

Rother District Council

Report to	-	Audit and Standards Committee
Date	-	24 June 2019
Report of the	-	Executive Director
Subject	-	Internal Audit Report to 31 March 2019

Recommendation: It be **RESOLVED** that:

- 1) the Internal Audit report to 31 March 2019 be noted; and
 - 2) the Audit Manager's opinion on the control environment (paragraph 42) be approved.
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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. To be effective, Internal Audit must be (and be seen to be) independent from the activities it evaluates. Rother's Internal Audit Service achieves this by operating as an independent unit within the Corporate Core. It has unrestricted access to Senior Management; reports in its own name; and has no managerial responsibility for any of the systems it reviews. This enables Internal Audit to provide independent and objective assurance when reporting on the Council's activities.
3. In the year up to 31 March 2019, Internal Audit has operated in accordance with the Public Sector Internal Audit Standards (hereafter referred to as 'the Standards'). It is a requirement of the Standards that we report to the Audit and Standards Committee on audit matters and any emerging issues, not only in relation to audit but risk management and corporate governance.
4. In line with the Standards, the Audit Manager is expected to present an annual report on the performance of the Internal Audit Service and to provide an overall opinion on the Council's control environment.
5. The annual report must incorporate:
 - the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Standards and the results of the Quality Assurance and Improvement Programme.
6. The opinion expressed in this report provides an update on the one previously used to inform the Annual Governance Statement at the March 2019 meeting and is based on the results of all audit work completed in 2018/19.

Summary of Activity during 2018/19

7. The majority of the work planned for 2018/19 was completed. However, work on one audit (Software Licensing) was still ongoing at the year end and two other audits (Acquisition & Financial Management of ICT Facilities and Catering - Colonnade Café/Restaurant) did not proceed because the work is either covered elsewhere or no longer required.
8. Nine audit reviews were completed in the final quarter of 2018/19. Seven of these provided good or substantial assurance on the overall governance arrangements. However, the other two audits (Benefits and Creditors) only provided limited assurance. An overview of the findings arising from all nine audits is given in Appendix A.
9. The Benefits audit provided substantial assurance on the governance arrangements within the Benefits team, but a specific issue with the uploading of Benefits data into the main accounting system resulted in an extract report being issued to the Finance team which only received a limited assurance rating. Confirmation has since been received that this issue has now been resolved.
10. The Creditors audit highlighted a number of issues with the Accounts Payable module in the new U4BW system, many of which are build/configuration related. Whilst some teething problems are to be expected with a brand new system, only limited assurance could be given on this occasion owing to the number and nature of the issues found.
11. Appendix B shows a summary of all audit reports completed in 2018/19, the level of compliance and assurance rating for each review, and the overall performance of the Internal Audit team against the plan. NB – The details of all audit reports issued in the first three quarters of 2018/19 have already been reported to this Committee at previous meetings.

Implementation of Audit Recommendations

12. Each quarter, Internal Audit updates Members on the progress made on implementing the audit recommendations reported at previous meetings. Appendix C provides a summary of the current position. This shows that most of the long outstanding recommendations have now been cleared and only three 2017/18 recommendations are yet to be fully resolved. Good progress also continues to be made on the more recent recommendations.

Other Progress Updates

13. The following progress updates were requested by Members at previous meetings.
14. **Public Conveniences Cleaning Contract** – The audit report (issued in July 2018) 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 since April 2017.
15. Both documents have since been obtained as a result of management pressure on the East Sussex Procurement Hub and the contractor (Specialist

Hygiene Services Ltd) to resolve the issue. However, despite their best efforts, this process took far longer than it should have, had there been better cooperation. The signed contract was eventually obtained in January 2019 and the performance bond in April 2019.

16. **Homelessness Prevention Grants and Loans** – This 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 had 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.

17. The Head of Housing and Community has provided the following update:

“A desktop review of the process by the Head of Housing and Community Services in May 2019 established that the revised management control processes are proving effective. A random sample of files were audited and found to be compliant with the financial controls designed with Audit colleagues in 2017/18. The files sampled also confirmed that managers were overseeing the process and validating that financial controls had been followed ahead of final payments being authorised.”

18. **Procurement** – This audit found that there was no up-to-date procurement strategy (an issue first raised at the last audit in August 2015) and no service level agreement in place to formalise the current arrangements with the East Sussex Procurement Hub.

19. The Assistant Director Resources has provided the following update from the East Sussex Procurement Hub (ESPH):

Procurement Strategy – “In October 2018 the Local Government Association launched the National Procurement Strategy for Local Government highlighting the key areas that local authorities need to aspire to. As part of this process each Council was invited to complete a benchmark assessment against each of the key elements of the strategy. This was completed by ESPH and Council Officers and the outcome was received in February 2019. This highlighted the areas for improvement that the Council needs to aspire to and sets suitable targets for an updated Procurement Strategy. The Procurement Strategy is currently being produced on this basis and consultation with Council Officers and Members will take place over the next few months. Key areas in need of clarification are the role of tendering post Brexit and the development of a strategy that links to the current vision and values of the Council. It is anticipated that the revised Procurement Strategy will be presented to Cabinet in September 2019.”

Service Level Agreement – “The original Service Level Agreement between ESPH and Rother District Council was established in 2014. As Lead Authority, Wealden District Council have requested that a robust review of the service and charges takes place before a revised SLA is developed and issued to both Rother and Hastings. This is being undertaken to review the current level of service, the volume of support being provided and the value for money obtained by each authority. Part of this review will be to benchmark the ESPH

service against other Procurement Shared Services in the South East. It was anticipated that the outcome of this review, together with a draft SLA would be available for consultation in May 2019 but this has been delayed due to long term sickness of the relevant management team member at Wealden. It is anticipated that it will be ready for consultation in July 2019.”

Counter Fraud Work

20. In addition to compliance work, the Audit Manager also coordinates the National Fraud Initiative (NFI) data matching exercises and the whole Internal Audit team assist in the process of reviewing the matches. NFI match Council data both nationally (to other public sector organisations) and locally (between the authority's own records) to help prevent and detect fraud.
21. *National data match* – This exercise takes place once every two years and was last carried out in October 2018. All payroll, creditors and procurement matches have since been reviewed and no issues were found. However, the majority of the matches (87%) relate to housing benefit/council tax reduction cases and these will need to be reviewed by the Revenues & Benefits team and either dealt with in-house or referred to the Department for Work and Pensions for further investigation.
22. *Local data match* – This exercise is carried out every December and its primary purpose is to identify council tax payers who are wrongly claiming single person discount. The December 2017 review was completed during 2018/19 and this identified 12 errors resulting in £46,736 in savings. Work on the December 2018 matches is currently underway.
23. Internal Audit also allocates time each year to undertake other counter fraud duties. In 2018/19 this work primarily focused on council tax and business rates and a number of properties were identified which were either wrongly classified as empty, were in receipt of rate relief they were not entitled to, or required banding/rating by the Valuation Office. This work also uncovered several holiday lets which had not been declared. These cases were followed up with the help of colleagues in the Revenues & Benefits team and an additional £76,095 of revenue income is now being collected as a result.
24. Internal Audit has also secured £20,000 of former Department for Communities and Local Government funding from the East Sussex Counter Fraud Hub for use on counter fraud initiatives. Negotiations are currently underway with Hastings Borough Council with a view to using this money to jointly fund a fixed-term Investigator post to enhance the Council's capacity in this area.

Other Financial Savings

25. In addition to providing management with assurance on the adequacy of its control environment, routine audit work can also sometimes highlight financial errors which can result in savings (or increased income) once corrected. In 2018/19, a total of £43,897 in confirmed savings/extra income was identified as a by-product of this work. The errors found include a Section 106 debt which had been underpaid, business rate relief which had been wrongly applied, and other debts which had not been billed.

Quality Assurance and Improvement Programme

26. The Audit Manager is required to develop and maintain a Quality Assurance and Improvement Programme in order to evaluate the Internal Audit team's conformance with the Standards, to assess the efficiency and effectiveness of all Internal Audit activity and to identify opportunities for improvement.
27. The proficiency, effectiveness and quality of the Internal Audit team is monitored and improved through:
- annual self-assessments (Review of Internal Audit)
 - 5-yearly external (peer review) assessments
 - supervision and the review of all Internal Audit output
 - obtaining client feedback
28. The Audit Manager's latest self-assessment of his team's compliance with the Standards (Review of Internal Audit 2018/19) was approved by Members on 25 March 2019 (Minute AS18/37 refers). The review did not identify any significant issues and concluded that there is a high level of effectiveness overall.
29. The team's first external peer review was completed in April 2017 and the assessors' findings were reported to this Committee on 26 June 2017 (Minute AS17/14 refers). No significant issues were found and the report concluded that the Rother Internal Audit Service "generally conforms with the Public Sector Internal Audit Standards and general good practice for the profession".
30. Quality assurance questionnaires are used to capture client feedback. Two different questionnaires are currently used: one to obtain immediate feedback from the main contact at exit meetings (once the fieldwork is complete and draft audit report has been issued and discussed); and the other to get the Head of Service's overall opinion on the quality of all audit reports issued to them in the previous quarter. Questionnaire recipients are invited to rate the service provided as either 'good', 'fair' or 'poor' and are also encouraged to comment where improvement is required.
31. A summary of the responses received in 2018/19 is shown in the table below.

Questionnaire Type	Responses to Individual Questions					
	Good		Fair		Poor	
Exit Meeting (Main Contact)	101	97.1%	3	2.9%	0	0%
Head of Service Meeting	56	100%	0	0%	0	0%
Totals	157	98.1	3	1.9%	0	0%

32. These figures indicate that there is a high level of satisfaction with the quality of the Internal Audit Service.

Performance Measures

33. The Audit Manager closely monitors the performance of the Internal Audit team throughout the year to ensure that agreed targets are achieved. The table below shows the performance indicators and targets for 2018/19 together with the actual results for the year.

Performance Indicator	Target	Actual
Audit Plan – Percentage of governance audits completed.	100%	100%
Audit Plan – Percentage of overall audit plan completed.	90%	90%
Audit Assignments – Final reports issued within 15 days of second draft report.	90%	90%
Audit Recommendations – Percentage of “high” risk recommendations accepted by management.	100%	100%
Satisfaction/Feedback – Overall percentage of customers rating the Internal Audit Service as “Good” or “Fair”.	90%	100%

34. This shows that all of the targets for 2018/19 have either been met or exceeded.

Conformance with the Public Sector Internal Audit Standards

35. The results of the 2017 external peer review and the recent self-assessment exercise performed by the Audit Manager both show that Rother’s Internal Audit Service generally conforms with the Public Sector Internal Audit Standards.

Overall Assessment of the Council’s Internal Control Systems

36. A draft assessment (as at 31 January 2019) was reported at the last meeting. The Audit Manager has now reviewed the position again at the end of the financial year and he stands by his initial assessment of the issues and risks facing the Council with nothing further to add.

Opinion on the Control Environment

37. All audit reports are given an assurance rating based on the following criteria.

Rating	Description
Good	Strong controls are in place and are complied with.
Substantial	Controls are in place but improvements would be beneficial.
Limited	Improvements in controls or in the application of controls are required.
Minimal	Urgent improvements in controls or in the application of controls are required.

38. Limited/minimal assurance ratings are triggered by the presence of either high risk recommendations or five or more medium risk recommendations – which refer to the likelihood and impact of a negative outcome occurring if the expected controls are not in place.
39. In forming an overall opinion, Internal Audit findings need to be set in context and viewed corporately. Consequently the summary of completed audits provided at the last meeting has now been updated to incorporate the whole of 2018/19 and this is included in Appendix B.

40. From this it can be seen that six audits (28.6%) received a limited or minimal assurance rating. Whilst this may appear like a disappointing result when compared to the previous year, it should be borne in mind that several of the areas reviewed faced a particularly challenging year owing to either the implementation of a major new computer system (U4BW) or increased demand as a result of changes in Housing legislation. Moreover, only five of the 85 control objectives examined during the year had not been “met” at least in part and two of the affected audits (Benefits - Finance Extract and Public Conveniences Cleaning Contract) only received a limited assurance rating because of a specific issue which has since been resolved.
41. The quarterly Internal Audit activity reports submitted to this Committee have also shown that the vast majority of the expected controls are in place although it has been necessary to make a number of recommendations during the year where areas were identified for improvement.
42. In conclusion, whilst the above results indicate the overall performance of the Council’s control environment will need to be kept monitored, it is still possible to confirm that the draft opinion expressed at the last meeting remains unaltered. The Audit Manager’s overall opinion on the Council’s framework of governance, risk management and control in 2018/19 is therefore that it is adequate and effective.

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.

COUNCIL TAX AUDIT**ROTHER DISTRICT COUNCIL**

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Robin Vennard, Chris Watchman and Leah Ridgway

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.

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**).

Valuation and Liability – All taxable properties and liable persons are identified, and exemptions, discounts and disregards are correctly applied.	P
Billing – The Council complies with all statutory requirements for tax setting and amounts due in respect of each taxable property have been correctly calculated and payment promptly demanded.	M
Collection and Refunds – There is a sound system for the collection of income and the refund of overpayments.	M
Recovery and Enforcement – All arrears are promptly identified, and effectively pursued in accordance with statutory requirements/laid down procedures. All write-offs are valid and authorised.	M
System Reconciliation – Amounts are properly recorded and reconciled to the main accounting system.	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 highlighted in the report relates to concerns about the operation and monitoring of the Visiting Officer role. The report recommends that management consider introducing technology (e.g. digital cameras/tablets) to assist the Visiting Officers in their role, and to allow management to more effectively monitor inspections.

Minor issues were also found around the monitoring of outstanding Valuation Office Agency (VOA) notifications (i.e. council tax banding requests) and the effectiveness of write-off procedures.

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 and improve value for money.

Internal Audit Service
January 2019

BUSINESS RATES AUDIT**ROTHER DISTRICT COUNCIL**

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Chris Watchman and Leah Ridgway

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.

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**).

Valuation and Liability – All properties liable for business rates are identified and assessed, and all reliefs and exemptions correctly applied.	P
Billing – Business rates liability is accurately assessed and correct bills are issued to the occupiers of all rateable hereditaments.	M
Collection and Refunds – There is a sound system for the collection of income and the refund of overpayments.	M
Recovery and Enforcement – All arrears are promptly identified, and effectively pursued in accordance with statutory requirements/laid down procedures. All write-offs are valid and authorised.	M
System Reconciliation – Amounts are properly recorded and reconciled to the main accounting system.	M
Government Returns – The Council complies with Government reporting requirements and is paying the correct rating contribution.	M

Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements. A few issues were however found and these are outlined below:

- **New Builds** – A Building Works module has been introduced to monitor the progress of new builds. In theory, this should help ensure that all such cases are regularly inspected and promptly referred to the Valuation Office Agency (VOA) for rating once construction is complete. However, it was found that inspections

are not being carried out frequently enough meaning that there have been delays in identifying when properties are ready for rating. Supervisory checks are therefore required to ensure that progress on new builds is more closely monitored in future.

- **Mandatory Charitable Rate Relief and Rural Rate Relief** – Ongoing entitlement to these reliefs has not been checked for a number of years. The audit identified one business in receipt of Mandatory Charitable Rate Relief which ceased to be a registered charity almost three years ago. Two other instances were also found where Rural Rate Relief appears to be wrongly applied. These findings highlight the need for more frequent checks.
- **Irrecoverable Debts** – Management will need to seek retrospective Cabinet approval for a £5,903.92 debt which was written off in August 2018.

Executive Summary

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

Internal Audit Service
January 2019

ICT NETWORK SECURITY AUDIT**ROTHER DISTRICT COUNCIL**

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Graham McCallum

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.

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**).

Strategy and Responsibilities – A network strategy exists and standards and policies are in place to support its delivery.	P
Access Control – Connections and access to the network are approved and secure.	M
Network Configuration – The network is designed to maximise the effectiveness of data traffic and to minimise unauthorised access to the data transmitted over it.	M
Security Arrangements – Data is held securely and the risk of network failure is minimised.	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:

- **Computer and Server Rooms** – Access to these areas needs to be further restricted to protect business-critical network equipment from accidental or malicious damage.
- **Hardware inventory** – Some deployed hardware is not currently allocated to a named person or location. This needs to be corrected to ensure all equipment can be accounted for.

Minor issues were also found regarding the need to review and update the ICT Security Policy and network documentation.

Executive Summary

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

Internal Audit Service
January 2019

BENEFITS AUDIT

ROTHER DISTRICT COUNCIL

Head of Service: Robin Vennard

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.

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**).

New Applications and Changes of Circumstances – All applications are promptly and properly processed.	P
Benefit Assessment – Benefits are properly due and are calculated correctly.	M
Payment – Rent allowances are promptly paid to those for whom they are intended.	M
Overpayments – Overpayment of benefit, including those arising from fraud and abuse, are either prevented or identified and promptly followed up. Refunds and write-offs are properly authorised.	M
Reconciliation – Benefit payments are correctly applied and regularly reconciled to the main accounting system.	See extract report
System Administration – The computer system is kept up-to-date, access to benefit records, system parameters and creditor masterfile records are suitably restricted, and adequate segregation of duties is maintained.	M

Level of Assurance

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

The main issue found was in respect of processing timescales. The Council's poor performance in this area came under the scrutiny of the Department for Works and Pensions in early 2018/19 and an action plan was approved by the Overview and Scrutiny Committee to speed up the process and reduce the backlog of work. This

has already resulted in some improvement. No audit recommendation is therefore made at this time owing to the measures already taken to address this issue.

Problems were also found with the Academy Interface routine (as part of the Reconciliation checks). However, in view of the fact this process is solely controlled by the Finance team, this matter will be the subject of a separate extract report and given its own assurance rating.

Executive Summary

Overall, the control objectives are considered to have only been partially met because of the performance issue outlined above. However, it was not necessary to make any formal recommendations to management as a result of this audit.

Internal Audit Service
February 2019

BENEFITS AUDIT (FINANCE EXTRACT)

ROTHER DISTRICT COUNCIL

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Robin Vennard

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.

Extract Report

This is an extract from the Benefits report. The issues contained in this report have been dealt with separately from the main report (and given their own assurance rating) because they concern matters that are solely controlled by the Finance team.

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**).

Reconciliation – Benefit payments are correctly applied and regularly reconciled to the main accounting system.	N
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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 within the Finance team. This rating is solely due to problems with the Academy Interface outlined below

It is important that all expenditure recorded in the Academy (Revenues and Benefits) system is uploaded to U4BW (main accounting) system on a regular basis to ensure that it is correctly reflected in the financial accounts. This would normally be achieved by running the Academy Interface routine on a monthly basis. However, this is not happening frequently enough and knowledge of how to run the interface is currently limited owing to U4BW being a relatively new system. There are also concerns about the accuracy of some of the data uploaded and their impact on the bank reconciliation. Internal Audit has tried to seek assurance that these issues are being addressed but in the absence of key staff this has not been possible. Consequently, no assurance can be given as to the effectiveness and accuracy of the interface routine at this time.

Executive Summary

Overall, the control objective is not considered to have been met and we have made one high risk recommendation to management in order to improve the governance arrangements. The recommendation, and management's response to it, will be included in the quarterly report to the Audit and Standards Committee.

Internal Audit Service
February 2019

BENEFITS AUDIT (FINANCE EXTRACT)

ROTHER DISTRICT COUNCIL

High Risk Recommendations and Management Responses

Audit Ref	Finding/Risk	Recommendation	Risk	Management Response
5.1	<p>Finding</p> <p>No evidence could be provided at the audit to confirm that the interface between Academy and the main accounting system (U4BW) is working effectively.</p> <p>Risk</p> <p>Key information may not be recorded accurately in the main accounts leading to inaccurate financial reporting.</p>	<p>Management must take action to ensure that the interface routine is working properly and that this task can be carried out by more than one officer.</p>	High	<p>The Assistant Director advised that he will look into a range of options with a view to ensuring the interface routine is working properly before the end of the financial year. These include:</p> <ul style="list-style-type: none"> - Discussions with Embridge (the original U4BW project consultants); - Liaising with the Financial Systems Administrator; - Requesting the assistance of MERP (Embridge remote support) in carrying out this task; - The employment of a consultant if the above options do not resolve this issue. <p>Agreed Implementation Date</p> <p>March 2019</p> <p>Responsible Officer</p> <p>Robin Vennard</p> <div style="border: 1px solid black; background-color: #e0e0e0; padding: 5px; margin-top: 10px;"> <p>Position Update</p> <p>Confirmation has since been received that the interface routine is being run on a weekly basis and any lines that do not import automatically are identified and corrected by means of a journal entry.</p> </div>

CREDITORS AUDIT

ROTHER DISTRICT COUNCIL

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Luke Chapman, Angie Edwards and Ola Janowicz

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.

Background

The Council introduced the U4BW (Unit4 Business World) system in April 2018 replacing its legacy Agresso system. This is the first time the Accounts Payable module of the new system has been reviewed by Internal Audit. Given that the U4BW system is a brand new build, rather than an upgrade of existing software, it is almost inevitable that some issues will be found in the first year of operation as the system is still bedding in. However, problem resolution has been hampered in recent months by the absence of key staff in Finance and in System Administration.

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**).

Orders and Authorisation – Orders for goods and services are properly raised, authorised and confirmed in accordance with the Financial Procedure Rules.	P
Invoice Processing – Legitimate invoices are promptly paid once the goods or services have been received. Payments are made to the correct supplier for the correct amount.	P
Payment – All payments are properly authorised and run totals agreed.	M
Cheque Control – All cheque usage is controlled and recorded.	M

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 and nature of the issues found.

Audit Reports issued during Quarter to 31 March 2019

The main issues found relate to:

- **Leavers** – Access to the cloud-based U4BW computer system is not being promptly revoked when users leave the Council's employment.
- **Scheme of Delegation** – A Scheme of Delegation has been set up so that authorised users can approve invoice payments. However, there are a number of issues with the current configuration which need to be corrected. For example, some users are able to approve payments on cost centres which fall outside of their area of responsibility, and others have approval limits which appear inappropriately high.
- **List of Approvers** – It is a requirement of the Financial Procedure Rules that a list of approvers is maintained and authorised by the Executive Director (MJ) on at least an annual basis. No evidence could be found that this had been done for the new U4BW system at the time of the audit but a copy of the Scheme of Delegation (showing all approvers and their limits) has since been printed out and signed by the Executive Director.
- **Accuracy of Budgetary Reports** – Purchase orders for goods or services which are no longer required may be terminated on the system. However, these purchase orders often still appear in the outstanding commitments shown on budgetary reports after they have been cancelled making it difficult for the Accountancy team and budget managers to monitor spend.
- **Approval of Invoices With No Purchase Order** – Invoices with no purchase order can currently be coded and approved by the same officer, increasing the risk of error and fraud. This contravenes Financial Procedure Rules which require the involvement of two different officers in this process.
- **Invoice Tolerance Level** – Where the sum invoiced exceeds the value of the purchase order by 2.5% or more the system should require further authorisation prior to payment. However, this control does not currently work for all payments which exceed the invoice tolerance level.
- **Supplier Masterfile Changes** – All changes to supplier masterfile records should be subject to supervisory checks, especially those that involve changes to bank details. These checks are not happening regularly enough at present.

Executive Summary

Overall, the control objectives are considered to have only been partially met. We have made seven medium risk recommendations to management in order to improve the governance arrangements.

Internal Audit Service
March 2019

Audit Reports issued during Quarter to 31 March 2019

DEBTORS AUDIT

ROTHER DISTRICT COUNCIL

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Jamie Wilson

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.

Background

The Council introduced the U4BW (Unit4 Business World) system in April 2018 replacing its legacy Agresso system. This is the first time the Accounts Receivable module of the new system has been reviewed by Internal Audit.

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**).

Raising of Debtor Invoices – Debtor invoices are promptly and correctly raised in accordance with Financial Procedure Rules/Council policy.	M
Collection, Debt Recovery and Refunds – Procedures for the recovery of unpaid debts are documented and implemented. Direct debit income is collected on time. Refunds and write-offs are properly authorised.	M
Reconciliations and Provisions – The Council's accounts are updated to record all payments received.	N
Suspense Account – Unallocated payments are posted to a suspense account and promptly investigated and cleared.	M
Monitoring of Arrears – Debt collection performance is monitored.	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 audit found that whilst most day-to-day controls were operating satisfactorily there was still some uncertainty around the arrangements for making year end debtor provisions and for reconciling the Debtors Control Account in the new U4BW system at the time of the audit. This meant that no assurance could be given on compliance

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with the Reconciliations and Provisions section of this report and it is also the main reason for the overall assurance rating of “Substantial” rather than “Good”.

Executive Summary

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

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March 2019

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CASH AND BANKING AUDIT

ROTHER DISTRICT COUNCIL

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Jamie Wilson

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.

Background

The Council introduced the U4BW (Unit4 Business World) system in April 2018 replacing its legacy Agresso system. This is the first time the Income Manager module of the new system has been reviewed by Internal Audit.

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**).

Collection Procedures – Secure arrangements exist for the collection and recording of cash.	M
Receipt of Income – All collections and direct to bank credits are promptly, completely and accurately brought to account.	M
Banking of Income – All collections are promptly banked.	M
Reconciliation of Income – All income is promptly and accurately posted to the customers' accounts.	M
Bank Reconciliation – Arrangements are in place for the routine monthly reconciliation of the bank account to the accounting records.	M

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 largely been met and it was only necessary to make one low risk recommendation to management to further enhance the governance arrangements.

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ICT GOVERNANCE AUDIT

ROTHER DISTRICT COUNCIL

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Robin Vennard and Graham McCallum

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.

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**).

Access Control – ICT access security arrangements are adequate.	P
Security of Data – Data is held securely and can be recovered in the event of a disaster.	P
Change Control – Software updates and change controls are properly managed.	M

Level of Assurance

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

A number of control issues were however identified, notably:

- **New Users** – New employees are sometimes allowed to use the Council's computer network for several days before they receive ICT induction training or are required to sign up to the Council's Acceptable Usage Policy;
- **Leavers** – User accounts are not always promptly disabled when staff leave the Council's employ;
- **ERP System** – Password security needs to be improved;
- **ICT Continuity Plan** – The plan is not being properly maintained, and a new version has not been formally issued since April 2016. This has been an outstanding issue since the 2016/17 ICT Governance audit;
- **Server Updates** – The Council's mail servers need replacing to improve security.

Audit Reports issued during Quarter to 31 March 2019

Executive Summary

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

Internal Audit Service

Completed March 2019 (Issued April 2019)

PAYROLL AUDIT

ROTHER DISTRICT COUNCIL

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Maria Benford and Kirsty Goldsmith

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.

Background

The Council introduced the U4BW (Unit4 Business World) system in April 2018 and incorporated a new module replacing its legacy Payroll system in July 2018. This is the first time the Payroll module of the new system has been reviewed by Internal Audit.

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**).

Payroll Procedures – The payroll procedures operate in accordance with Financial Procedure Rules.	M
Authority for Payment – Pay and related costs are only incurred in respect of staff employed in authorised posts. All payments to new employees are calculated correctly and employees leaving the Council are promptly removed from the live payroll and their final salary payment correctly calculated.	M
Pay Awards and Other Salary Increases – Basic pay is correctly calculated in accordance with local agreements and all subsequent grading changes/increments are formally costed and approved.	M
Other Amendments to Pay – All other variations to pay must be authorised, complete, accurate and not previously processed.	M
Deductions – Statutory deductions are correctly applied, accounted for and paid over to relevant body in accordance with legislation and government/superannuation scheme requirements.	M
Payment – All salaries payments are prepared and issued appropriately.	P

Audit Reports issued during Quarter to 31 March 2019

System Reconciliation and Security of Data – The monthly salary bill is agreed and independently reconciled to the main accounting system. All computer records are protected against unauthorised access.	P
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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:

- **Segregation of Duties** – Two officers in the Human Resources team currently have full read/write access to the Payroll module in the U4BW system. Management should look to restrict these rights to ensure that proper segregation of duties is observed between the set up and payment of employees.
- **Access Rights** – Access to view Payroll data also needs to be further restricted.

A minor issue was also found around the completion of timesheets which has resulted in one part-time employee overpayment being overpaid. Action is now being taken to recover this money.

Executive Summary

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

Internal Audit Service
Completed March 2019 (Issued April 2019)

Audits Completed in 2018/19 and Overall Performance against the Audit Plan

Audit	Control Objectives (Number)	Control Objectives Met	Control Objectives Met In Part	Control Objectives Not Met	Assurance Rating
Audits Brought Forward from 2017/18 – Total 1, Completed 1 (100%)					
ICT Network Security	4	2	2	0	Substantial
Governance Audits – Planned 9, Completed 9 (100%) Note – Benefits is counted as 1 report					
Benefits	5	4	1	0	Substantial
Benefits – Finance Extract	1	0	0	1	Limited
Business Rates	6	5	1	0	Substantial
Cash and Banking	5	5	0	0	Good
Council Tax	5	4	1	0	Substantial
Creditors	4	2	2	0	Limited
Debtors	5	3	1	1	Substantial
ICT Governance	3	1	2	0	Substantial
Payroll	7	5	2	0	Substantial
Treasury Management	7	6	1	0	Substantial
High/Medium Risk Audits – Planned 13, Completed 10 (76.9%)					
Asset Management	5	4	1	0	Substantial
Building Maintenance	6	6	0	0	Good
Food Safety	3	2	1	0	Substantial
Homelessness Prevention Grants and Loans	1	0	1	0	Limited
Housing Temporary Accommodation	3	0	2	1	Limited
Joint Waste Contract – Client Admin	4	4	0	0	Good
Pollution Control	3	2	1	0	Substantial
Procurement	2	0	1	1	Limited
Public Conveniences Cleaning Contract	4	3	0	1	Limited
Section 106 Agreements	2	1	1	0	Substantial
Totals: 20 Audit Reports (24)	85	59	21	5	
	100%	69.4%	24.7%	5.9%	
Good/Substantial Assurance	15 (23)		71.4% (95.8%)		Note – Benefits had 2 assurance ratings
Limited/Minimal Assurance	6 (1)		28.6% (4.2%)		
Other Work Completed (No Report Required) – Planned 5, Completed 5 (100%)					
Colonnade Catering Set-up			Consultancy Work		
ERP System - Implementation			Consultancy Work		
ERP System – Preliminary Review of Controls			Pre-Audit Work		
GDPR Compliance			Consultancy Work		
Waste Contract (Replaced by other Consultancy Work)			Consultancy Work		
Audits Not Completed at Year End – Total 3					
Acquisition & Financial Management of ICT Facilities			Controls tested at other audits		
Catering – Colonnade Café/Restaurant			Audit no longer required		
Software Licensing			Work In Progress (30% Complete)		
Total Work Planned 2018/19	27 (28)		Percentage of Plan Completed 2018/19		
Total Work Completed 2018/19 <i>Excluding audits brought forward</i>	24.3 (26.8)		90.0% (95.7%)		

Previous year's performance in brackets.

Summary of Progress on Recommendations Made up to 31 December 2018

Audit Recommendations 2017/18

Previous quarter's performance shown in brackets

Risk	Issued	Implemented	Work-in-Progress	Not Started
High	2	2 (2)	0 (0)	0 (0)
Medium	38	37 (36)	1 (2)	0 (0)
Low	33	31 (30)	1 (2)	1 (1)
Total	73	70 (68)	2 (4)	1 (1)
	95.9%	(93.1%)	2.7%	(5.5%)
			1.4%	(1.4%)

Note – The number of recommendations issued and all other figures reported in the last quarter have been retrospectively adjusted (1) to reflect the removal of the 2016/17 audit recommendations from the period under review, and (2) to allow for one recommendation (ICT Governance) which has been downgraded from Medium to Low risk.

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

Robin Vennard (Resources)

- Data Protection – issued 22/09/17 (1 Medium, 1 Low) – concerning the need for further Data Protection training and the introduction of a corporate-wide document retention policy. Progress is currently being made in respect of both of these items.
- ICT Governance – issued 06/04/18 (1 Low) – concerning the need to test off-site disaster recovery procedures using hardware and facilities supplied by a third party provider. A testing exercise is yet to be arranged.

Audit Recommendations 2018/19 (up to 31 December 2018)

Previous quarter's performance shown in brackets

Risk	Issued	Implemented	Work-in-Progress	Not Started
High	2 (1)	2 (0)	0 (1)	0 (0)
Medium	20 (10)	13 (9)	4 (1)	3 (0)
Low	16 (10)	12 (6)	1 (4)	3 (0)
Total	38 (21)	27 (15)	5 (6)	6 (0)
	71.0%	(71.4%)	13.2%	(28.6%)
			15.8%	(0%)