# INTERNAL AUDIT PROGRESS REPORT

Rushcliffe Borough Council FEBRUARY 2023

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# SUMMARY OF 2022/2023 WORK

### **INTERNAL AUDIT**

This report is intended to inform the Audit Committee of progress made against the 2022/2023 internal audit plan. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Internal Audit Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks, which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

### INTERNAL AUDIT METHODOLOGY

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in Appendix 1 of this report, and are based on us giving either 'substantial', 'moderate', 'limited' or 'no'. The four assurance levels are designed to ensure that the opinion given does not gravitate to a 'satisfactory' or middle band grading. Under any system we are required to make a judgement when making our overall assessment.



### 2022/2023 INTERNAL AUDIT PLAN

We are now making good progress in the delivery of 2022/2023 audit plan, and we are pleased to present the following reports to this Audit Committee meeting:

Main Financial Systems

Fieldwork is underway in respect of the following audits and we expect to finalise these reports by the end of February

- Safeguarding
- Sustainable Warmth
- ▶ Project Management: Hybrid Mail
- Channel Shift

We will present these reports at future Audit Committee meetings.

### CHANGES TO THE 2022/2023 INTERNAL AUDIT PLAN

No changes to note.

# **REVIEW OF 2022/2023 WORK**

AUDIT	AUDIT COMMITTEE	PLANNING	FIELDWORK	REPORTING	DESIGN	EFFECTIVENESS
Fraud Report	June 2022	$\forall$	$\forall$	$\forall$	N/A	N/A
Project Management (1)	September 2022	$\bowtie$	$\swarrow$		M	S
Environment	September 2022	$\forall$	$\swarrow$		5	M
Risk Management	September 2022	$\checkmark$	$\checkmark$	$\swarrow$	S	S
Health and Wellbeing	November 2022	<b>₩</b>	$\forall$	$\swarrow$	M	M
Main Financial Systems (MFS)	February 2023	$\forall$	$\forall$	$\bigvee$	S	S
IT Asset Management	November 2022	$\swarrow$	$\swarrow$	$\bigvee$	M	S
Sustainable Warmth Funding	June 2023	$\bowtie$	$\swarrow$	$\swarrow$		
Safeguarding	June 2023		$\swarrow$	$\checkmark\!\!\!/$		
Channel Shift	June 2023	$\forall$	$\bowtie$			
Project Management (2)	June 2023	$\forall$	$\forall$			



## MAIN FINANCIAL SYSTEMS

### **CRR REFERENCE:**

11: Failure to prevent or detect fraud and corruption

 Design Opinion
 Substantial

 Recommendations
 0

 3

 Design Effectiveness

 Substantial



### **BACKGROUND**

Local authorities are required to maintain sufficient effective controls over their main financial systems to support effective management of resources. Financial controls play an important role in ensuring the accuracy of reporting, eliminating fraud, and protecting the organisation's resources, both physical and intangible. These internal control procedures reduce process variation, leading to more predictable outcomes.

Main financial systems audits are conducted each year at Rushcliffe Borough Council (the Council):

- ▶ In November 2020 we focused on the processes and controls relating to payroll, accounts receivable and reconciliations. We provided substantial assurance for both the design and the operational effectiveness of the controls in place
- ▶ In October 2021 we looked at processes and controls in place in relation to Council Tax and NNDR, payroll and treasury management. An opinion of substantial assurance was given.

The Council's main financial system is the E-Financial system within which general ledger transactions are recorded. Accounts payable transactions are recorded in the E-Procurement system which automatically feeds into the E-Financial system. Only members in the Finance Team have the authority to make entries onto the general ledger system. The level of access an Officer external to the Finance Team is granted is determined by their manager which could be:

- Requisitioner Officer can raise purchase orders (POs)
- Authoriser Officer can approve POs of a certain value.

This year's audit focussed on the processes and controls relating to the general ledger, access controls, and accounts payable.

### AREAS REVIEWED

This review focused on the following:

### **GENERAL LEDGER RISKS**

- We reviewed the policies and procedures relating to the management of the general ledger
- Walkthrough testing of the E-Financial System and the E-Procurement system
- Review of the bank reconciliations to confirm they have been done in a timely manner and discrepancies have been investigated
- Sample testing of the Suspense Account entries to ensure these are reallocated in a timely manner.

### **ACCESS CONTROLS RISKS**

Reviewed a report of user access rights and completed sample testing to ensure officers at the Council were granted the correct level of access

### ACCOUNTS PAYABLE RISKS

Reviewed the policies and procedures relating to the accounts payable process



Completed sample testing of payments to determine purchase orders was raised, approved appropriately, raised before the receipt of an invoice and the payment was made accurate and timely.



We identified the following areas of good practice:

### **GENERAL LEDGER**

- ▶ The Council has Financial Regulations that provide information to officers on key areas including contracts, financial management, orders for goods and services and payroll. The Regulations were last reviewed by the Services Manager in February 2022 and remain fit for purpose. Additionally, the Council has guidance documents for the performance of the suspense account reconciliation and bank reconciliation. Each document is clear and concise with supporting images and remain relevant to the Council's current processes
- ▶ The Council has four systems that feed into the E-Financial System: Civica (payment system); Academy (Revenue and Benefits System); Resources Link (payroll system) and the HSBC Bank File. Finance Technicians download these reports from the system and upload these on to the E-Financial system on a daily or monthly basis. Our walkthrough testing of the system identified that the E-Financial system automatically fails to upload the report if there are errors in the data. Officers then have to investigate the errors in the report before re-running the data on the system
- ▶ The Council performs daily and monthly bank reconciliations to the E-Financial system. We reviewed three monthly bank reconciliations performed since April 2022 and noted these were completed in a timely manner, with reviews undertake by an appropriate officer. Each reconciliation had supporting documentation and where variances occurred these were investigated and solved
- ▶ Daily reconciliations are performed to ensure that the suspense account entries are allocated to the correct cost centre code and are signed off by a member of the Finance Team. We tested a sample of five transactions entered in the suspense account and confirmed that these were allocated to the correct cost centre code and had supporting documentation in place.

### **JOURNALS**

▶ The Finance Team generates a report of journals that exceed £10,000, which is reviewed and approved by the Senior Finance Business Partner on a monthly basis. We reviewed the report and confirmed this was completed in a timely manner and signed by the Senior Finance Business Partner.

### ACCOUNTS PAYABLE

- ▶ The Council receives invoices which are not raised by POs such as utility bills. We tested a sample of four of these invoices received by the Council since April 2022 and identified that the payment was approved by the appropriate persons and processed in a timely manner
- ▶ The Council has a target to pay suppliers within 30 days from the date of receipt. We tested a sample of eight invoices received since April 2022 and confirmed all the suppliers were paid within this deadline
- ▶ The Council has guidance documents to outline the processes for accounts payable detailing the use of the different financial systems which are available on the intranet. Procedure notes are provided for Purchase Order Amendments, BACS Payment Runs, Goods Receipting and Authorising a Requisition on the E-Procurement system. Each procedure document was informative with supporting images to support the user and assist them through the process. Discussions with the Systems and Performance Officer confirmed that all the documents are representative of the Council's current processes
- Officers must complete a new supplier form, which is available on the staff intranet and submit this to the Finance Team. The Finance Team will verify the supplier details by contacting the supplier directly using contact details available on the internet rather than details provided on the new supplier form by the Officer. We tested a sample of five new

suppliers and confirmed the Council retains contact details which match to those available online.



### Finding

# Individuals external to the Finance Team can have two levels of access to the E-Financial System: either requisitioner or authoriser level. No individual should have access to both. We tested a sample of 10 individuals and found that in one instance an Officer was granted both requisitioner and authoriser level access up to a value of £15,000. Due to the system's automated controls this was deemed a low risk finding as the E-Procurement system does not allow requisitioners to authorise POs they have raised.(see Finding One - Low)

### Recommendation and Management Response

The Finance Team should introduce a checking process when setting up or changing the level of access of individuals on the E-Financial system to ensure the correct level of access is granted.

### Management Response:

We will implement a checking process when changing roles within the system.

Target date: 31/01/2023

- ▶ The Council has procurement card procedure notes; however these do not state what type of spend is permitted and associated limits, nor the requirement for cardholders to retain receipts. Limits are established by the Director of the area and the Finance Team which are communicated to the officer. There is a requirement for cardholders to complete a procurement log that Managers must approve, which details an explanation of the transactions but no guidance on the transactions which are allowed (see Finding Two - Low)
- a) To update the Procurement Card procedure documents to include guidance for cardholders on the transactions which are permitted
- b) The guidance should be updated to include the requirement for cardholders to retain receipts and include these with the monthly procurement card log.

### Management Response:

We will issue guidance notes to new cardholders and put these on the intranet for reference. We will include details of permitted spend and retention of receipts as recommended above. We have also spoken to current cardholders about the requirements and for departments where they hold a high number of cards, we are booked to attend their team meetings to address any questions that they may have.

Target date: 31/01/2023

We tested a sample of four invoices that had been raised from POs on the E-Procurement system and identified that there were two invoices where the goods received value stated was different to the value on the invoice. These were annual contracts and the invoice received was for one month service suggesting the goods receipt was done ahead of the service being received. (see Finding Three - Low).

For officers at the Council to indicate 'good received' on a monthly basis for annual contracts and only when a good or service has been received.

### Management Response:

We accept the two errors identified in the first finding above, both of which had arisen due to the postholders being new to the process. Both individuals have received refresher training and we will ensure training is given in the future. Current procedure is to only good receipt on a monthly basis and this is included in the procedure note.

Target date: 31/01/2023



- Overall, the Council has good controls in place to manage the main financial system. The Council uses the E-Financial system which automatically identifies discrepancies within uploaded data. Additionally, the Finance Team performs bank reconciliations which ensures that the data within the E-Financial system and are approved by the Senior Financial Business Partner. However, our sample testing identified that one individual was granted access to both raise and approve a purchase order. Management was unaware of this, indicating that there are no controls to check that user access is appropriate. This creates a risk of fraudulent activity occurring at the Council
- Whilst the Council monitors the usage of procurement cards via cardholders completing a monthly procurement log, we identified that the procurement card procedure notes do not provide guidance on the type and value of transactions that are acceptable
- ▶ The findings raised are low level findings and will be addressed by management, which has led us to conclude a substantial assurance over the control effectiveness and on the control design.

# SECTOR UPDATE

This briefing summarises recent publication and emerging issues relevant to local government that may be of interest to your organisation. It is intended to provide a snapshot of current issues for senior managers and Members.

### ROCHDALE MBC PLANS TO PARTLY OFFSET COUNCIL TAX RISE WITH DISCOUNT FOR RESIDENTS

Rochdale MBC plans to raise council tax by the maximum allowed without a referendum (4.99%) but then use its reserves to give residents a 2% discount on their bills. The council has made the decision to raise general council tax by 2.99%, with an additional 2% for the adult social care precept because future government funding is expected to be based on councils increasing council tax by the full amount.

However, Rochdale is proposing to give all residents a 2% discount which will be taken off council tax bills prior to their being issued at the beginning of March.

This discount will be funded by the council through its reserves at an estimated cost of £2.75m.

According to the council's latest statement of accounts (for the 2021-22 financial year), Rochdale had £275.8m in useable reserves. These proposals are due to be discussed at the next meeting of Rochdale's corporate overview and scrutiny committee next week on 2 February.

Neil Emmott (Lab) said: "We have been told that when it comes to future funding the government will assume all councils have maximised their council tax increase, but we must all have sympathy for our residents who are living through a cost-of-living crisis." Cllr Emmott said the government had given the council "no choice" and is "twisting our arm up our back".

He added: "But by using our reserves to take some pressure off our residents, I hope we can also safeguard the services that are increasingly needed, and which people expect to see provided for their council tax."

Met plans to partly offset council tax rise with discount for residents | Local Government Chronicle (LGC) (lgcplus.com)

### FOR INFORMATION

For the Audit Committee Members and Executive Directors

### **'LOCAL AUDIT IS IN CRISIS'**

Responding to a report by the National Audit Office on the timeliness of local auditor reporting, Cllr Pete Marland, Chair of the Local Government Association's Resources Board, said:

"Effective external audit and clear and transparent financial reporting are vital, and councils take them extremely seriously. However, as this report makes clear, local audit is in crisis, which is a serious concern for councils.

"While it acknowledges some actions have been taken to address this, we support the call for the Government to set out a detailed timetable by which it expects to restore timely audited accounts.

"Most councils have been able to finalise their draft accounts by the published deadlines but will be under greater pressure to do this for their 2022/23 accounts if the deadline reverts to 31 May 2023, as currently proposed by DLUHC.

"The report also highlights the wider impact the crisis in local audit is having elsewhere in the public audit system, which reinforces the need for long-term and permanent solutions to address these challenges."



Responding to a Joseph Rowntree Foundation annual report on poverty, which shows that 13.4 million people were in poverty during 2020/21 including 3.9 million children, Cllr Peter Marland, Chair of the Local Government Association's Resources Board, said:

"Protecting those in poverty is a critical priority for councils. As this report highlights, targeted government support does help, but millions of people still face uncertainty due to inflation and being unable to pay rising bills.

"The Government should make the Household Support Fund it has provided to councils permanent, alongside greater flexibility to ensure this helps those in the greatest need and crucially shift focus from short-term crisis support to investing in prevention.

"Councils should also have the resources and flexibilities to tackle inequalities in housing, employment, education and to improve access to services such as debt advice and welfare benefits, to improve our communities' overall health. Green, inclusive local economies and access to amenities which promote health and wellbeing also have a role, at a time of intense pressure on households and services.

"Alongside this, we need a sufficient mainstream welfare system, which ensures families have enough income to meet their essential living costs including addressing the freeze in local housing allowance rates."

'Local audit is in crisis' - LGA responds to NAO report on Timeliness of Local Auditor Reporting | Local Government Association

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### PROTECTING THOSE IN POVERTY A CRITICAL PRIORITY - LGA RESPONDS TO JRF REPORT

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PROTECTING THOSE IN POVERTY A CRITICAL PRIORITY - LGA RESPONSE TO JRF REPORT ON POVERTY | LOCAL GOVERNMENT ASSOCIATION

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# **KEY PERFORMANCE INDICATORS**

QUALITY ASSURANCE	КРІ	RAG RATING
The auditor attends the necessary, meetings as agreed between the parties at the start of the contract	All meetings attended including Governance Scrutiny Group meetings, pre-meetings, individual audit meetings and contract reviews have been attended by either the Director or Audit Manager	G
Positive result from any external review	Following an External Quality Assessment by the Institute of Internal Auditors in May 2021, BDO were found to 'generally conform' (the highest rating) to the International Professional Practice Framework and Public Sector Internal Audit Standards	G
Quality of Work	No surveys have been received as yet for 22/23	<u>-</u>
Completion of audit plan	On track	G

# **APPENDIX 1**

### **OPINION SIGNIFICANCE DEFINITION**

LEVEL OF ASSURANCE	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION	FINDINGS FROM REVIEW
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address inyear.		A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address inyear.	•
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

### RECOMMENDATION SIGNIFICANCE DEFINITION

### **RECOMMENDATION SIGNIFICANCE**

High



A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.

Medium



A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.

LOW



Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

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