

# **AUDIT AND RESOURCES COMMITTEE**

**8 February 2022**

## **INTERNAL AUDIT MONITORING STATEMENT**

**FOR THE PERIOD 1 OCTOBER 2021 TO 31 DECEMBER 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 third 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 3 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 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 third monitoring statement for the current financial year (2021/22) and outlines audit activity for the period 1 October 2021 to 31 December 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, having completed the Level 4 apprenticeship scheme early in 2021/22, has commenced 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.

## **Internal Audit Activity**

5. Appendix A shows an analysis of planned days against actual days for the period 1 October 2021 to 31 December 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.
6. During the third quarter the following reviews carried forward from 2021/22 continued and will be subject to comment in a later Monitoring Report:
  - Asset Management
  - Treasury Management
  - Accounts Receivable
  - Payroll

7. During the quarter the following reviews from the 2021/22 Internal Audit Plan were completed:
- Accounting for Fixed Assets - the review has concluded that there is a good system of internal controls to ensure what is recorded in the Fixed Asset Register agrees to the Council's financial systems and the Statement of Accounts. Depreciation of the sample of fixed assets (VPE) examined had been calculated in-line with Council policies and IFRS (IAS16) standards. There is however a weakness in the current system of internal control in the physical verification/reconciliation of VPE fixed assets to the Fixed Asset Register (notably, but not exclusively, fixed assets recorded under 'vehicles'). As a result, nine priority 3 recommendations have been made. A new asset recording system had recently been introduced which should introduce controls to mitigate many of these recommendations.
  - Fleet Management - This review proved to be a high-level review of Fleet Management. Staff resource issues, migration of fleet data to a new fleet management system and working remotely meant that detailed testing was unable to be carried out. It should be noted that whilst there has been a global pandemic, a fully operational fleet service is still being provided during such difficult times. This is on top of difficulties with staffing resources and new fleet management systems and technologies being introduced; staff at The Depot should be commended for that. Nevertheless, this report has highlighted some potential control weaknesses, although the overall assessment is adequate. At the time of the audit, fleet management responsibilities appeared to be shared across a number of officers due to the vacancy of the Fleet Manager role; with an informal delegation of responsibilities. Delegation of responsibility needed to be formalised and approved - this has now been resolved. Fleetwave appears to have potential to provide a professional and fully integrated fleet management system which also now includes a stock control system. There are however potential weaknesses in controls currently because data is still being migrated from Roadbase and other hardcopy systems. Time and resource are required to ensure that Fleetwave is fully functioning as soon as possible, and key staff are fully cognisant with the new system. As a result, six priority 3 and three priority 4 recommendations have been made.
  - Strategic Planning - This audit has concluded that an adequate assurance opinion (both of Control and Compliance) can be drawn on the current system of internal control within the team. However, this review has also encountered some issues raised which has resulted in recommendations around the approval process being documented and easily available to staff demonstrating the steps followed when seeking approval of different types of strategic projects, and that there is a more complete record of the development of strategic recommendations which are then put to the relevant decision body as identified in the Constitution. It has been found that there is sufficient supporting evidence for the strategic work completed by the team. The drafting of some operational and objectives guidance notes has been recommended to ensure clarity across the team and the establishment of

an operational risk register for the team has been made. Seven priority 3 and one priority 4 recommendations have been made.

- Construction and Maintenance (Neighbourhood Services) (formerly Small Works – Direct Services) – (1 recommendation) – this is the first review conducted by Internal Audit in this area. The review has concluded that there was a limited system of control and that compliance against controls was limited. 15 recommendations were made, one of which was graded as priority 2 (high risk). This recommendation concerned services which were advertised on the EBC website as being offered by the team which were no longer available. It was recommended that the website be updated to ensure customers were provided with the correct information of services that were available. This recommendation has been addressed and the website updated.
- Corporate Governance – the Chief Internal Auditor (Acting) input into the annual governance review process as part of the annual review of governance arrangements overseen by the Executive Head of Governance. The Annual Governance Statement was approved by this Committee on 11 January 2022. The annual review of Corporate Governance will be included in the 2022/23 Internal Audit Plan.

8. During the third quarter the following reviews from the 2021/22 Annual Internal Audit Plan commenced which continue into the fourth quarter and will be subject to comment in a later monitoring report:

- Accounting System
- Housing Benefits & Council Tax Support
- Local Taxation (Council Tax & NNDR)
- Developers Contributions/CIL
- Bank Reconciliation Interim (follow up review)
- Planning Fees (follow up review) Transparency Code 2015 Compliance
- Information Legislation

9. During the quarter Internal Audit continued working with staff 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**

10. 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 continue to develop over the year as 2021/22 audit work is completed.

11. At the time of writing this report there are no grade 1 or 2 recommendations outstanding from the reviews completed in 2021/22 to date. Four priority 2 (high risk) recommendations remain outstanding from 2020/21 and nine priority 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.
12. 2020/21 Audit Reviews (4 recommendations):
- 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. 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 which that reflects current practice, processes and procedures. Discussion between the parties has taken place and the final draft of the Partnership Agreement is in circulation and is expected to be completed in Quarter 4.
  - Commercial Rents Follow Up Review – (2 recommendations) The 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. 1 recommendation has not been restated as the risk has been accepted and 1 new recommendation has been made. The

outstanding 2 priority 2 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 a review of development work is being undertaken. Work to improve storage and management of documents is underway and a plan of action and timeframes for implementation will be provided shortly.

2019/20 Audit Reviews (9 recommendations):

- Bank Reconciliation (2 recommendations) – these recommendations are regarding the need to produce a balanced reconciliation. Process notes have been drawn up and are currently at draft awaiting checking by a Finance Specialist, with detailed reconciliation work ongoing to achieve a balanced position. An internal audit update review is underway, working with the Chief Accountant and giving regard to the recent external audit results report findings.
- 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. The Executive Head of Finance & Housing Programme is comfortable that the two systems are not currently reconciled as there are processes within the accounting policies which ensures the Fixed Asset Registers are complete and the values are also checked by external audit 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 ten priority 2 (high risk) recommendations have been implemented to date. Of the remaining six recommendations, five are unable to resolve 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 recommendation is subject to ongoing work. Given the time that has elapsed since the audit was completed, it has been agreed that the Internal Audit Team will carry out a follow up review of the high-risk recommendations which began in Quarter 3, to assess the level of risk exposure.
- Event Management (1 recommendation) – three priority 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; the third, due to staffing changes, wasn't progressed but has been reassigned with the aim to prioritise completion during Spring 2022.

13. 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 are prepared to accept the risk in the short term when considered against other priority works across the Council.

### **Financial Implications**

14. 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**

15. 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.
16. The Internal Audit team has been working remotely since 17 March 2020. The team are now able to access Council owned sites where necessary to review physical records.

### **Equality and Diversity Implications**

17. 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**

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

### **Conclusion**

19. 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.
20. 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.

LISA SMY  
CHIEF INTERNAL AUDITOR (ACTING)

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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 2 2021/22

|  | 2021/22 Total Plan Days* | Q3 Planned days | Q3 Actual Days | Variance      |
|--|--------------------------|-----------------|----------------|---------------|
| <b>Direct time (attributable to a specific audit review)</b>       |                          |                 |                |               |
| Major Systems  | 130                      | 18.50           | 11.25          | -7.25         |
| Corporate Governance   | 26                       | 9.50            | 5.75           | -3.75         |
| Corporate Support  | 109                      | 28.75           | 14.00          | -14.75        |
| Corporate Systems  | 10                       | 9.00            | 0.00           | -9.00         |
| Finance & Housing Programme  | 20                       | 0.00            | 0.00           | 0.00          |
| Assets & Project Delivery  | 20                       | 0.00            | 0.00           | 0.00          |
| Governance   | 35                       | 11.00           | 10.00          | -1.00         |
| Customer Care  | 15                       | 3.00            | 2.75           | -0.25         |
| Organisational Development   | 30                       | 1.00            | 1.25           | 0.25          |
| Strategic Development  | 10                       | 0.00            | 0.00           | 0.00          |
| Environment  | 10                       | 0.00            | 0.00           | 0.00          |
| Health & Wellbeing   | 8                        | 0.00            | 0.00           | 0.00          |
| Planning & Economy   | 15                       | 19.50           | 28.50          | 9.00          |
| Neighbourhood Services   | 30                       | 4.00            | 4.25           | 0.25          |
| Contract Audit   | 6                        | 0.00            | 0.00           | 0.00          |
| Members Scrutiny   | 10                       | 0.00            | 0.00           | 0.00          |
| Consultancy/Improvement (VFM)                                      | 20                       | 3.00            | 3.00           | 0.00          |
| Investigations   | 20                       | 0.00            | 0.00           | 0.00          |
| Prior Year Audit Completion  | 20                       | 0.00            | 0.00           | 0.00          |
| Help & Advice  | 20                       | 12.00           | 4.25           | -7.75         |
| Covid-19 - Response and Support                                    | 20                       | 0.00            | 7.75           | 7.75          |
| <b>Total direct days</b>   | <b>584</b>               | <b>119.25</b>   | <b>92.75</b>   | <b>-26.50</b> |
| <b>Indirect time (not attributable to a specific audit review)</b> |                          |                 |                |               |
| Annual Leave/Sick leave/Other leave                                |                          | 26.25           | 26.25          | 0.00          |
| Training/Management/Development/Admin                              |                          | 40.50           | 64.50          | 24.00         |
| <b>Total in-direct days</b>  | <b>243</b>               | <b>66.75</b>    | <b>90.75</b>   | <b>24.00</b>  |
| <b>Grand Total</b>   | <b>827</b>               | <b>186.00</b>   | <b>183.50</b>  | <b>-2.50</b>  |

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

## Appendix B

### Progress of the implementation of Internal Audit recommendations - 2021/22 Quarter 3

| Audit Title   | Audit Risk Index*<br>High (H), Medium (M),<br>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   | Adequate              | Adequate           | 11.10.21             | 18.10.21         | 9   | 0   | -  | 0   | -  | 0   |                            |
| Accounting System                                   | H   | In progress           |                    |                      |                  |   |   |  |   |  |   |                            |
| Cash Collection & Banking                           | H   | Paused                |                    |                      |                  |   |   |  |   |  |   |                            |
| Recruitment & Selection                             | M   | Paused                |                    |                      |                  |   |   |  |   |  |   |                            |
| Fleet Management                                    | H   | Adequate              | Adequate           | 02.12.21             | 23.11.21         | 9   | 0   | -  | 0   | -  | 0   |                            |
| Strategic Planning                                  | H   | Adequate              | Adequate           | 12.11.21             | 12.10.21         | 8   | 0   | -  | 0   | -  | 0   |                            |
| Construction & Maintenance (Neighbourhood Services) | M   | Limited               | Limited            | 23.11.21             | 18.10.21         | 15  | 0   | 0  | 1   | 1  | 0   |                            |
| Housing Benefits & Council Tax Support              | H   | In progress           |                    |                      |                  |   |   |  |   |  |   |                            |
| Local Taxation (Council Tax & NNDR)                 | H   | In progress           |                    |                      |                  |   |   |  |   |  |   |                            |
| Developers Contributions                            | H   | In progress           |                    |                      |                  |   |   |  |   |  |   |                            |
| Bank Reconciliation (Interim follow up review)      | H   | In progress           |                    |                      |                  |   |   |  |   |  |   |                            |
| Information Legislation                             | H   | Draft report issued   |                    |                      |                  |   |   |  |   |  |   |                            |
| Planning Fees (Follow up review)                    | H   | In progress           |                    |                      |                  |   |   |  |   |  |   |                            |
| Transparency Code 2015 - compliance                 | H   | In progress           |                    |                      |                  |   |   |  |   |  |   |                            |
| <b>Total 2021/22</b>                                |   |                       |                    |                      |                  | <b>41</b>                                 | <b>0</b>  | <b>0</b>   | <b>1</b>                                      | <b>1</b>   | <b>0</b>  |                            |

| Audit Title                            | Audit Risk Index*<br>High (H), Medium (M),<br>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>2020/21 Internal Audit Reviews:</b> |   |  |                    |                      |                   |   |   |  |   |  |   |                            |
| Accounts Receivable (Debtors)          | H   | In progress  |                    |                      |                   |   |   |  |   |  |   |                            |
| Corporate Governance                   | H   | Annual Governance Statement 2020/21 approved 11 January 2022 |                    |                      |                   |   |   |  |   |  |   |                            |
| Asset Management                       | H   | In progress  |                    |                      |                   |   |   |  |   |  |   |                            |
| Building Control Partnership Payroll   | M   | Adequate   | Limited            | 18.06.2021           | 18.06.2021        | 9   | 0   | -  | 1   | 0  | 1   | 31.10.21                   |
| Commercial Rents Follow Up Review      | H   | n/a  | n/a                | 06.06.2021           | 06.06.2021        | 5   | 0   | -  | 2   | 0  | 2   | 31.01.22                   |
| Local Taxation Follow Up Review        | H   | n/a  | n/a                | 07.12.2020           | Due<br>21.04.2021 | 9   | 0   | -  | 2   | 1  | 1   | 30.10.21                   |
| <b>Total 2020/21</b>                   |   |  |                    |                      |                   | <b>23</b>                                 | <b>0</b>  | <b>0</b>   | <b>5</b>                                      | <b>1</b>   | <b>4</b>  |                            |

| Audit Title  | Audit Risk Index*<br>High (H), Medium (M),<br>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>136</b>                                | <b>0</b>  | <b>0</b>   | <b>30</b>                                     | <b>16</b>  | <b>14</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.