

Rother District Council

Report to	-	Audit and Standards Committee
Date	-	22 June 2020
Report of the	-	Executive Director
Subject	-	Internal Audit Report to 31 March 2020

Recommendation: It be **RESOLVED:** That:

- 1) the Internal Audit report to 31 March 2020 be noted; and
 - 2) the Audit Manager's opinion on the control environment (paragraph 37) 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 2020, 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 previous meeting and is based on the results of all audit work completed in 2019/20.

Issues Impacting on the Delivery of the 2019/20 Audit Plan

7. Like many other Council services, 2019/20 proved to be a challenging year for Internal Audit. Firstly, work was already running behind schedule about halfway through the year owing to audit overruns and other circumstances beyond its control. Then, just when progress was being made to catch up (as indicated by the number of audits completed in the final quarter), the coronavirus outbreak hit.
8. One auditor had to self-isolate at an early stage of the crisis, thereby reducing the capacity of the team by one-third. This happened at a time when all Council staff were being encouraged to social distance and/or work from home which quickly made it difficult for the remaining auditors to progress any audit work even before the Government lockdown was announced. Moreover, once the lockdown began on 24 March 2020, the whole Internal Audit team had to self-isolate even though only one auditor was able to work at home due to equipment shortages/connectivity issues. These issues have since been resolved and all three auditors can now work from home.
9. The upshot of all this disruption was that the Internal Audit team was severely depleted during the last few weeks of the financial year and this has resulted in fewer audits being completed during the year than would otherwise have been the case.

Summary of Activity to 31 March 2020

10. Eight audit reviews were completed in the final quarter of 2019/20. Seven of these provided good or substantial assurance on the overall governance arrangements. However, one audit (Property Investment) only provided limited assurance. An overview of the findings arising from all eight audits is given in Appendix A.
11. The Property Investment audit received a limited assurance rating because a number of areas were found where control needs to be strengthened and/or transparency improved. Fortunately, most of these controls are preventative in nature, and their absence does not appear to have resulted in any significant issues to date.

Overall Performance in 2019/20

12. Appendix B provides a summary of all audit reports completed in 2019/20, 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 2019/20 have already been reported to this Committee at previous meetings.
13. This summary shows 82.1% of the 2019/20 Audit Plan was completed. However, six planned audits were still outstanding at the end of the financial year. One of these (ICT Governance) was already at an advanced stage when the Government lockdown began but could not then be completed because the ICT Infrastructure team had to devote all its resources to the many logistical and technical support challenges posed by the sudden need to enable all officers to work from home.

14. Another audit (Transformation Projects Implementation) had also commenced but had been delayed due to other priorities. The four remaining audits were all postponed due to various reasons such as timing issues, staff turnover, project overruns or staff no longer being available to assist because of other priorities brought about by the Council's response to the COVID-19 pandemic.

Implementation of Audit Recommendations

15. Internal Audit normally updates Members each quarter on the progress made in implementing the audit recommendations reported at previous meetings. However, owing to the disruption caused by the coronavirus outbreak and the many new challenges faced by officers at this time, this information has not been sought on this occasion.

Counter Fraud Work

16. In addition to compliance work, the Audit Manager also coordinates the annual National Fraud Initiative (NFI) data matching exercises and the whole Internal Audit team assist the Investigations Client Support Officer in reviewing the matches. Work on the December 2018 Single Person Discount matches is now complete but despite everyone's best efforts, this work has only identified £6,470 in savings (13 cases). The matches arising from the December 2019 Single Person Discount exercise are still being reviewed.
17. Internal Audit also allocates time each year to undertake other counter fraud duties. As usual, this work primarily focused on council tax and business rates and has resulted in the identification of a number of unbanded Council Tax dwellings and commercial premises that were either in receipt of rate relief they were not entitled to or had a change of usage resulting in a new liability. These cases were followed up with the help of colleagues in the Revenues & Benefits team and an additional £60,596 of revenue income is now being collected as a result.
18. As previously reported, 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. It was originally hoped that this money could be used to fund a fixed-term Investigator post in partnership with one of our neighbouring councils, but this proposal was unable to proceed. It has therefore been agreed by the Strategic Management Team to use the money to enhance the Internal Audit team's counter fraud capacity by regrading the Internal Auditor post. This means that the fund will be used gradually over a number of years.

Other Financial Savings

19. 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 2019/20, a total of £10,632 in confirmed savings/extra income was identified as a by-product of this work. The items found include a payroll timesheet recording error which resulted in an employee being overpaid, business rate relief which had been wrongly applied, and licence renewal payments in respect of software that was no longer required.

Quality Assurance and Improvement Programme

- 20. 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.
- 21. 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
- 22. The Audit Manager’s latest self-assessment of his team’s compliance with the Standards (Review of Internal Audit 2019/20) was approved by Members on 18 May 2020 (Minute AS19/50 refers). The review did not identify any significant issues and concluded that there is a high level of effectiveness overall.
- 23. 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”.
- 24. 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.
- 25. A summary of the responses received in 2019/20 is shown in the table below.

Questionnaire Type	Responses to Individual Questions					
	Good		Fair		Poor	
Exit Meeting (Main Contact)	63	100%	0	0%	0	0%
Head of Service Meeting	33	100%	0	0%	0	0%
Totals	96	100%	0	0%	0	0%

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

Performance Measures

- 27. 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 2019/20 together with the actual results for the year.

Performance Indicator	Target	Actual
Audit Plan – Percentage of governance audits completed.	100%	90%
Audit Plan – Percentage of overall audit plan completed.	90%	82.1%
Audit Assignments – Final reports issued within 15 days of second draft report.	90%	83.3%
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%

28. This shows that two of the targets for 2019/20 were met or exceeded.
29. The percentage of governance audits completed, and the percentage of the overall audit plan completed were both below target on this occasion owing to the issues outlined elsewhere in this report.
30. Three reports took longer than 15 days to issue due to delays caused by the auditee. In each case, management either failed to respond to the second draft report in a timely manner or raised concerns late in the audit process.

Conformance with the Public Sector Internal Audit Standards

31. 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

32. A draft assessment (as at 12 February 2020) 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

33. 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.

34. 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.

35. In forming an overall opinion, Internal Audit findings need to be set in context and viewed corporately. Consequently, the summary of completed audits provided for the last meeting has now been updated to incorporate the whole of 2019/20 and this is included in Appendix B. This shows that just two audits (11.1%) received a limited or minimal assurance rating and only one of the 83 control objectives examined during the year had not been “met” at least in part.
36. 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.
37. Having now taken into account the results of all the audit reports completed in 2019/20, it is possible to confirm that the draft opinion expressed in the last Committee report remains unaltered. The Audit Manager’s overall opinion on the Council’s framework of governance, risk management and control in 2019/20 is therefore that it is adequate and effective.

Whistleblowing Activity 2019/20

38. An update on the Whistleblowing Policy activity in 2019/20 is provided in Appendix C.
39. In summary, a total of 21 whistleblowing cases were reported to the Audit Manager in 2019/20. This represents a 75% increase in the number of cases received in the previous financial year. The latest cases include a range of allegations, the majority of which focused on either Benefit/Council Tax Fraud or Housing Tenancy Fraud. All cases were initially reviewed by the Audit Manager and then either referred to the relevant Council officer for further investigation or reported to the appropriate authority.
40. Further details on the Whistleblowing arrangements can be found on the Council’s [website](#).

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.

BUSINESS RATES 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.

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
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.

As with the recent Council Tax audit, this assurance rating has been awarded despite current resourcing and workload issues within the Revenues and Benefits team due to the prolonged absence or loss of several key members of staff. To date, this has not resulted in any significant control issues as Management are well aware of the situation and are coping as best they can. However, there is always a risk that this position may change in the future if the current difficulties continue or get worse.

Once again, the only real issue identified at the audit was around the operation and monitoring of property inspections. Management are currently looking to address this issue through the use of technology and a recommendation to improve the recording

and inspection of all new builds has already been made at the Council Tax audit. In addition, this report also found that empty business properties with a listed building status are not being inspected frequently enough. It is important that these properties are inspected on a regular basis because, unlike other business premises, their exemption from business rates is not time limited, and could result in lost revenue if a new occupancy is not promptly identified.

Executive Summary

Overall, the control objectives are considered to have largely been met and it was only necessary to make one medium risk recommendation to Management to further enhance the governance arrangements.

Internal Audit Service
January 2020

PROPERTY INVESTMENT AUDIT**ROTHER DISTRICT COUNCIL**

Head of Service: Ben Hook

Officer(s) Responsible for Implementing Recommendations: Ben Hook and Graham Burgess

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

In 2018, the Council began acquiring land and commercial property in the Rother economic area with a view to stimulating economic activity and generating rental income. Most of this regeneration activity will be funded by borrowing and this is expected to peak at approximately £35 million by 2021.

This is the first audit review of property investment. As with any new initiative, the Council's approach will take time to develop. It is therefore no surprise that this report highlights a number of areas where control needs to be strengthened and/or transparency improved. Fortunately, most of these controls are preventative in nature, and their absence does not appear to have resulted in any significant issues to date. However, the long term success of the Council's investment decisions will not be known for many years, which is why it is so important that the processes for property evaluation, scrutiny and due diligence are as robust as possible.

Scope and Limitations of Audit Coverage

The audit primarily focuses on the adequacy of the governance arrangements for acquiring new investment properties.

The purpose of this audit is not therefore to comment on the appropriateness of individual investment decisions but rather to ensure that Officers and Members of the Property Investment Panel receive sufficient information in order for them to make an informed decision. The audit also covers adherence to regulations and government guidance, risk awareness, and the due diligence checks carried out prior to acquisitions being completed.

It should be noted that it was not possible to carry out a detailed review of the many financial appraisals carried out by the former Corporate Transformation Finance Manager owing to the absence of this Officer throughout most of the audit. Consequently, no comment is made about the completeness or accuracy of the figures reported to the Property Investment Panel apart from the one issue identified below (in the section on Voids and Business Rates).

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 – There is a property investment strategy which outlines the criteria for the procurement of property which has been approved by Members. The strategy is in accordance with MHCLG and CIPFA guidelines.	M
Property Identification and Evaluation – There are clearly defined procedures for the identification of suitable investment properties. A transparent SWOT analysis and risk assessment process is undertaken before property purchases are recommended to Members.	P
Scrutiny – Investment decisions are subject to the scrutiny of trained Members with the requisite skills and knowledge to appraise the recommendations made to them by officers prior to formally recommending that the Head of Paid Service can proceed with any purchase.	P
Due Diligence – There is sufficient due diligence prior to the purchase of properties.	P
Completion – The Council has received all relevant legal documentation following the completed purchase of an acquisition including title deeds and land registry documents.	P

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 found. The main findings were as follows:

- **Property Assessment Method** – Management should consider adopting a weighted scorecard approach to better quantify the relative merits of each acquisition. This would not only make it easier for the Property Investment Panel to see the strengths and weaknesses of each proposal (as opposed to solely relying on a narrative report) but it would also improve transparency and help to ensure that the Council’s approach to evaluation is consistently applied.
- **Assessment of Sitting Tenants** – A financial assessment was not carried out on the new owners of a business looking to sell and leaseback a property. Instead an assessment was made of the previous owner’s financial standing. This particular acquisition did not proceed but the case highlights the need to be clear who the Council is dealing with when a new tenancy is involved, and to ensure that all relevant parties are financially assessed before recommending that the Property Investment Panel approve the proposal.
- **Voids and Business Rates** – Financial appraisals do not always include an allowance for voids (which result in loss of rental income) or the Council’s business

rates liability during void periods. Both of these factors need to be taken into account when assessing the viability of acquiring property with existing tenants.

- **Risk Registers** – At present risk registers are only produced for development projects after the sites have already been acquired. No document is therefore produced to analyse and measure the risks prior to a decision being made to proceed with the purchase. This means that risks which might otherwise influence the decision to acquire the land may not be properly considered prior to completion. There is also a danger that any risks identified during the acquisition process which are relevant to successful project delivery could be overlooked and mitigating action not put in place.
- **Membership of Property Investment Panel** – The Property Investment Panel currently consists of three Cabinet Members and two non-Cabinet Members. This conflicts with the Panel's terms of reference which state that it should be made up of three non-Cabinet Members and two Cabinet Members.
- **Member Training** – Members on the Property Investment Panel should receive further property investment training to help them fulfil their role.
- **Due Diligence** – It was found that recommendations made by surveyors and Legal Services prior to completion are not always followed up. The report therefore recommends that a checklist should be produced to record all the key stages of the due diligence process and used to note all professional advice received and action taken. The Head of Paid Service would then be able to confirm that all necessary due diligence checks have been carried out prior to completion taking place.

Executive Summary

Overall, the control objectives are considered to have only been partially met. We have made eight medium risk recommendations to management all of which are aimed at enhancing the governance arrangements.

Internal Audit Service
February 2020

Position Update

The Chartered Institute of Public Finance and Accountancy (CIPFA) has recently issued new guidance regarding investment in commercial properties in a publication entitled 'Prudential Property Investment'. The publication provides advice on the assessments needed to ensure that such acquisitions are prudent and on the risks local authorities must manage when acquiring property. This guidance is currently being reviewed by the Finance team to ascertain if the Council's existing property investment strategy and procedures are compliant.

BENEFITS AUDIT**ROTHER DISTRICT COUNCIL**

Head of Service: Robin Vennard

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**).

New Applications and Changes of Circumstances – All applications are promptly and properly processed.	M
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.	M
System Administration – The computer system is kept up-to-date and access to benefit records, system parameters and creditor masterfile records are suitably restricted.	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.

It is especially pleasing to note that there has been a marked improvement in the time taken to process new claims and changes of circumstances since the last audit, and the Revenues and Benefits Team are to be congratulated on this achievement.

Executive Summary

Overall, the control objectives are considered to have been met and it was not necessary to make any formal recommendations to management as a result of this audit.

Internal Audit Service
February 2020

SOFTWARE LICENSING AUDIT

ROTHER DISTRICT COUNCIL

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: 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**).

Procurement – Only software approved by the ICT department may be purchased and installed.	M
Software Utilisation – The Council only pays for software that is installed and in use.	P
Compliance – All software usage is monitored to ensure compliance with licensing agreements.	P

Level of Assurance

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

Issues were found with the adequacy of licence renewal checks and with the monitoring of compliance with licensing agreements but recent action to improve control in both these areas has avoided the need for a limited assurance rating on this occasion.

Nevertheless, it is important that the Council scrutinises all future software renewals to avoid paying for services that are no longer required, and it needs to monitor software usage more closely (especially in respect of servers) to ensure that all activity is properly licensed.

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.

Internal Audit Service
February 2020

PAYROLL AUDIT**ROTHER DISTRICT COUNCIL**

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Maria Benford

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**).

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.	M
Security of Data – All computer records are protected against unauthorised access.	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:

- **New Employee Checks** – A report showing the details of all new starters is produced as part of each pay run, but it was not being checked for accuracy by Human Resources at the time of the audit. It is important that this independent check is carried out in order to verify that all new starters are appearing on the correct pay run and it is understood that this is now being done
- **Segregation of Duties** – The fact that two officers in the Human Resources team currently have full read/write access to the Payroll module in the U4BW system was first highlighted at last year's audit. However, it will not be practical to insist on full segregation of duties between the set up and payment of employees until such time that work on the implementation of the HR and Self-Service modules is complete. Hopefully these modules should now go live in early 2020/21 and the situation can then be reviewed.
- **Access Rights** – Access to view Payroll data also needs to be further restricted.

Executive Summary

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

Internal Audit Service
March 2020

TREASURY MANAGEMENT AUDIT**ROTHER DISTRICT COUNCIL**

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Tony Baden and Anya Simoes

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**).

INVESTMENTS	
Policy and Procedures – Investments are only made in accordance with the Council's approved policy and any amendments are promptly actioned. The Council seeks to maximise the return on its investments where it is prudent to do so.	M
Authorisation and Record Keeping – All investments and withdrawals are properly authorised with all relevant records and accounts updated and adequate documentation kept to support the transfer of funds.	P
Monitoring of Performance – There is regular monitoring and reporting of investment performance.	M
LOANS	
Policy and Procedures – The Council has an approved strategy for external borrowing and borrowing levels are related to the Council's needs.	M
Authorisation and Record Keeping – All loans are properly authorised with all relevant records and accounts updated and adequate documentation kept to support each transaction.	P
Repayment and Interest – All loan repayments and interest charges are correctly calculated and properly recorded.	M

INVESTMENTS AND LOANS	
<p>Reconciliation and Other Controls – There are regular reconciliations to ensure that all transactions are accounted for. There is fidelity insurance cover for all staff involved in Treasury Management. Members receive Treasury Management training.</p>	<p>P</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:

- **Access to Online Banking** – Management should ensure that a process is put in place whereby user access to the Lloyds Commercial Online Banking system is reviewed following staff movements, and the system administrator notified of any changes required.

- **Loans Authorisation** – At the time of the audit, a former manager was still included in the list of officers authorised to approve PWLB loans. However, no new loans have been taken out since this person left and it is understood that the officer concerned has since been removed from the list of authorised persons.

- **Reconciliation** – The Council’s loan records are not being reconciled at present. Officers should carry out a regular reconciliation of PWLB records to Council loan records to ensure that any discrepancies are promptly identified and corrected.

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
March 2020

CASH AND BANKING AUDIT**ROTHER DISTRICT COUNCIL**

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Chris Watchman and Doreen Botterill

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**).

Collection Procedures – Secure arrangements exist for the collection and recording of cash.	M
Receipting of Income – All collections and direct to bank credits are promptly, completely and accurately brought to account.	M
Credit Card Security – The Council is compliant with the Payment Card Industry (PCI) Data Security Standard (DSS) regarding the acceptance, processing, storage and transmission of credit card information.	P
Banking of Income – All collections are promptly banked.	M
Allocation of Income – All income is promptly and accurately posted to the correct account.	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 substantial assurance can be given on the governance arrangements.

The main issues found all relate to Credit Card Security. They are as follows:

- **Ownership** – It is currently unclear who is responsible for monitoring PCI DSS compliance.
- **Compliance Self-Assessment** – Whilst evidence of PCI DSS compliance has been obtained for the third party providers who process the vast majority of card

payments received by this Council, the latest self-assessment did not take into account a card payment terminal which is still in use.

- **Paper Receipts** – To be fully PCI DSS compliant, access to the merchant copies of card payment receipts needs to be further restricted pending secure disposal.

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
April 2020

CREDITORS AUDIT**ROTHER DISTRICT COUNCIL**

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Tony Baden and Luke Chapman

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**).

Orders and Authorisation – Orders for goods and services are properly raised, authorised and confirmed in accordance with the Financial Procedure Rules.	M
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.	P

Note – Cheque Control (the control and recording of cheque usage) was not reviewed as part of this audit.

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:

- **Outstanding Purchase Orders** – Purchase orders can sometimes remain open on the system despite the fact that goods or services they relate to have been fully delivered. There is therefore a risk that further invoices could be paid against these orders unless they are closed off.
- **Approval of Invoices with No Purchase Order** – A problem whereby invoices with no purchase order can be coded and approved by the same officer was highlighted at the last audit but is yet to be resolved. Financial Procedure Rules

require the involvement of two different officers in this process to reduce the risk of error and fraud.

- **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, it was found at the last audit that this control does not work for all payments which exceed the invoice tolerance level due to a system flaw which is yet to be resolved. Furthermore, it has subsequently been discovered at this audit that the additional expenditure can be authorised by the original requisitioner, if they also have approval rights. No-one should be allowed to requisition and approve the same transaction because of the risk of error and fraud.

Note – All of the above issues would appear to be caused by the build/configuration of the U4BW system and technical support will be required in order to resolve them.

- **Payment Run Reports** – Remittance confirmation reports are not always promptly checked by management increasing the likelihood that errors may go unnoticed until after payment has already been made.

Executive Summary

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

Internal Audit Service
April 2020

Audits Completed in 2019/20 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 2019/20 – Total 1, Completed 1 (100%)					
Software Licensing	3	1	2	0	Substantial
Governance Audits – Planned 10, Completed 9 (90%)					
Benefits	6	6	0	0	Good
Business Rates	5	4	1	0	Substantial
Cash and Banking	6	5	1	0	Substantial
Council Tax	4	3	1	0	Substantial
Creditors	3	1	2	0	Substantial
Debtors	4	3	1	0	Good
Main Accounting	4	4	0	0	Good
Payroll	6	5	1	0	Substantial
Treasury Management	7	4	3	0	Substantial
High/Medium Risk Audits – Planned 13, Completed 8 (61.5%)					
Car Park Income	5	3	1	1	Limited
Community Grants	5	4	1	0	Substantial
Community Infrastructure Levy	7	6	1	0	Substantial
Disabled Facilities Grants	3	2	1	0	Substantial
HMO Licensing	5	4	1	0	Substantial
Housing Allocations	2	1	1	0	Substantial
Joint Waste Contract - Central Admin	3	3	0	0	Good
Property Investment	5	1	4	0	Limited
Total: 18 Audit Reports (20)	83	60	22	1	
	100%	72.3%	26.5%	1.2%	
Summary of Assurance					
Good/Substantial Assurance	16 (15)		88.9 % (71.4%)		
Limited/Minimal Assurance	2 (6)		11.1 % (28.6%)		
Other Work Completed (No Report Required) – Planned 5, Completed 5 (100%)					
Brexit Issues	Consultancy work				
ERP System – Implementation/Ongoing Advice	Consultancy work				
Grants – Income Maximisation	Replaced by other consultancy work				
Joint Waste Contract (New Contract)	Consultancy work				
Sports Centre Development	Replaced by other consultancy work				
Audit Work Not Completed at Year End – Total 6					
Camber Beach and Foreshore	Postponed due to timing issues				
ICT Governance	Work in progress (90% complete)				
Land Charges	Postponed due to staff turnover				
Transformation Projects Implementation	Work in progress (10% complete)				
U4BW ERP Computer System – Health Check	Postponed as project still in progress				
Waste Contract – RDC Client Control	Postponed due to coronavirus outbreak				
Total Work Planned 2019/20					
	28 (27)		Percentage of Plan Completed		
Total Work Completed 2019/20 <i>Excluding audits brought forward</i>	23.0 (24.3)		82.1% (90.0%)		

Previous year's performance italicised and in brackets

Whistleblowing Activity 2019/20

A total of 21 whistleblowing cases were reported to the Audit Manager in 2019/20. This is marked increase on the 12 cases received in the previous financial year.

The cases received in 2019/20 are made up of emails and webforms sent to the audit@rother.gov.uk mailbox (17), letters received by the Audit Manager (2) and referrals made in person (2). The figure does not however include any cases reported via the Benefit Fraud Hotline 01424 787737 or submitted using the online Benefits 'Report a Fraud' form as both these channels go direct to the Revenues and Benefits Team.

The breakdown of whistleblowing cases by the type of allegation is as follows:

Allegation	Number of Cases
Benefit/Council Tax Fraud	11
Housing Issue/Tenancy Fraud	5
Officer/Member Conduct Issue	3
Planning Enforcement Issue	3
Environmental Health – Licensing/Noise Nuisance Issue	2
Adult Social Care Fraud	1
Highways Issue – Road Sign Theft	1
Tax Evasion Issue	1
Total	27

Note - Some whistleblowing referrals covered more than one issue.

All cases were initially reviewed by the Audit Manager to establish if there was any evidence to substantiate the claims being made. The cases were then either referred to the relevant Council officer for further investigation or reported to the appropriate authority. None of the Officer/Member conduct issues were however fraud-related and all were therefore referred to the relevant senior manager or Monitoring Officer as appropriate.

The Audit Manager is not generally informed about the outcome of the referrals he passes on, but it can be reported that one of the Planning Enforcement referrals did result in two previously unknown properties in the Battle area being banded for Council Tax.