

Rother District Council

Report to:	Audit and Standards Committee
Date:	21 March 2022
Title:	Internal Audit Report to 31 December 2021
Report of:	Gary Angell, Audit Manager
Purpose of Report:	To report on Internal Audit activity in the third quarter of 2021/22 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 2021 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.

Current Position

3. The Internal Audit Team is now back on target to complete the majority of work in the 2021/22 Audit Plan by 31 March 2022.

Summary of Activity to 31 December 2021

4. Five audit reports were issued in the quarter. An overview of the findings arising from each of these audits is given in the Executive Summaries which are reproduced in Appendix A.
5. All of these audits provided good or substantial assurance on those areas reviewed.

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 there has been some movement on the older year recommendations this quarter. However, this includes two recommendations which were closed, unresolved. Both relate to technical issues with the

Creditors system, which in certain circumstances can allow additional expenditure to either be authorised without proper approval or authorised by the same person who raised the original purchase order. The root cause of these issues has now been established, but the cost of fixing them would be prohibitive given how infrequently they occur. The Chief Finance Officer has therefore decided to accept the risk of taking no further action in both cases.

8. Two other recommendations (ICT Network Security and ICT Governance) are almost complete and the third (Procurement) has recently been picked up by the Chief Finance Officer following the retirement of the Assistant Director Resources.
9. The Chief Executive has been informed about progress on all long outstanding recommendations.
10. Progress on the current year recommendations remains good, with over half now completed.

Conclusion

11. The majority of the 2021/22 Audit Plan will be completed by 31 March 2022.
12. There has been some movement on the older audit recommendations this quarter and only three recommendations now remain outstanding.

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 2021 B – Summary of Progress on Recommendations Made up to 30 September 2021
Relevant Previous Minutes:	AS21/41
Background Papers:	None.
Reference Documents:	None.

GROUNDS MAINTENANCE CONTRACT (CLIENT CONTROL) AUDIT

Head of Service: Deborah Kenneally

Officer(s) Responsible for Implementing Recommendations: Venus Blunden and Anna Evett

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**).

Contract – The contract is properly authorised and the contract documentation complete.	M
Monitoring Performance – The performance of the Contractor is adequately monitored to ensure compliance with the terms of the contracts.	M
Payments – All contract payments are correct and within the authorised budget.	P
Budget – The budget is monitored and controlled.	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 only issue found relates to the calculation of the annual inflation uplift. The wrong indices were used in 2018 and 2020, resulting in a small net overpayment to the Contractor at the time of the audit. However, if the error remains uncorrected, this will result in an overpayment of approximately £400 per month from October 2021 onwards. The Parks team has therefore agreed to take corrective action to prevent any further overpayment.

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 correct the issue highlighted above.

Internal Audit Service
October 2021

WORKS CONTRACT – BLACKFRIARS PROJECT AUDIT

Head of Service: Ben Hook

Officer(s) Responsible for Implementing Recommendations: Stephen Marsden

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 and Scope of Audit

The Blackfriars project aims to deliver 200 homes, including affordable housing, to the district. This audit focuses on the preliminary stages of the project and three contracts were reviewed, namely:

- Baily Garner LLP – the Employer’s agent
- Built Environment Design Partners Limited – for architectural design
- Breheny Civil Engineering Limited – for building of the spine road

The tendering process for building the residential housing was ongoing at the time of this audit and is not part of this report. However, it is intended that the house building stage of this project will be audited at a later date.

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**).

<p>Pre-Contract Stage – The project is formally appraised, and all works contracts are tendered for and let in accordance with Procurement Procedure Rules and Financial Procedure Rules. All contract documentation is in place before the commencement of works.</p>	<p>P</p>
<p>Currency of Contracts – All contracts for the delivery of the project are properly administered to ensure that they are completed on time, for the agreed price, and that the work is of a satisfactory standard.</p>	<p>M</p>

Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements. Some control issues were however identified, all of which relate to shortcomings in the Employer’s Agent’s management of the contract documentation. For example, Baily Garner had failed to ensure all necessary contract paperwork was in place before work commenced on two of the contracts reviewed. A performance bond which is required from the contractor building

the spine road had still not been completed at the time of the audit, several months after work had already commenced on site. Furthermore, Baily Garner has so far been unable to provide evidence that the contract for architectural design was ever signed. The work on this contract was completed some time ago, but without a signed contract in place the Council (rather than the contractor) could be held liable in any future disputes regarding design quality. The Developments Project Manager has therefore agreed to contact Bailey Garner to seek improvements to the service provided and will chase all outstanding paperwork.

None of the above mentioned issues have however hindered the progress of the project which remains good.

Executive Summary

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

Internal Audit Service
November 2021

INCOME MANAGEMENT AUDIT

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Rebecca Algar

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**).

Collection Arrangements – Adequate provision has been made for the collection and recording of Council income.	M
Receipting of Income – All collections and direct to bank credits are promptly, completely and accurately brought to account.	M
Post Collection Adjustments – Fund transfers and the refund of card payments are properly controlled. Income records are promptly updated where payment is rejected.	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.

Internal Audit Service
November 2021

TREASURY MANAGEMENT AUDIT

Head of Service: Robin Vennard

Officer(s) Responsible for Implementing Recommendations: Tony Baden and Noreen Safdar

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**).

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.	P
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
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.	M
Repayment and Interest – All loan repayments and interest charges are correctly calculated and properly recorded.	M
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.	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 relate to:

- **Credit Ratings** – The sovereign credit ratings reported to Members in the Treasury Management Strategy for 2021/22 contained inaccurate ratings for four countries, including the UK. None of these countries fell below the minimum AA-rating specified in the Strategy but checks should be undertaken to ensure that the information contained in future reports is accurate.
- **Online Banking** – Alliance Homes' bank account has been added to the Lloyds Commercial Banking Online System and two Councillors and three officers have been set up as approvers. It is currently unclear whether the Councillors' access also allows them to approve payments from the Council's bank account, but this will need to be restricted if it does. The officers concerned will need access to both bank accounts but separate user names should be established so that it is clear in what capacity they are agreeing to the payments.

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 2021

POLLUTION CONTROL AUDIT

Head of Service: Richard Parker-Harding

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

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**).

Inspections – All authorised processes (air pollution) are regularly inspected to ensure compliance with specified conditions. Complaints are also followed up as appropriate, and other environmental factors routinely monitored.	M
Enforcement – All enforcement action is undertaken in accordance with the Enforcement Policy and the costs incurred by the Council recovered where possible.	M
Budget – All expenditure on pollution control is correctly incurred and within budget, and all income from authorised process collected.	M
Public Health Funerals – Wealden DC public health funerals are administered in accordance with the Public Health (Control of Disease) Act 1984.	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 issue identified relates to how cash found during Wealden DC public health funeral visits is banked. This has to be banked by the officers themselves as cash is no longer collected from the Council offices. However, the money is currently being deposited into an officer's personal NatWest bank account first then immediately transferred to the Council's Lloyds bank account. The reason given for this is that the local branch of Lloyds Bank does not have a coin counting machine. While this process has been established with the best of intentions, it is not acceptable practice, and a recommendation has therefore been made that all cash be deposited straight into the Council's bank account from now on.

Some minor issues were also found regarding the monitoring of outstanding pollution complaints, the charging and collection of subsistence fees for prescribed processes, and the recovery of costs incurred for works in default.

Executive Summary

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

Internal Audit Service
December 2021

Summary of Progress on Recommendations Made up to 30 September 2021

Old Years – Audit Recommendations 2018/19 and 2019/20 and 2020/21

Previous quarter's performance shown in brackets

Risk	Issued	Implemented	Work-in-Progress	Not Started
High	3	3 (3)	0 (0)	0 (0)
Medium	79	77* (75)	2 (4)	0 (0)
Low	49	48 (46)	1 (2)	0 (0)
Total	131	128 (125)	3 (6)	0 (0)
		97.7% (95.4%)	2.3% (4.6%)	0% (0%)

Note – All audit recommendations made in 2020/21 have now been implemented.

* This figure includes two long outstanding Creditors recommendations that have been closed unresolved.

Breakdown of outstanding audit recommendations by Service Manager:

Antony Baden (Chief Finance Officer)

- Procurement (2018/19) – issued 05/10/18 (1 Medium)

Graham McCallum (ICT Manager & Data Protection Officer)

- ICT Network Security (2018/19) – issued 16/01/19 (1 Low)
- ICT Governance (2018/19) – issued 12/04/19 (1 Medium)

Current Year – Audit Recommendations 2021/22 (up to 30 September 2020)

Previous quarter's performance shown in brackets

Risk	Issued	Implemented	Work-in-Progress	Not Started
High	0	0 (0)	0 (0)	0 (0)
Medium	10	6 (3)	4 (4)	0 (0)
Low	9	5 (3)	4 (3)	0 (0)
Total	19	11 (6)	8 (7)	0 (0)
		57.9% (46.2%)	42.1% (53.8%)	0% (0%)