

Report to	-	Audit and Standards Committee
Date	-	11 December 2017
Report of the	-	Executive Director of Resources
Subject	-	Internal Audit Report to 30 September 2017

Recommendation: It be **RESOLVED:** That the Internal Audit report to 30 September 2017 be noted.

Audit Manager: Gary Angell

Introduction

1. The Council is required to ensure that it has reliable and effective internal control systems in place. The adequacy of these systems is tested by both Internal and External Audit.
2. The Council's Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards. It is a requirement of these Standards that we report to the Audit and Standards Committee on audit matters and any emerging issues not only in relation to audit but also to risk management and corporate governance.

Current Position

3. Good progress continues to be made on the work planned for 2017/18 and the annual Governance Audits are now well underway.

Summary of Activity to 30 September 2017

4. Four audit reports were issued in the quarter. All of these gave good or substantial assurance on the overall governance arrangements. However, the timescale for developing an action plan for compliance with the new General Data Protection Regulation (Data Protection Audit) needs to be kept under review since the new provisions must be in place by 25 May 2018. An overview of the findings arising from all four audits is given in Appendix A.
5. Work on four other audits (Leisure Centre Contracts, Emergency Planning, Joint Waste Contract – Central Admin, and Homelessness Prevention Grants and Loans) was also well underway as at 30 September 2017 but the completion of the latter was delayed as a result of the special investigation mentioned below.
6. Internal Audit has also been heavily involved with, and has contributed to the design of, the new Enterprise Resource Planning (ERP) system, which will replace the existing accounting and finance, payroll and income management systems and bring them together onto a single platform.

Special Investigation

7. A recent audit review of the procedures for awarding grants and loans to housing needs clients has identified a significant financial fraud, perpetrated by a member of the Housing Needs Team. Further investigation revealed that this employee generated 13 separate payments to a fake landlord over a 16 month period (March 2016 to July 2017) and this enabled the individual to defraud the Council of £12,550. The employee concerned has since been dismissed and the case is currently with the Police so no further comment can be made until the outcome of their investigation is known.
8. The fact that this fraud was identified by Internal Audit is testament to the diligence of their work, and its discovery almost certainly prevented further loss. A number of recommendations have been made to improve internal control as a result of the audit work/internal investigation and further information on the audit findings will be reported to the Audit and Standards Committee in March 2018.

Implementation of Audit Recommendations

9. Each quarter, Members are updated on the progress made on implementing the audit recommendations reported at previous meetings. Appendix B shows a summary of the current position.
10. Overall, good progress continues to be made regarding the implementation of audit recommendations in both the current and previous years. It is noted however that quite a few of the older recommendations (11 Medium and four Low) are yet to be fully implemented. In some cases this delay may well be due to other priorities and the increasing demands placed on those staff involved in corporate projects but the exact reason for the delay is not clear in all cases. The Audit Manager will therefore keep the situation under review and will escalate any cases where there has not been sufficient progress to the Executive Directors.
11. It is pleasing to report there are no longer any high risk recommendations outstanding now that the recommendation in respect of the Asset Management audit has been downgraded to medium risk. The reasoning behind this decision is explained in the update below.

Update on Single Source Asset Register

12. Members will recall that the Asset Management audit in September 2012 found multiple records were being used to record asset details, some of which were more up-to-date than others. To avoid the real possibility of decisions being made based on incomplete or inaccurate information the audit made a high risk recommendation which read as follows:

“The Estates Manager should work towards the implementation of a single source electronic asset management system and report to the Head of Regeneration [now Service Manager – Community and Economy] on the progress of this.”

13. After a period of systems evaluation, a new property management system (ePIMS) was adopted to address this issue in late 2014 and work commenced inputting data into the ePIMS property database shortly afterwards. However, despite considerable progress having been made since this date, the goal of a single source asset register is yet to be fully realised.
14. Members have previously expressed concern about the length of time this work is taking (Minute AU16/08 refers) and a detailed progress report was submitted to the Audit Committee by the Service Manager – Community and Economy in September 2016. This explained (a) why the progress at that time had been slower than expected, (b) the challenges faced, and (c) the earliest anticipated completion date, which was given as the end of 2017/early 2018. Members at that meeting accepted that the scale of the work required was much greater than anyone had originally anticipated and that it would take time to complete. Consequently it was agreed (Minute A16/15 refers) that no further updates would be required until December 2017.
15. It is now time for a further progress update and the Economic Development Manager has therefore provided the following statement:

“As at the end of October [2017] 294 holdings records have been completed out of 364, totalling 80% of holdings inputted and overall workload completed. Currently the completion of records is averaging at 26 holdings per month, so the work is estimated to be complete by the end of January 2018, subject to internal validations and checks by audit.

At present existing property records, including GGP [the Council’s GIS system], are continuing to be maintained and updated in parallel with ePIMS. Once the work of inputting data to ePIMS is completed to the satisfaction of the Economic Development Manager and Internal Audit a transition date will be fixed beyond which existing records will no longer be maintained and will be withdrawn from use. At that point ePIMS will be fully deployed as the single data source for property information.”
16. Given that the migration of property records to the ePIMS system is now at an advanced stage and the project is still on target to complete by early 2018, the Audit Manager has taken the decision to downgrade the risk from high to medium. A further progress update will however be obtained next quarter to confirm 100% completion. Internal Audit also plan to carry out a review of Asset Management in 2018/19 and this should pick up any residual issues.

Malcolm Johnston
Executive Director of Resources

Risk Assessment Statement

A strong, independent and well supported Internal Audit function ensures that the Council does not suffer from poor internal control systems.

PLANNING INCOME AUDIT**ROTHER DISTRICT COUNCIL**

Service Manager: Tim Hickling

Officer(s) Responsible for Implementing Recommendations: Christine Hyszka, Trish Triggie and Richard Wilson

Overall Level of Assurance: **SUBSTANTIAL**

Purpose & Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Processing Time – Applications are processed accurately and speedily in accordance with government guidance and/or targets set locally by management.	P
Scale of Fees – All fees and charges are reviewed and updated, as necessary, on an annual basis.	M
Planning Pre-Application Advice – Fees are correctly charged, and promptly receipted and banked. Responses are given within the stated timescale.	M
Planning Application Fees – Application fees are correctly charged, and promptly receipted and banked. All fees subsequently cancelled or refunded are authorised.	P
Reconciliation of Income – Amounts are properly recorded and reconciled to the main accounting system.	P

Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

The main issues found relate to:

- **Refunds** – Weaknesses were identified in the procedures for processing and recording refunds. No financial errors were found but the current monitoring reports are ineffective and the Ocella refunds screen is not always correctly updated when a refund has been approved.
- **Reconciliations** – No reconciliations between Ocella planning system and the Agresso financial accounting system are currently carried out to confirm that all income has been accounted for. Whilst it is accepted that the bulk receipting of Planning Portal payments make it extremely difficult to tie up the income, compensating controls can still be put in

place to mitigate any risk. Recommendations are therefore made in the report to strengthen existing controls in the absence of a formal reconciliation.

Both of the above issues were also raised at the last audit (July 2014) but have not been fully resolved despite management assurances that the matters had been addressed. The audit also highlighted other minor issues which were also raised at the last audit, notably:

- The five day planning application processing target is not always met and performance is only being monitored on an ad-hoc basis.
- No checks are currently made to ensure that income is correctly receipted to the correct budget.

In light of the above, the Audit Manager will be checking to ensure that the issues raised in this report are properly resolved this time around before treating any of them as implemented.

Executive Summary

Overall, the control objectives are considered to have largely been met but we have made two medium and four low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service
July 2017

CAR PARK INCOME AUDIT**ROTHER DISTRICT COUNCIL**

Service Manager: Brenda Mason

Officer(s) Responsible for Implementing Recommendations: Lisa Hayward-Bartlett and Sam Schwalbe.

Overall Level of Assurance: **SUBSTANTIAL**

Purpose & Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Cash Collection Contract – The Council's car park cash collection arrangements are covered by a suitably worded contract.	M
Other Car Park Income Contracts – The Council's arrangements for the collection of car park income via mobile phone apps and card payments made at the machines are covered by suitably worded contracts.	P
Income Collection and Security – All approved car parking charges are collected, the income accounted for, and recovery action taken in respect of unpaid standard charge notices. Arrangements exist to ensure the security of cash collected, and the safety of staff.	P
Contract Payments – All contract payments are correct.	M
Budgetary Control – All income and expenditure is correctly accounted for and the budget monitored and controlled.	M

Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

The main issue found concerns the need to improve control over car parking permit stock to ensure that all expected income can be accounted for.

Other areas where control could be strengthened were also identified at the audit but none of these are significant in nature.

Executive Summary

Overall, the control objectives are considered to have largely been met but we have made one medium and six low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service
August 2017

STAFF APPOINTMENTS AUDIT**ROTHER DISTRICT COUNCIL**

Service Manager: John Collins

Officer(s) Responsible for Implementing Recommendations: Maria Benford and John Collins

Overall Level of Assurance: **GOOD****Purpose & Objectives**

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Recruitment Process – There are satisfactory procedures to review and fill vacant posts, and all reasonable steps are being taken to confirm the suitability of candidates prior to an offer of employment being made.	M
Relocation Allowances – Relocation allowances are paid in accordance with the approved scheme.	M
Recruitment and Staff Retention Monitoring – Job advertisements are placed in the most appropriate media in order to attract quality candidates at best value for money. Analysis is undertaken to establish staff turnover by age, grade and department.	M

Level of Assurance

Based on the findings from the audit we have determined that good assurance can be given on the governance arrangements. Only one minor administrative matter was highlighted for improvement.

Executive Summary

Overall, the control objectives are considered to have been met but we have made one low risk recommendation to management to further enhance the governance arrangements.

Internal Audit Service
September 2017

DATA PROTECTION AUDIT**ROTHER DISTRICT COUNCIL**

Service Manager: John Collins

Officer(s) Responsible for Implementing Recommendations: John Collins

Overall Level of Assurance: **SUBSTANTIAL****Purpose & Objectives**

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Policies and Procedures – Relevant policies, guidance and procedures have been written and suitable training provided in order for the Council to be compliant with the Data Protection Act 1998 (DPA).	P
Data Control – Personal data is held securely and all processing complies with the eight principles of the DPA.	P
Subject Access and Freedom of Information Requests – A system is in place for responding to formal requests for personal data to ensure compliance with the DPA.	P
DPA Notification – The Information Commissioner has been sent a notification detailing the activities where personal information is processed.	M
General Data Protection Regulation (GDPR) – The Council has made sufficient arrangements to accommodate the changes in data protection law when the GDPR takes effect on 25 May 2018.	P

Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements. However, the audit highlights the need for improved control in several areas notably:

- **Training** – Some officers did not attend the last round of data protection training. It is important that all staff receive regular data protection training, and they are updated about the forthcoming changes in Data Protection regulations.
- **Privacy Statements** – Not all forms currently completed by customers include a clear statement about how their personal data will be used. A full review of the statements on all forms in use will therefore need to be carried out to ensure that they are compliant with both current and forthcoming legislation.

- **Safeguarding of Data** – Service Managers need to be reminded of the importance of ensuring sensitive personal data is locked away securely overnight.
- **New Legislation** – Management still need to draw up a plan of action for implementing the requirements of the GDPR.

The substantial assurance rating given to this report is based on the understanding that a plan of action for the implementation of the GDPR will be finalised by the end of October 2017.

Position Update as at 10 November 2017

The Service Manager (Corporate & HR) stated “Action plan is under discussion with partners at Wealden with a view to working in parallel. These discussions are likely to be finalised in December [2017]”.

Executive Summary

Overall, the control objectives are considered to have largely been met but we have made four medium and two low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service
September 2017

Summary of Progress on Recommendations Made up to 30 June 2017

Audit Recommendations 2012/13 to 2016/17

Previous quarter's performance shown in brackets

	Issued	Implemented		Work-In-Progress		Not Started	
High	22*	22	(21)	0	(1)	0	(0)
Medium	260*	249	(246)	8	(10)	3	(3)
Low	192	188	(186)	2	(3)	2	(3)
Total	474	459	(454)	10	(14)	5	(6)
		96.8%	(95.8 %)	2.1%	(2.9%)	1.1%	(1.3%)

* Figures adjusted to reflect subsequent downgrading of high risk recommendations to medium

Breakdown of outstanding audit recommendations for 2012/13 to 2016/17 by Service Manager/responsible officer:

Brenda Mason (Community and Economy)

- Asset Management – issued 28/09/12 (1 Medium) - downgraded from High

John Collins (Corporate and Human Resources)

- Data Protection – issued 09/07/13 (1 Medium)
- Payroll – issued 31/03/17 (1 Medium)

Kim Hodgson (ICT and Customer Services)

- ICT Governance – issued 20/03/17 (2 Low)

Madeleine Gorman – Waste Partnership Manager (Corporate Core)

- Joint Waste Contract – Central Admin– issued 02/11/16 (1 Medium)

Richard Parker-Harding (Environmental Services and Licensing)

- M3 Computer System – issued 06/02/17 (3 Medium, 1 Low)

Robin Vennard (Finance and Welfare)

- Procurement – issued 07/08/15 (1 Medium)
- Credit Management (Debt Recovery) – issued 22/09/15 (1 Low)
- Benefits – issued 31/01/17 (1 Medium)

Tim Hickling (Strategy and Planning)

- CIL and Section 106 Agreements – issued 25/10/16 (2 Medium)

Audit Recommendations 2017/18 (up to 30 June 2017)

	Issued	Implemented	Work-in-Progress	Not Started
High	0	0	0	0
Medium	4	1	2	1
Low	7	5	1	1
Total	11	6	3	2
		54.5%	27.3%	18.2%