	Limited	Adequate	15.09.2020	15.09.2020	13	0	-	3	3	0	n/a
Healthworks	L	Adequate	Adequate	28.08.2020	04.09.2020	12	0	-	2	2	0	n/a
Building Control Partnership	M	Adequate	Limited	18.06.2021	18.06.2021	9	0	-	1	0	1	31.10.21
Corporate Governance 2019/20 & 2020/21	H	In progress										
Treasury Management	H	In progress										
Budgetary Control	H	Adequate	Adequate	26.04.2021	26.04.2021	1	0	-	0	-	0	n/a
Climate & Environmental Emergency Strategy	H	Adequate	Adequate	08.02.2021	08.02.2021	9	0	-	0	-	0	n/a
Payroll	H	In progress										
Accounts Payable	H	Adequate	Adequate	21.05.2021	21.05.2021	12	0	-	2	1	1	27.08.21
Commercial Rents Follow Up Review	H	n/a	n/a	06.06.2021	06.06.2021	5	0	-	2	0	2	31.01.22
IT Healthcheck	M	Adequate	Substantial	24.02.2021	24.02.2021	2	0	-	0	-	0	n/a
Co-Wheels (Car Club) - Risk & Research Review	L	n/a	n/a	01.12.2020	n/a	n/a	-	-	-	-	-	n/a
Local Taxation Follow Up Review	H	n/a	n/a	07.12.2020	21.04.2021	9	0	-	2	1	1	30.10.21
Taxation: VAT, CIS and IR35 Follow Up Review	H	n/a	n/a	17.12.2020	21.12.2020	5	-	-	-	-	-	n/a
<b>Total 2020/21</b>						<b>86</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>9</b>	<b>5</b>	

Audit Title	Audit Risk Index* High (H), Medium (M), Low (L)	Evaluation Assessment	Testing Assessment	Date of Final Report	Date of Response	Grading						Agreed implementation date
						Total No. of recommendations (graded 1-4)	No. of Grade 1 (critical risk) recommendations **	No. of Grade 1 recommendations fully implemented	No. of Grade 2 (high risk) recommendations **	No. of Grade 2 recommendations fully implemented	No. of Grade 1 or 2 recommendations outstanding/in progress	
<b>2019/20 Internal Audit Reviews with outstanding recommendations</b>												
Bank Reconciliation	H	Limited	Limited	18.05.20	16.06.20	2	0	-	2	0	2	31.03.22
Accounting for Fixed Assets - Land & Property	H	Limited	Limited	02.06.20	27.07.20	7	0	-	1	0	1	31.03.22
Event Management	M	Limited	Limited	22.08.19	04.05.20	7	0	-	3	2	1	30.09.21
Planning Fees	M	Limited	Limited	11.06.20	20.07.20	32	0	-	10	4	6	TBC
One Horton Heath	H	Limited	Limited	15.01.21	21.12.20	24	0	-	8	8	0	n/a
<b>Total 2019/20</b>						<b>72</b>	<b>0</b>	<b>0</b>	<b>24</b>	<b>14</b>	<b>10</b>	
<b>Total (overall)</b>						<b>158</b>	<b>0</b>	<b>0</b>	<b>38</b>	<b>23</b>	<b>15</b>	

\* Risk index is taken from the Annual Plan as approved by the Audit & Resources Committee. Risk based strategy forms appendix 1 of the Annual Plan and provides further explanation of the process.

\*\* Grade 1 (Definition): Critical risk - A major or serious control weakness as a key control is either missing, failing or not being adhered to. Exposes the Council to a critical risk.

\*\*\* Grade 2 (Definition): High risk - A significant control weakness as key control is either missing, not working or not being adhered to. Exposes the Council to a high risk.