

Rother District Council

Report to:	Audit and Standards Committee
Date:	28 September 2020
Title:	Internal Audit Report to 30 June 2020
Report of:	Gary Angell, Audit Manager
Purpose of Report:	To report on Internal Audit activity in the first quarter of 2020/21 and to provide a progress update on the implementation of audit recommendations made in earlier periods.
Officer Recommendation(s):	It be RESOLVED: That: the Internal Audit report to 30 June 2020 be noted.

Introduction

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

Summary of Activity to 30 June 2020

3. Members will recall that Internal Audit resources were adversely effected at the outset of the coronavirus crisis and that the audit team continued to experience operational difficulties even when it was back to full strength because it was no longer able to undertake routine audits. Consequently, no audit reports were issued in the first quarter, and Internal Audit spent most of its time on counter fraud work instead. This counter fraud work has however identified confirmed savings of more than £13,000 and has highlighted many other cases which are still under investigation.
4. The Audit Manager has since devised a new approach to audit work in response to the challenges posed by the COVID-19 pandemic and the team now have a way forward.

Current Position

5. Work on the Audit Plan for the second quarter of 2020/21 is progressing well with much of the priority audits/consultancy work listed in it already completed. Full details on the work carried out will be reported next quarter in the Internal Audit Report to 30 September 2020.

Implementation of Audit Recommendations

6. Each quarter, Members are updated on the progress made on implementing the audit recommendations reported at previous meetings. Appendix A shows a summary of the current position.
7. From this it can be seen that, whilst some progress has been made to implement the recommendations made in 2019/20, there has been a definite slowdown in recent months, most probably due to the impact of the coronavirus crisis. It is hoped that this situation will improve moving forward, especially now that the progress of outstanding recommendations is being actively followed up once more.
8. The number of older recommendations outstanding still stands at 11 and this has not altered since March 2020. Other priorities, including the need to respond to the COVID-19 pandemic, will no doubt have played a part in this delay, but it is now time for these matters to be resolved. Managers with long outstanding recommendations have therefore been asked to report to the Strategic Management Team stating what actions they intend to take to resolve the matters raised. The Strategic Management Team will also consider the risks of inaction and whether this is something the Council is prepared to accept.
9. At the June 2020 meeting, Members expressed concern about some of the issues found at the first Property Investment review and requested a progress update on the implementation of the audit recommendations. This information is provided in Appendix B. In summary, five out of eight recommendations have so far been implemented, and progress has been made in all but one of the remaining cases.

Conclusion

10. Internal Audit activity has been severely disrupted by the COVID-19 pandemic, but a change in working approach has meant that some audit reviews can now be undertaken. The implementation of audit recommendations has also slowed down in recent months, but further action is now being taken to help ensure that all recommendations are acted upon.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	No		

Executive Director: Malcolm Johnston

Proper Officer:	Malcolm Johnston, Head of Paid Service
Report Contact Officer:	Gary Angell, Audit Manager
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Appendices:	A – Summary of Progress on Recommendations Made up to 31 March 2020 B – Progress Update on Property Investment Audit Recommendations
Relevant Previous Minutes:	AS20/08
Background Papers:	None.
Reference Documents:	None.

Summary of Progress on Recommendations Made up to 31 March 2020

Audit Recommendations 2017/18 and 2018/19

Last reported position shown in brackets

Risk	Issued		Implemented		Work-in-Progress		Not Started	
High	5		5	(5)	0	(0)	0	(0)
Medium	77		70	(70)	7	(6)	0	(1)
Low	58		54	(54)	4	(4)	0	(0)
Total	140		129	(129)	11	(10)	0	(1)
			92.1%	(92.1%)	7.9%	(7.2%)	0%	(0.7%)

Breakdown of outstanding audit recommendations for 2017/18 and 2018/19 by Head of Service:

Robin Vennard (Resources)

- Data Protection – issued 22/09/17 (1 Medium, 1 Low)
- ICT Governance (2017/18 Review) – issued 06/04/18 (1 Low)
- Procurement – issued 05/10/18 (2 Medium)
- Council Tax – issued 04/01/19 (1 Medium, 1 Low)
- ICT Network Security – issued 16/01/19 (1 Low)
- Creditors – issued 12/03/19 (1 Medium)
- ICT Governance (2018/19 Review) – issued 12/04/19 (1 Medium)
- Payroll – issued 18/04/19 (1 Medium)

Audit Recommendations 2019/20

Last reported position shown in brackets

Risk	Issued		Implemented		Work-in-Progress		Not Started	
High	0	(0)	0	(0)	0	(0)	0	(0)
Medium	32*	(10)	24	(8)	7	(2)	1	(0)
Low	14	(6)	7	(5)	4	(0)	3	(1)
Total	46	(16)	31	(13)	11	(2)	4	(1)
			67.4%	(81.2%)	23.9%	(12.5%)	8.7%	(6.3%)

* Eight of these recommendations were made to the Head of Acquisitions, Transformation and Regeneration at the Property Investment audit – see Appendix B for a progress update.

Progress Update on Property Investment Audit Recommendations (Report issued 04/02/2020)

Ref	Finding/Risk	Recommendation	Risk Rating	Progress to Date
2.2	<p>Finding</p> <p>The Property Investment Panel currently evaluates acquisition proposals based on a detailed narrative report and supporting evidence. However, such an approach does not provide a clear and demonstrable risk assessment of the different elements that must be considered before a decision is made. In order to evaluate the strengths and weaknesses of each potential acquisition, the Council should therefore consider adopting a weighted scorecard approach which rates each property against specific criteria.</p> <p>Quantifying the relative merits of each acquisition in this way would not only help officers and Members to more easily see the strengths and weaknesses of each proposal but also ensure that the Council's approach to evaluation is consistent. The latter being especially important should the personnel in either the Officer Group or PIP change over time.</p> <p>Risk</p> <p>Key risks are overlooked leading to poor investment decisions.</p> <p>The decision making process is inconsistent and does not provide transparency with regard to business continuity if there is a change in personnel.</p>	<p>Management should consider adopting a weighted scorecard approach when evaluating the strengths and weaknesses of potential property acquisitions.</p>	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>This will be raised with the Officer Group and Members in the Property Investment Panel to determine if this approach would be beneficial.</p> <p>Agreed Implementation Date</p> <p>February 2020</p> <p>Responsible Officer</p> <p>Ben Hook</p> <hr/> <p><u>Progress update as at 18/08/2020</u></p> <p>A weighted scorecard was trialed as part of the preparation for the PIP report on a recent approval which is yet to be completed.</p> <p>As this is a development site rather than an income generating acquisition the scorecard has now been reworked to cater for both types of investment.</p> <p>Status: Implemented</p>
2.3	<p>Finding</p> <p>It is noted that a financial assessment was not carried out on the new owners of a business looking to sell and leaseback a property in</p>	<p>In future, financial assessments should be carried out for all relevant parties including new owners, holding companies and parent companies.</p>	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>Financial checks on all relevant companies will be carried out in future assessments.</p>

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	<p>Eastbourne. Instead the assessment was made of the previous owner's financial standing.</p> <p>Whilst this particular acquisition did not proceed because it was rejected by the PIP, this 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 PIP approve the proposal.</p> <p>Risk</p> <p>Failure to establish the good payment history and sound financial accounts of prospective tenants increases the risk of bad debts.</p>			<p>Agreed Implementation Date</p> <p>Immediate</p> <p>Responsible Officer</p> <p>Ben Hook/Graham Burgess</p> <hr/> <p><u>Progress update as at 18/08/2020</u></p> <p>Actioned. The latest PIP included reports into the primary companies involved as well as parent and group companies.</p> <p>Status: Implemented</p>
2.4	<p>Finding</p> <p>Financial appraisals do not always include an allowance for voids and an example was also found at the audit where no allowance had been made for the payment of business rates during a void period</p> <p>Risk</p> <p>Failure to take into account the full cost of voids could mean that expected return on investment is not achieved, resulting in financial loss.</p>	<p>An allowance for voids should be included in all financial appraisals. These should include both loss of rent and business rates liability.</p>	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>Allowances for voids including provisions for loss of rent are now standard in all reports and business rate costs will be included in all future appraisals.</p> <p>Agreed Implementation Date</p> <p>Immediate</p> <p>Responsible Officer</p> <p>Graham Burgess</p> <hr/> <p><u>Progress update as at 18/08/2020</u></p> <p>Actioned. Void periods are now included in all Discounted Cashflows presented as part of the reports.</p> <p>Status: Implemented</p>

Progress Update on Property Investment Audit Recommendations (Report issued 04/02/2020)

Ref	Finding/Risk	Recommendation	Risk Rating	Progress to Date
2.5	<p>Finding</p> <p>At present, the Major Projects Manager produces risk registers 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 before completion. It could also mean that any risks identified at the acquisition stage which are relevant to successful project delivery could be overlooked and mitigating action not put in place.</p> <p>Risk</p> <p>Failure to actively and regularly identify, manage and mitigate risk could lead to poor investment decisions ultimately leading to financial loss.</p>	A risk register should be produced for each development site and actively managed and reviewed from inception to delivery.	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>Risk registers for development sites will be produced and monitored prior to acquisition for all projects which are submitted to PIP for consideration.</p> <p>Agreed Implementation Date</p> <p>Immediate</p> <p>Responsible Officer</p> <p>Ben Hook</p> <hr/> <p><u>Progress update as at 18/08/2020</u></p> <p>Actioned. Risk registers have been established for all development projects at the point of acquisition rather than waiting for project initiation.</p> <p>Status: Implemented</p>
3.1 (1)	<p>Finding</p> <p>The Property Investment Panel currently consists of three Cabinet Members and two non-Cabinet Members. This conflicts with the terms of reference for the PIP which state that the panel should be made up of three non-Cabinet Members and two Cabinet Members.</p> <p>Risk</p> <p>The Council is not following its own rules regarding the make-up of the PIP which could mean that the decision making process is subject to challenge in the future.</p>	The make-up of Cabinet and non-Cabinet members who sit on the PIP should be consistent with the Panel's terms of reference.	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>This will be reviewed alongside the new Property Investment Strategy. Discussions will be held with SMT to ensure the make-up of the panel is consistent with the Council's constitution and any guidance from CIPFA.</p> <p>Agreed Implementation Date</p> <p>March 2020</p> <p>Responsible Officer</p> <p>Ben Hook</p>

Progress Update on Property Investment Audit Recommendations (Report issued 04/02/2020)

Ref	Finding/Risk	Recommendation	Risk Rating	Progress to Date
				<p><u>Progress update as at 18/08/2020</u></p> <p>Actioned. Cabinet agreed the new PIP Terms of Reference to make panel compliant (Minute CB20/05).</p> <p>Status: Implemented</p>
3.1 (2)	<p>Finding</p> <p>Members who sit on the Property Investment Panel have not received any property investment training.</p> <p>Risk</p> <p>Members could approve recommendations to acquire property without sufficient understanding of financial, legal and reputational risks. This increases the risk of property being acquired without sufficient scrutiny leading to financial losses.</p>	<p>Members on the PIP should receive property investment training.</p>	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>The Head of Service – Acquisitions, Transformation and Regeneration advised that Members of the PIP have had the opportunity of attending training carried out by the CCLA and Hermes (property fund managers currently used by the Council.) However, the availability of further suitable training will be looked into with a view to arranging this next year.</p> <p>Agreed Implementation Date</p> <p>July 2020</p> <p>Responsible Officer</p> <p>Ben Hook</p> <hr/> <p><u>Progress update as at 18/08/2020</u></p> <p>Actioned. Training has now been arranged for both Members and relevant Officers through CIPFA. Date TBC</p> <p>Status: Work-in-progress</p>

Progress Update on Property Investment Audit Recommendations (Report issued 04/02/2020)

Ref	Finding/Risk	Recommendation	Risk Rating	Progress to Date
4.4	<p>Finding</p> <p>The conditions specified by the Property Investment Panel prior to the purchase of 14 Terminus Road have not been met.</p> <p>Furthermore it was found that a number of recommendations made by surveyors and Legal Services have not been fully addressed prior to completion. This raises concerns about the completeness of the due diligence process.</p> <p>Although it is accepted that there will be occasions when there is a good reason for officers not to act upon professional advice, it is unclear why some recommendations have not been followed up, and more importantly, whether the Head of Paid Service is always made aware of this fact before agreeing for the purchase to go ahead.</p> <p>A proper record therefore needs to be kept to confirm that all conditions have been met and professional advice followed (or an explanation given why not) so that the Head of Paid Service can ensure that all necessary checks have been carried out.</p> <p>Risk</p> <p>Potential financial loss if conditions are not fully met or liabilities overlooked; reputational damage if the Council fails to comply with planning, building control and environmental health issues.</p>	<p>1) A checklist should be produced detailing all the due diligence stages of each property acquisition. Evidence of action taken to meet any conditions reported to the PIP or in response to professional advice received should be retained and recorded on the checklist. The completed checklist should then be signed by the Head of Paid Service once he is satisfied that all necessary checks have been completed as confirmation that the Council can proceed with the purchase.</p>	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>Examples of checklists used by other local authorities will be sought and reviewed to determine if this is a practical process. The Head of Paid Service will be consulted to determine the merits of introducing such a process.</p> <p>Agreed Implementation Date</p> <p>June 2020</p> <p>Responsible Officer</p> <p>Ben Hook/Graham Burgess</p>
		<p>2) Action should be taken to ensure that the conditions reported to the PIP regarding the purchase of 14 Terminus Road are met without further delay.</p>	<p>Medium</p> 	<p><u>Position as at 04/02/20</u></p> <p>These issues will be raised again with the existing tenants with a view to requiring them to take urgent action.</p> <p>Agreed Implementation Date</p> <p>February 2020</p> <p>Responsible Officer</p> <p>Graham Burgess</p>
				<p><u>Progress update as at 18/08/2020</u></p> <p>To be actioned. An acquisition is currently being undertaken and a checklist is being drawn up to ensure proper progression of this process. Will be complete in the next 2 weeks.</p> <p>Status: Work-in-progress</p>

Progress Update on Property Investment Audit Recommendations (Report issued 04/02/2020)

Ref	Finding/Risk	Recommendation	Risk Rating	Progress to Date
				<p><u>Progress update as at 18/08/2020</u></p> <p>Action delayed due to COVID-19 and the site shutting down for a significant period of time.</p> <p>Status: Not started</p>