

Report to	-	Audit and Standards Committee
Date	-	10 December 2018
Report of the	-	Executive Director
Subject	-	Internal Audit Report to 30 September 2018

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**Recommendation:** It be **RESOLVED:** That the Internal Audit report to 30 September 2018 be noted.

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**Audit Manager: Gary Angell**

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## **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 2018/19 and the annual Governance Audits are now well underway.

## **Summary of Activity to 30 September 2018**

4. Four audit reports were issued in the quarter. Two of these provided good or substantial assurance on the overall governance arrangements. However, the other two audits (Public Conveniences Cleaning Contract and Homelessness Prevention Grants and Loans) only provided limited assurance. An overview of the findings arising from all four audits is given in Appendix A.
5. The Public Conveniences Cleaning Contract audit received a limited rating because the contract paperwork (i.e. signed contract and performance bond) had still not been finalised at the time of the audit despite the contract having been in operation for over 15 months. A position update is given in Appendix A.
6. The Homelessness Prevention Grants and Loans audit was a follow up review of the 2017/18 audit which only received a minimal assurance rating owing to the major control weaknesses found and the discovery of a £12,250 fraud. Whilst some progress has been made to improve procedures since that audit, the latest report still received a negative (limited) assurance rating because

the new controls were not being consistently applied and management oversight was still found to be inadequate.

7. Work on four other audits (Procurement, Housing Temporary Accommodation, Treasury Management and ICT Network Security) was also well underway as at 30 September 2018.

### **Implementation of Audit Recommendations**

8. 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.
9. From this it can be seen that good progress has so far been made on current year recommendations. The number of older recommendations is also now starting to reduce following escalation to the Executive Directors, and it is hoped that further movement will be seen on many of the remaining cases over the next quarter.
10. At the last meeting, Members expressed concern that a 2015 Credit Management (Debt Recovery) audit recommendation was still outstanding. To recap, the audit found that there were no debt recovery targets in place despite the Debt Management Policy stating that targets should be set. It was therefore recommended that "Management should consider introducing targets for debt recovery in order to adhere to the Debt Management Policy" but this matter is yet to be resolved.
11. The Assistant Director – Resources supplied the following position update on 19 November 2018:

*"The review of the Council's Debt Management Policy continues to be delayed due to other higher priorities. The debt recovery processes for local taxation and sundry debts are well established and have been the subject of previous reports to Members. In terms of targets, this should always be 100% of debts properly due. However we know in reality that not all debt is recovered for a number of reasons. Historic collection performance is reflected in the Council's impairment calculations (i.e. bad debt provisions) which identify the different categories of debt. It is suggested that this should form the basis of monitoring performance on an annual basis."*

12. Any change of approach will however need to be reflected in the wording of the Debt Management Policy.

### **Assurance Map**

13. The Public Sector Internal Audit Standards require that the Audit Manager considers other sources of assurance as part of the planning process. The Internal Audit Team has therefore developed an 'assurance map' to assess the level of assurance provided.
14. An assurance map is a visual representation of the various assurance activities carried out across an organisation. Its purpose is to assist our understanding of the assurance received, to evaluate its adequacy and to highlight any potential gaps in coverage.

15. For this exercise, we first grouped the main sources of assurance based on the 'three lines of defence' model shown below.

First Line	Second Line	Third Line
The first level of the defence is the control environment – the business operations that perform day to day risk management activity.	Oversight functions such as the Strategic Management Team and individual committees which set directions, define policy and provide assurance.	Internal and external audit, and any other scrutiny or regulatory body that offer independent challenge to the levels of assurance provided by business operations and oversight functions.

16. We then assessed the effectiveness of each type of assurance across a number of key services and processes to produce the assurance map shown in Appendix C. Our assessment methodology is also set out in the accompanying document.
17. The assurance map uses a traffic light system to indicate the level of assurance obtained. Any gaps in assurance are highlighted in red.
18. The results of this exercise will be used to inform the Audit Plan for 2019/20. The Audit Manager will also update the assurance map in future years as part of the audit planning process.

Malcolm Johnston  
Executive Director

### **Risk Assessment Statement**

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

**ROTHER DISTRICT COUNCIL****PUBLIC CONVENIENCES CLEANING CONTRACT AUDIT**

Head of Service: Joe Powell

Officer(s) Responsible for Implementing Recommendations: Deborah Kenneally, Scott Lavocah and Lynsey Goodwill

Overall Level of Assurance: **LIMITED**

**Purpose and 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**).

<b>Contract</b> – The contract is properly authorised and the contract documentation complete.	<b>N</b>
<b>Monitoring Performance</b> – The performance of the Contractor is adequately monitored to ensure compliance with the terms of the contracts.	<b>M</b>
<b>Payments</b> – All contract payments are correct and within the authorised budget.	<b>M</b>
<b>Budget</b> – The budget is monitored and controlled.	<b>M</b>

**Level of Assurance**

Based on the findings from the audit we have determined that only limited assurance can be given on the overall governance arrangements. This assessment is wholly due to the fact that the contract agreement is yet to be signed (and a performance bond issued) despite the contract having been in operation since April 2017. Rother officers were unaware of this issue until it was highlighted at the audit.

The East Sussex Procurement Hub, who were responsible for handling the procurement of this contract, has acknowledged that the delay in completing the paperwork in this particular case has been unacceptable. However, more than ten weeks have now passed since this matter was first brought to the Hub's attention and the contract paperwork has still not been finalised. It is therefore important that management continue to liaise with the Hub and Legal Services to ensure that a signed contract and performance bond are obtained without further delay.

Apart from the above issue, most other aspects of the contract (including the work listed in the Services Specification), were found to be well controlled, although it is noted that the calculation of the annual uplift may need to be revisited once the final contract wording is agreed.

### **Executive Summary**

Overall, the control objectives are considered to have only been partially met and we have made one high and two low risk recommendations to management in order to improve the governance arrangements. All high risk recommendations and management's response to them will be included in the quarterly report to the Audit and Standards Committee.

Internal Audit Service  
July 2018

## PUBLIC CONVENIENCES CLEANING CONTRACT AUDIT – 2018/19

## ROTHER DISTRICT COUNCIL

## High Risk Recommendations and Management Responses

Audit Ref	Finding/Risk	Recommendation	Risk	Management Response
1.1	<p><b>Finding</b></p> <p>Although the current contract was awarded in April 2017, audit checks established that a formal contract document had never been signed and there was no performance bond in place. Rother DC officers were unaware of this issue.</p> <p>This matter was raised with the East Sussex Procurement Hub (ESPH) at the audit. The ESPH acknowledged that the delay in completing the paperwork in this particular case has been unacceptable and that it has therefore taken steps to improve its procedures. It also confirmed that the contract has now been passed to Legal Services for completion.</p> <p><b>Risk</b></p> <p>Failure to obtain the necessary contract documentation before the contract is in place will make disputes more difficult to resolve and could have serious financial implications for the Council.</p>	<p>Management should liaise with the East Sussex Procurement Hub and Legal Services to ensure that a signed contract and performance bond are now obtained for the Public Conveniences Cleaning Contract without further delay.</p>	High	<p>The Contracts Manager has made contact with the Hub several times since the lack of signed contract was discovered. The contract is currently still with Legal Services.</p> <p>The Neighbourhood Services Manager has issued a further email to the Hub requesting an update.</p> <p>Management will continue to chase progress with the Hub, until the signed contract and performance bond are forthcoming.</p> <p><b>Agreed Implementation Date</b></p> <p>Ongoing</p> <p><b>Responsible Officer</b></p> <p>Scott Lavocah/Deborah Kenneally</p> <p><b>Position Update</b></p> <p>Officers have continued to chase the Hub for the signed contract and performance bond.</p> <p>The latest update supplied by the Hub on 08/11/18 confirms that they have been awaiting further information from the Contractor in order to finalise the contract. The required information has only just been received and the Contractor has now requested that the revised contract is emailed to them for approval before it is issued for signature. This request has been complied with and the Contractor asked to complete this process as a matter of urgency.</p>

## ROTHER DISTRICT COUNCIL

**BUILDING MAINTENANCE AUDIT**

Head of Service: Joe Powell

Officer(s) Responsible for Implementing Recommendations: Alan Smith

Overall Level of Assurance: **GOOD****Purpose and 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**).

<b>In-House Repairs and Maintenance</b> – Work requests are properly authorised and checks are carried out to ensure the work is completed satisfactorily.	<b>M</b>
<b>Purchase and Storage of Supplies</b> – Payments to wholesale suppliers are properly authorised, certified for payment and paid promptly. Stock is held securely until it is used.	<b>M</b>
<b>Motor Vehicles</b> – Motor vehicles used by the in-house maintenance team are well maintained and properly insured.	<b>M</b>
<b>Health &amp; Safety</b> – The health & safety needs of building maintenance staff are properly assessed and suitable training and equipment is provided to enable them to carry out their duties safely.	<b>M</b>
<b>Use of External Contractors</b> – The use of contractors for building maintenance work is controlled, monitored and the work or service provided agreed prior to payment. Inspections are carried out in accordance with servicing contracts.	<b>M</b>
<b>Budget</b> – The budget is monitored and controlled.	<b>M</b>

**Level of Assurance**

Based on the findings from the audit we have determined that good assurance can be given on the governance arrangements as no significant issues were found.

### **Executive Summary**

Overall, the control objectives are considered to have been met and it was only necessary to make two low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service  
August 2018



## ROTHER DISTRICT COUNCIL

### HOMELESSNESS PREVENTION GRANTS AND LOANS AUDIT

Head of Service: Joe Powell

Officer(s) Responsible for Implementing Recommendations: Martin Bolton

Overall Level of Assurance: **LIMITED**

#### Purpose and 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.

#### Follow Up Review

When the arrangements for managing Homelessness Prevention Grants and Loans were last audited in 2017/18 only minimal assurance could be given owing to the major control weaknesses found and the discovery of a £12,250 fraud. A total of eight recommendations were made at that audit (including two high risk recommendations for urgent improvement). Management has since confirmed that the majority of these recommendations have now been implemented. This follow up review therefore aims to independently verify whether the changes made to date have improved the overall level of control and to highlight any issues which still need to be addressed.

#### 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**).

Homelessness prevention grants and loans are only paid to bona fide landlords in respect of clients in genuine need, and all loans are subsequently repaid.	<b>P</b>
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#### Level of Assurance

Based on the findings from the audit we have determined that only limited assurance can be given on the overall governance arrangements owing to the number of issues still outstanding.

Whilst some progress has been made to improve procedures since the last audit, the new controls are not being consistently applied and management oversight is still inadequate. Moreover, it was found that neither of the high risk recommendations made at the last audit (which were intended to help prevent fraud) have been fully implemented. Both of these recommendations are therefore reiterated in this report (albeit downgraded to medium risk in light of improvements made).

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Three main issues remain:

- **Authorisation of Payments** – Management need to carry out more thorough checks of supporting documentation prior to authorising payments.
- **Private Landlord Checks** – Proof of ownership should be obtained for all properties let by private individuals, or property investment companies. Whilst some Land Registry checks are being carried out these are not always obtained for the correct postal address and discrepancies are not being properly investigated.
- **Raising of Invoices** – The sundry debtor spreadsheet introduced to monitor the billing of clients in receipt of loans has not been kept up-to-date and a number of clients have not been invoiced as a result. Management checks to identify missing invoices have so far proven to be ineffective. [A list of all outstanding invoices was produced at the audit and passed to Finance for action.]

The report also highlights the need to obtain documented management approval for all grants advanced and for Housing Officers to take greater care when completing budget planners to ensure the rent is affordable and the client has the means to repay any loan that is advanced.

### **Executive Summary**

Overall, the control objectives are considered to have only been partially met.

Management checks in particular need to be more rigorously applied if the Council is to reduce the risk of further instances of fraud.

We have made five medium and one low risk recommendations to management, all of which are aimed at further improving the governance arrangements.

Internal Audit Service  
September 2018

**ROTHER DISTRICT COUNCIL****POLLUTION CONTROL AUDIT**

Head of Service: Richard Parker-Harding

Officer(s) Responsible for Implementing Recommendations: Cathy Beaumont and Paul Yates

Overall Level of Assurance: **SUBSTANTIAL**

**Purpose and 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.

**Limitations on Audit Coverage**

Although Environmental Services, Licensing & Community Safety operates as a shared service with Wealden District Council, this audit only reviews the controls in place for Rother District Council.

**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**).

<b>Inspections</b> – All authorised processes (air pollution) are regularly inspected to ensure compliance with specified conditions. Complaints are also followed up as appropriate, and other environmental factors routinely monitored.	<b>P</b>
<b>Enforcement</b> – All enforcement action is undertaken in accordance with the Enforcement Policy and the costs incurred by the Council recovered where possible.	<b>M</b>
<b>Budget</b> – All expenditure on pollution control is correctly incurred and within budget, and all income from authorised process collected.	<b>M</b>

**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 concerned the need to introduce periodic checks to identify new authorised processes operating in the district without a permit. Two such businesses were found at the audit. Whilst both of these cases will now be followed up, failure to identify other similar operators could potentially pose a risk to the environment and the health of the general public.

Minor issues were also found regarding the monitoring of overdue inspections and the late payment of subsistence charges.

**Executive Summary**

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

Internal Audit Service  
September 2018

## Summary of Progress on Recommendations Made up to 30 June 2018

**Audit Recommendations 2015/16 to 2017/18***Previous quarter's performance shown in brackets*

	Issued	Implemented	Work-In-Progress	Not Started
High	5	5 (5)	0 (0)	0 (0)
Medium	118	110 (108)	6 (5)	2 (5)
Low	98	94 (92)	4 (5)	0 (1)
<b>Total</b>	<b>221</b>	<b>209 (205)</b>	<b>10 (10)</b>	<b>2 (6)</b>
	<b>94.6%</b>	<b>(92.8%)</b>	<b>4.5%</b>	<b>(4.5%)</b>
			<b>0.9%</b>	<b>(2.7%)</b>

Breakdown of outstanding audit recommendations for 2015/16 to 2017/18 by Head of Service:

**Tim Hickling (Strategy & Planning)**

- Community Infrastructure Levy – issued 17/11/17 (1 Medium)

**Richard Parker-Harding (Environmental Services, Licensing & Community Safety)**

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

**Robin Vennard (Resources)**

- Credit Management (Debt Recovery) – issued 22/09/15 (1 Low)
- ICT Governance – issued 20/03/17 (1 Low)
- Internet and Email Controls – issued 05/05/17 (1 Medium)
- Data Protection – issued 22/09/17 (3 Medium, 1 Low)
- ICT Governance – issued 06/04/18 (2 Medium, 1 Low)

**Audit Recommendations 2018/19 (up to 30 June 2018)**

	Issued	Implemented	Work-in-Progress	Not Started
High	0	0	0	0
Medium	4	3	1	0
Low	3	2	1	0
<b>Total</b>	<b>7</b>	<b>5</b>	<b>2</b>	<b>0</b>
	<b>71.4%</b>	<b>28.6%</b>	<b>0%</b>	

Service or Process	First Line of Defence				Second Line of Defence			Third Line of Defence			Gap Analysis - Cumulative Points	Internal Audit - Assurance Gap Risk Analysis
	Functions that own and manage risk				Functions that oversee or specialise in risk management compliance			Functions that provide independent assurance				
	Management self assessments	Key Performance Indicators	Complaints Reporting	Strategy/Policy In Place	Strategic Management Team	Risk Management	Reporting to Members	Internal Audit	External Audit	Third party assurance/advice		
Asset Management	0		0	0	0	3	0	0			3	Low
Contract Compliance	3		5		0	3	0	3			14	High
Data Protection	0		0	3	3	0		0			6	Low
Environmental Services	0		0	0	0	3	0	0			3	Low
Financial Services	0		0	0	0	0	0	0	0		0	Low
Housing	5	3	3	0	3	3	0	5			22	High
Human Resources & Payroll	0		0	3	0	3		0			6	Low
ICT Security	0		0	3	0	0		0			3	Low
Planning	0	3	3	0	0	3	0	0			9	Medium
Procurement	0		0	3	0	3	0	0			6	Low
Revenues & Benefits	0	3	5		0	3	0	0	0		11	Medium
Risk Management	3		0	0	0		3	3			9	Medium
Treasury Management	0		0	0	0	0	0	0	0	0	0	Low

Processes Assurance Key and Scoring

Good Assurance

0

Moderate Assurance

3

Inadequate Assurance

5

Not Applicable

Assurance Gap Risk Analysis Key

Low Risk (0-6)

Low

Medium Risk (7-12)

Medium

High Risk (13+)

High

## Assurance Mapping Methodology

### ***First Line of Defence***

#### Management Self-Assessments

Ideally an exercise should be carried out by management to determine the levels of assurance they consider to be in place for processes under their control. This should be based on their opinion of the quality of internal controls, the quality of operational management, the experience and knowledge of staff etc. However, in order to complete this section of the map we have mirrored the Internal Audit assurance ratings. We have done this on the basis that management agree the Internal Audit reports and have an opportunity to challenge areas where they disagree. On the whole, Internal Audit reports are accepted by management (certainly at Head of Service level) without dispute.

#### Key Performance Indicators

The Council has a number of Key Performance Indicators (KPIs) that are reported to Members at the Overview and Scrutiny Committee. However, these do not cover all the services identified in the assurance map. Furthermore, there are some KPIs which are reported that are not included in the mapping exercise as the processes concerned are not considered to be areas of significant strategic risk - e.g. Customer Services.

In the three process areas identified where KPIs were applicable, at least some KPIs were behind target at the time of this exercise. In each instance, therefore, the assurance level has been rated “amber”.

#### Complaints Reporting

Details of all official complaints received by the Customer Services Team over the last 16 months were reviewed. The number of complaints upheld, partially upheld and not upheld in each service area was then recorded.

Clearly, complaints are most likely to be recorded against processes with direct services to customers as opposed to internal services. Consequently, the vast majority of upheld complaints related to the Joint Waste Contract (e.g. missed bins), and this is reflected in the score for Contract Compliance.

Our appraisal of complaints is based on a cumulative point score (5 points for an upheld complaint, 3 points for a partially upheld complaint and 0 points for claims not upheld) against each key process, with an overall determination of assurance based on the cumulative points total.

#### Strategy/Policy in Place

Any processes where an up-to-date policy or strategy is in place are rated “green”. Processes which are in place, but which are overdue a review are rated “amber”.

## ***Second Line of Defence***

### Strategic Management Team

The level of assurance in this section is based on the amount of senior management oversight and awareness of current issues in the listed areas. The scores shown were discussed and agreed with the Strategic Management Team.

### Risk Management

The Corporate Risk Register was reviewed to ascertain if risks have been identified and are being addressed. Items in “green” are processes which are under review as part of the risk register; items in “amber” are processes which are not included in the risk register.

### Reporting to Members

All processes where regular reports are made to Members are rated “green”.

Risk Management is rated “amber” as updates are only reported annually.

## ***Third Line of Defence***

### Internal Audit

Assurance ratings are based on Internal Audit findings on engagements carried out in the last two years. Any processes where there has been at least one minimal overall audit assurance rating or two limited audit assurance ratings are marked as “red”. Any processes which have had one limited audit assurance rating are marked as “amber”. Processes where all audits undertaken in the last two years have had a good or substantial audit assurance rating are marked as “green”.

### External Audit

The external auditors give assurance on the final accounts and the Housing Benefit subsidy claims. As no significant issues have been reported in recent years, all relevant processes have been marked as “green”.

### Third Party Assurance/Advice

Only one category was identified where this is applicable – Treasury Management. This relates to the advice provided by Link (formerly Capita), the Council’s appointed treasury management advisors.

### Scoring System

The scoring system is set out in the yellow box at the bottom of the assurance map. Points are awarded based on whether the assurance function provides good, moderate or inadequate assurance. These scores enable us to quantify the level of assurance received and identify those areas of higher risk where control may need to be improved.



### Gap Analysis – Cumulative Points

This column records the cumulate scores after all sources of assurance have been taken into consideration.

### Assurance Gap Risk Analysis

This column is aimed at prioritising areas for future Internal Audit assurance and consultancy exercises.

We have used the scoring system outlined above and banded the results into three categories; low, medium and high risk.