

Rother District Council

Report to:	Audit and Standards Committee
Date:	26 September 2022
Title:	Internal Audit Report to 30 June 2022
Report of:	Gary Angell, Audit Manager
Purpose of Report:	To report on Internal Audit activity in the first quarter of 2022/23 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 2022 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 2022

3. Two 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.
4. Both audits only provided limited assurance on the overall governance arrangements. The reasons for this are outlined below:
 - **Procurement** – The limited assurance rating was not due to a specific issue; it is a consequence of the number of issues found. The audit findings highlighted the need for greater awareness of/compliance with the Procurement Procedure Rules.
 - **Capital Programme** – This was given a limited rating because of the number and seriousness of some of the issues found. These include capital project budgets not being monitored by Finance on a regular basis and failures in communication resulting in either project overspends not being promptly identified or the reasons for project slippage not being established.

Note – Project Managers also have a responsibility for budgetary monitoring, and it is our intention to carry out an audit of projects within the Corporate Programme next year to check that this obligation is being met.

Implementation of Audit Recommendations

5. 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.
6. Only two long outstanding recommendations now remain. Whilst progress continues to be made to resolve the Procurement recommendation, no further progress has been reported this quarter on the other (ICT Governance).
7. Good progress continues to be made on the 2021/22 recommendations, with over three quarters of the issues raised now resolved, including one high risk recommendation made in quarter 4

External Quality Assessment Update

8. As previously reported, the Public Sector Internal Audit Standards require all Internal Audit service providers to undergo an external quality assessment every five years. The Rother District Council (RDC) Internal Audit team's last external assessment was completed in April 2017, so another review is now due.
9. Initial enquires indicate that hiring an external provider to carry out this type of work may cost in excess of £9,000. However, seeing as the Internal Audit teams in our neighbouring authorities will also require external quality assessments in the near future, the Audit Manager has been in contact with audit colleagues from Hastings, Lewes & Eastbourne and Wealden councils to discuss the possibility of conducting reciprocal peer reviews, similar to those carried out in 2017/18. All have since agreed to participate in such an arrangement, and the scope of the assessment and logistics of who will review who has been finalised.
10. The plan is for each council to be reviewed by a team of two, with one auditor acting as the principal (or lead) reviewer and the other assisting in a supporting role only. It was decided to take this approach to reduce the potential for conflicts of interest due to one of the team also being assessed by a council that they themselves have reviewed.
11. The RDC Internal Audit team is due to be reviewed first, and this assessment will be undertaken by the Chief Internal Auditors at Lewes & Eastbourne and Hastings. It is proposed that this review will take place later this financial year, but the precise timing is yet to be determined. A further progress update will therefore be provided at our December meeting.

Conclusion

12. Two audits were completed in the first quarter of 2022/23, both of which provided limited assurance.
13. Progress on the long outstanding audit recommendations remains slow but continues to be monitored.

14. A reciprocal arrangement has been agreed to carry out a peer review of the RDC Internal Audit team later this financial year.

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

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Gary Angell, Audit Manager
e-mail address:	gary.angell@rother.gov.uk
Appendices:	A – Audit Reports issued during Quarter to 30 June 2022 B – Summary of Progress on Recommendations Made up to 31 March 2022
Relevant Previous Minutes:	AS22/12
Background Papers:	None.
Reference Documents:	None.

PROCUREMENT AUDIT

Service Manager: Malcolm Johnston

Officer(s) Responsible for Implementing Recommendations: Ben Hook, Deborah Kenneally and Joe Powell

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

All Council officers are expected to follow Procurement Procedure Rules (PPRs) when obtaining works, goods or services. These rules are designed to promote good purchasing practice, public accountability, and to prevent corruption.

Scope of Audit Coverage

This audit reviewed a sample of paid purchase orders over £5,000 across various Council departments to establish if PPRs are being followed.

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**).

To ensure that officers are complying with the PPRs and obtaining appropriately authorised exemptions where the standard procurement terms cannot be adhered to.	N
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Level of Assurance

Based on the findings from the audit we have determined that only limited assurance can be given on the overall governance arrangements owing to the number of issues found.

The audit reviewed eight different purchase orders for works ranging from £6k to £222k, but only three of these were found to be fully compliant with the PPRs and some failed on multiple points.

Audit recommendations have therefore been made to underline the need for greater awareness of/compliance with the rules, namely:

- A Procurement Initiation Document (PID) should be completed for all orders of £5,000 or more.

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- A minimum of three competitive quotes should be obtained for all orders between £5,000 and £49,999 unless an exemption form has been signed by a senior officer. Exemptions should only be requested and approved in exceptional circumstances.
 - For all orders of £25,000 or more (including VAT) a completed PID should be forwarded to the East Sussex Procurement Hub (ESPH) with a request to place the contract details on the government's Contracts Finder website.
 - A contract signed by all parties under seal and checked by Legal Services should be obtained for all works exceeding £50,000 in value.

In those cases where a failure was identified and a recommendation was made, the relevant Head of Service/Director has been contacted and their agreement obtained to remind their staff of the importance of following these rules. The issues found were also discussed with the Senior Leadership Team who agreed the need for mandatory Procurement training and to update the PPRs to reflect recent changes.

Note – The need for Procurement refresher training was also acknowledged in the Annual Review of the Council's Procurement Strategy which was reported to Cabinet in February 2022.

Executive Summary

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

Internal Audit Service
June 2022

CAPITAL PROGRAMME AUDIT

Service Manager: Antony Baden

Officer(s) Responsible for Implementing Recommendations: Antony Baden

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

This audit review was carried out at the request of the Chief Finance Officer.

Scope and Limitations of Audit Coverage

The audit only focuses on a sample of capital projects. It was not possible to review all capital expenditure within the time available.

The adequacy of project appraisals was not specifically tested as part of this review.

It should also be noted that the audit does not include any scrutiny of accounting practices and procedures, as we are not qualified to give an opinion on such matters. External Audit are responsible for reviewing accounting practices.

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**).

The Council's Capital Programme is approved by Members and progress is regularly reported.	M
Individual budgets within the Capital Programme are closely monitored.	N
All projects within the Capital Programme have been properly appraised; external funding is accounted for and any funding conditions are adhered to.	P
Any project slippage is promptly identified, and any funding and cost implications are considered; the implication of any delays to other projects within the Capital Programme is assessed and mitigating action taken where necessary.	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 and seriousness of some of the issues found.

The main issues found relate to:

- **Monitoring of Expenditure** – Capital project budgets are not being monitored by Finance on a regular basis. Finance should ensure that regular budget meetings are held with project managers for all projects published in the Capital Programme. For all active works projects, this should be carried out on a monthly basis.
- **Communication** – There is currently no effective communication between project managers and Finance to promptly identify and report actual and potential project overspends within the Capital Programme. The Chief Finance Officer should remind all project managers of their responsibility to report Capital Programme overspends in accordance with Financial Procedure Rules. Reporting should include the reasons why the overspend has occurred and this should be included in reports to Cabinet where the overspends exceed £25,000.
- **Identification of Grants** - Grant monies sent by central government are often remitted to the Council with very little information included on the bank receipt. At present, grant receipts are checked by Finance as part of the year end process. However, given the number of anomalies identified at the audit and the difficulty in attributing grant receipts to specific projects, this task should be carried out on a more regular basis throughout the year. Finance should therefore liaise regularly with project managers to ensure that all anticipated grant monies have been received when due. This should help to ensure that any grant funding implications of project slippage are also taken into consideration.
- **Project Slippage** – (1) The reporting of slippage within the Capital Programme is based largely on any underspends during the current financial year which are generally then moved into the following year. There does not appear to be any regular communication from project managers to determine the precise reason for slippage and whether slippage is likely to go beyond the next financial year. Finance should request that project managers provide a quarterly update detailing the reasons for any delays in project delivery. Projected future spend should also be allocated to the most realistic year, fully taking into consideration the reasons for delay. (2) The high rates of inflation and steeply rising costs of certain raw materials mean that project slippage could result in significant additional cost especially for those projects where long delays are anticipated. The Chief Finance Officer should therefore advise project managers that when slippage is anticipated to be more than 12 months beyond the original project delivery date, costs and contingencies should be re-evaluated to ensure that the scheme remains viable.
- **Currency of Capital Programme** – The Capital Programme is not currently reviewed to identify “legacy” projects which may not progress in full, or which may no longer be consistent with corporate objectives. The Chief Finance Officer should liaise with senior management on at least an annual basis to consider removing or revising projects in the Capital Programme which may not be able to progress, or which may no longer be consistent with corporate objectives.

Recommendations were also made for improvements to the Capital Programme monitoring records and for better control over the setting up of new cost centres for capital expenditure.

Note – The Council has recently employed an additional CIPFA qualified accountant on a fixed term basis whose duties will include making improvements to capital reporting and monitoring.

Executive Summary


Overall, the control objectives are considered to have only been partially met. We have made one high and eight medium/low risk recommendations to management in order to improve the governance arrangements. The high risk recommendation and management's response to it will be included in the quarterly report to the Audit and Standards Committee.

Internal Audit Service
June 2022

CAPITAL PROGRAMME AUDIT

High Risk Recommendations and Management Responses

The recommendations below arise from audit findings which carry a **High** risk and which have resulted in the control objective not being met (**N**). Management's response to the recommendation is also included and where the recommendation or an alternative action which will satisfy the control objective is agreed, an implementation date is shown. Progress against these recommendations will be included in the quarterly report to Audit and Standards Committee.

Audit Ref	Finding/Risk	Recommendation	Risk	Management Response
2.1	<p>Finding</p> <p>Capital project budgets are not being monitored by Finance on a regular basis.</p> <p>Risk</p> <p>Overspends are not promptly identified increasing the risk of further financial loss; project managers are not given enough support to effectively manage project costs.</p>	<p>Finance should ensure that regular budget meetings are held with project managers for all projects published in the Capital Programme. For all active works projects this should be carried out on a monthly basis.</p>	<p>High</p> 	<p>Agreed – The aim will be for the capital programme to be monitored in the same way as the revenue budget.</p> <p>Agreed Implementation Date</p> <p>September 2022</p> <p>Responsible Officer</p> <p>Antony Baden – He will allocate resources from within the Accountancy team to carry out this work.</p>

Summary of Progress on Recommendations Made up to 31 March 2022

Long Outstanding Audit Recommendations – 2 Remaining (2018/19)

Previous quarter's performance shown in brackets

Risk	Issued	Implemented		Work-in-Progress		Not Started	
High	3	3	(3)	0	(0)	0	(0)
Medium	39	37	(37)	2	(2)	0	(0)
Low	25	25	(24)	0	(1)	0	(0)
Total	67	65	(64)	2	(3)	0	(0)
		97.0%	(95.5%)	3.0%	(4.5%)	0%	(0%)

Note – All audit recommendations made in 2019/20 and 2020/21 have been resolved.

Breakdown of long outstanding audit recommendations by Service Manager:

Antony Baden (Chief Finance Officer)

- Procurement (2018/19) – issued 05/10/18. Recommendation to formalise an SLA for the service provided by the East Sussex Procurement Hub (Medium).

Graham McCallum (ICT Manager & Data Protection Officer)

- ICT Governance (2018/19) – issued 12/04/19. Recommendation to produce a new ICT Disaster Recovery Plan (Medium).

Last Year – Audit Recommendations 2021/22

Previous quarter's performance shown in brackets

Risk	Issued	Implemented		Work-in-Progress		Not Started	
High	1	1	(0)	0	(0)	0	(0)
Medium	25	19	(11)	6	(6)	0	(0)
Low	21	18	(10)	3	(5)	0	(0)
Total	47	38	(21)	9	(11)	0	(0)
		80.8%	(65.6%)	19.2%	(34.4%)	0%	(0%)