

Rother District Council

Report to:	Audit and Standards Committee
Date:	22 March 2021
Title:	Internal Audit Report to 31 December 2020
Report of:	Gary Angell, Audit Manager
Purpose of Report:	To report on Internal Audit activity in the third 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 31 December 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 31 December 2020

3. Four audit reports were issued in the quarter, three of which were routine Governance audits. An overview of the findings arising from each of these audits is given in the Executive Summaries which are reproduced in Appendix A.
4. All of these audits provided good or substantial assurance on those areas reviewed.
5. Other activity during the quarter included coordination of the National Fraud Initiative data uploads, a review of U4BW/ERP user access, counter fraud work/whistleblowing referrals, audit advice on various issues, and the completion of weekly Government returns for Business Support Grants to assist our colleagues in Finance.

Implementation of Audit Recommendations

6. Each quarter, Members are updated on the progress made on implementing the audit recommendations reported at previous meetings. Appendix B shows a summary of the current position.

7. From this it can be seen that whilst there has been some movement on the older recommendations, progress remains slow. A total of 13 recommendations still need to be implemented including five long outstanding (i.e. pre-April 2019) recommendations. The Chief Executive is aware of the situation and is working with the relevant Heads of Service to ensure that the remaining recommendations are resolved as soon as possible.
8. A progress update on the ICT Continuity Plan, which is the subject of one of the long outstanding recommendations, is provided elsewhere on this agenda in a report submitted by the Assistant Director Resources.
9. Few recommendations were made in the first six months of 2020/21. This reflects the fact that of the seven audits completed during this period, most were limited in scope because of the COVID-19 pandemic. All current year recommendations made up to 30 September 2020 have already been implemented.

Conclusion

10. This quarter, the first of the annual Governance audits were completed, hopefully heralding the beginning of a return to 'business as usual' for the Internal Audit Team.
11. Progress on the older audit recommendations remains slow but is being actively monitored.

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

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Appendices:	A – Audit Reports issued during Quarter to 31 December 2020 B – Summary of Progress on Recommendations Made up to 30 September 2020
Relevant Previous Minutes:	AS20/37
Background Papers:	None.
Reference Documents:	None.

JOINT WASTE CONTRACT - CENTRAL ADMIN AUDIT 2020/21 (PART 2)

Service Manager: Madeleine Gorman

Overall Level of Assurance: **GOOD**

Introduction

This review has been carried out in accordance with the revised 2020/21 Audit Plan. This places an emphasis on auditing the key risks which would have most impact on the Council during the COVID-19 crisis and reporting any findings promptly to management so that swift remedial action can be taken if necessary.

Scope and Objectives

Having already checked and agreed the initial contract uplift calculation in Part 1 of this review, this audit focused on checking the 2020/21 contract uplift. It also sought to confirm that all core and variable contract costs are being correctly calculated and recharged to the partner authorities.

Findings

The 2020/21 uplift calculation and changes to the Bill of Quantities were independently checked and agreed at the audit.

All core costs incurred from the start of the contract to 30 June 2020 were agreed and have been correctly recharged.

The number of variable items (e.g. clinical/garden/bulky waste collections, fly tips etc) are being confirmed by supervising officers each month and the costs correctly recharged to the partner authorities. The breakdown of the variable costs included in the contractor's invoices for January 2020 and June 2020 was also independently checked and agreed.

Level of Assurance

Based on the findings of the audit we have determined that good assurance can be given on those aspects covered by this review.

Executive Summary

The calculation of contract uplifts and the recharge of costs was found to be well controlled, and it was not necessary to make any recommendations to management as a result of this audit.

Internal Audit Service
October 2020

MAIN ACCOUNTING AUDIT

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Tony Baden

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**).

Completeness of Records – All transactions are promptly recorded in the General Ledger and bank reconciliations are regularly carried out to ensure that they are correct.	M
Journals – All journal entries are complete, accurate and properly authorised.	P
Budgetary Control – All expenditure and income is closely monitored and controlled.	M
Year End Provisions – Adequate provisions are made for outstanding liabilities and income due in the final accounts.	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.

The only point raised was in respect of the need to attach supporting documentation to journal entries when the narrative alone is not sufficient.

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
November 2020

TREASURY MANAGEMENT AUDIT

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Ola Janowicz

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.	P
Authorisation and Record Keeping – All loans are properly authorised with all relevant records and accounts updated and adequate documentation kept to support each transaction.	M
Repayment and Interest – All loan repayments and interest charges are correctly calculated and properly recorded.	P

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 were:

- **Online Banking System** – There is currently no back-up system administrator.
- **Reconciliation** – The investment and loans spreadsheets need to be reconciled to the main accounting system and to financial institutions’ records on a regular basis.

Two recommendations are also still outstanding from last year’s audit. These relate to the need for a process to notify the online banking system administrator of staff changes, and to produce procedure notes for Loans.

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
December 2020

CREDITORS AUDIT

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Tony Baden, Kate Woodbridge and Ben Coleman

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.	M

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 were:

- **Invoices paid without a purchase order** – There has been a significant rise in the number of invoices processed without a purchase order and this bypasses standard controls. Management therefore need to remind all authorisers and requisitioners that a purchase order must be raised for all goods and services unless the supplier is named on the Exempt Suppliers List.

- **Orders that remain open once fulfilled** – This is a known issue. A recommendation is made to produce regular reports highlighting all such cases so that the orders can be manually closed to prevent them from being reused.

Three medium risk recommendations are also still outstanding from previous audits. Two of these relate to improvements required to the controls for the approval of additional expenditure. The other was to provide a more permanent solution to the issue of purchase orders remaining open once fulfilled.

Executive Summary

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

Internal Audit Service
December 2020

Summary of Progress on Recommendations Made up to 30 September 2020

Old Years - Audit Recommendations 2018/19 and 2019/20

Previous quarter's performance shown in brackets

Risk	Issued	Implemented	Work-in-Progress	Not Started
High	3	3 (3)	0 (0)	0 (0)
Medium	71	63 (58)	7 (11)	1 (2)
Low	39	34 (34)	4 (3)	1 (2)
Total	113	100 (95)	11 (14)	2 (4)
		88.5% (84.1%)	9.7% (12.4%)	1.8% (3.5%)

NB – The last remaining 2017/18 recommendation was also completed this quarter.

Breakdown of outstanding audit recommendations for 2018/19 and 2019/20 by Head of Service:

Ben Hook (Acquisitions, Transformation & Regeneration)

- Property Investment (2019/20) - issued 04/02/20 (1 Medium)

Deborah Kenneally (Neighbourhood Services) – recent appointment

- Car Park Income (2019/20) - issued 27/09/19 (1 Medium, 1 Low)

Robin Vennard (Resources)

- Procurement (2018/19) – issued 05/10/18 (1 Medium)
- Council Tax (2018/19) – issued 04/01/19 (1 Low)
- ICT Network Security (2018/19) – issued 16/01/19 (1 Low)
- Creditors (2018/19) – issued 12/03/19 (1 Medium)
- ICT Governance (2018/19) – issued 12/04/19 (1 Medium)
- Main Accounting (2019/20) – issued 23/12/19 (1 Low)
- Treasury Management (2019/20) – issued 11/03/20 (1 Medium, 1 Low)
- Creditors (2019/20) – issued 21/04/20 (2 Medium)

Long Outstanding
Recommendations

Current Year - Audit Recommendations 2020/21 (up to 30 September 2020)

Risk	Issued	Implemented	Work-in-Progress	Not Started
High	0	0	0	0
Medium	1	1	0	0
Low	2	2	0	0
Total	3	3	0	0
		100%	0%	0%