

## **AUDIT COMMITTEE**

**DATE OF MEETING:** 27 JULY 2021

**TITLE OF REPORT:** INTERNAL AUDIT PROGRESS REPORT Q1 2021/22

**Report of:** Internal Audit Manager

**Cabinet Member:** Councillor James Radley, Finance and Corporate Services

### **1. PURPOSE OF REPORT**

- 1.1 To update the Committee on Internal Audit work Carried out between 1<sup>st</sup> April 2021 and 30th June 2021.

### **2. OFFICER RECOMMENDATION**

- 2.1 That the report and appendix summarising Internal Audit work completed between April 2021 and June 2021 is noted.

### **3. BACKGROUND**

- 3.1 Internal Audit prepares an annual risk-based plan which identifies work to be carried out during the year. The plan was approved by the Committee in March 2021 and reflects a reduced level of resource available during Quarter One due to the administration of Statutory Business Rates Grants.
- 3.2 Two audits were completed in Q1 2021/22 - both of which were carried over from the prior year 2020/21 Internal Audit Plan.

3.3 Progress made to date on the 2021/22 internal audit plan is shown below:

Area of Review	Current Status	Target Completion Date
<b>Carry over from 2020/21</b>		
Housing Benefits	In progress - draft report	July 2021
Treasury Management	Completed	
<b>Audit Plan 2021/22</b>		
Complaints	In progress	September 2021
Fraud Risk Assessment	In progress	August 2021
IT Controls	In Progress	September 2021
Waste / Street Cleaning	Planned Q2	
Financial Resilience	Planned Q2	
Accounts Payable	In Progress	September 2021
Accounts Receivable	Planned Q2	
Main Accounting	Planned Q2	
Disabled Facilities Grants	In Progress	September 2021
Planning Performance	Planned Q2	
Local Taxation	Planned Q3	
Treasury Management	Planned Q3	
Payroll	Planned Q3	
Housing Benefit	Planned Q4	

## 4. CONSIDERATIONS

### 4.1 Planned Work

During the period between May 2021 and June 2021 reports were issued for:

- Treasury Management 2020/2021

## 4.2 Unplanned Work

Resources from Internal Audit continue to be used to complete the Business Grants Payment process, it is likely that this will be completed by the 31<sup>st</sup> of July 2021 or shortly after. Any audits which cannot be fulfilled by the existing resource will be procured in accordance with Contracts Standing Orders.

The cost of these reviews will be met from Additional Burdens Funding provided by Central Government for the administration of business rates grants.

## 4.3 Follow Up of High-Level Recommendations raised in 2020/21

- 4.3.1 There were three outstanding high risk audit recommendations raised from the Payroll audit from 2020/21. One recommendation has now been verified as completed and two recommendations have been allocated to officers and are in progress.

### 4.3.2 Completed Recommendation

**Starters and Leavers** – this is a long-standing finding relating to inadequate controls in this area. In July 2021 a new electronic form has been launched whereby managers are able to record leavers - use of this form will be reviewed in the IT controls audit.

### 4.3.3 Recommendations in Progress

Fraud Risk Assessment / Payroll	That recruitment checks in place do not always meet employment law requirements.	In progress
Fraud Risk Assessment / Payroll	The DBS framework needs to be reviewed	In progress

- 4.3.4 Follow up of previously raised internal audit recommendations will now be reviewed on a quarterly basis in June, September, December, and March. These will be reported to the following committee.

## 4.4 Counter Fraud

- 4.4.1 The Annual fraud risk assessment is in progress and the results of this will be reported to the September Audit Committee.

4.4.2 Pre and Post fraud checks are being completed on the grant payments as required by the Department of Business, Energy & Industrial Strategy (BEIS). Any suspected frauds are being reported to the National Anti-Fraud Network (NAFN) and Action Fraud.

4.4.3 To date the following suspected frauds have been reported:

Scheme	Number of grants reported	Number of grants paid
Restart Main	7	1 (£2667)
Restart Discretionary	4	0

4.4.4 The Statutory National Fraud Initiative (NFI) Matches for Council Tax Reduction Scheme are being worked through by the Housing Benefit / Revenues teams. Work required on Accounts Payable is 68% complete and any duplicate payments found will be flagged with the Accounts Payable team.

4.4.5 There are a small number of NFI grant matches from the first round of grant payments (March – September 2020) these will be reviewed in due course.

## **5. Risk Management**

5.1 Internal Audit continue to facilitate the risk management process to ensure effective arrangements are in place to manage risk.

5.2 The Audit Manager is working with all Heads of Service to review the Corporate and Service risk registers to ensure service plan risks are considered. Reviewed registers will be presented to the Overview and Scrutiny Committee in September 2021.

## **6. FINANCIAL AND RESOURCE IMPLICATIONS**

6.1 The Financial and Resource Implications are detailed in Section 4 of this report.

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## **APPENDICES**

Appendix 1 - Treasury Management – summary findings

<b>Area of Review</b>	Treasury Management  KPMG – Completed June 2021
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## 1. Conclusion

The Auditors have reviewed the controls around the management and operation of the Treasury Management function at the council.

*An overall assurance rating of Significant Assurance with minor improvement opportunities / Satisfactory.*

This is in line with management's anticipated assurance level and means that the core systems are generally well designed, with some minor scope for improvement in their operation.

The review has raised three recommendations, none of which are considered high priority. Two of the recommendations raised in year are medium priority and all recommendations are detailed in Section 4.

The review focussed on the core areas around treasury management, including the investment making and monitoring process, performance of bank reconciliations, monitoring of loans and loan payments, and the cash-flow forecasting process

## 2. Summary of Good Practice

The review identified the following instances of good practice:

- The Council has a detailed Capital Strategy, Treasury Management Strategy Statement and Annual Investment Strategy for the year 2020/21, approved by the Overview and Scrutiny Committee on 21 January 2020, and subsequently approved by Cabinet. This strategy is updated on an annual basis, taking in to account the current needs and challenges faced by the Council. The Strategy for 2021/22 was approved by the Overview and Scrutiny Committee on 19th January 2021, and subsequently by Council on 25th February 2021.
- The Council's strategy, when benchmarked against that of other councils, demonstrates a number of instances of good practice, especially relating to clear ownership of policy, CIPFA compliance and alignment with the Council's overarching strategy. See appendix three.
- The mid-year Treasury Management Report provided detailed updates against the Treasury Management Strategy. This was reviewed and approved by Council in December 2020.

- The Council has a Commercialisation Strategy, first agreed at Cabinet in August 2018 which sets out the Council's commitment towards diversifying investments through increased commercialisation.
- The Council has updated its Financial Regulations in year, which were approved by Cabinet on 5 November 2020. These new financial regulations make clear and detailed reference to treasury management.
- The Council has adapted well to remote working in light of Covid-19. Treasury management documentation – such as investment evidence and the rolling treasury management activity spreadsheet are saved on the shared drive, where it can be accessed remotely by all treasury management staff.
- The Council maintains a Treasury Management Activity excel workbook, with individual tabs for each of the core areas including loans, investments, and cashflows. This rolling workbook is updated regularly, with the master copy stored on the shared drive for ease of access for all relevant staff.
- Staff involved in the treasury management processes receive regular and on-going training, in line with CIPFA requirements.
- The Council works pro-actively with Barclays. Where an issue with the recording of bank account transfers was identified in year, this issue was swiftly communicated to Barclays so that it could be rectified as soon as possible and to minimise the impact on reporting and procedures within the Council.
- Approval of investments is limited to authorisers. There are currently 5 members of senior management who are approved authorisers, in line with the scheme of delegation.
- Our sample testing of investments found that all 15 investments tested were within the £5 million counter-party limit.
- The accounts team at Mendip DC performs a monthly reconciliation between the financial system Integra and the Council's Flexible Interest-Bearing Current Account (FIBCA) where all investment transactions are processed.
- Changes to the bank mandate are processed in a timely manner. New users are added, and leavers removed, appropriately.
- There is a clear segregation of duties in the key processes around adding or removing users on the bank mandate, performing bank reconciliations, and authorising investments.
- Authorisation limits and process flowcharts are available within the strategy. □
- Documentation is retained for all loans and saved on the Shared Drive for ease of access.
- We tested interest repayments on the PWLB loan and found that both repayments made in year had been calculated correctly. Payments had been made in a timely manner, in line with the repayment schedule.
- The Council is cash-less, as a result of a planned end to cash-handling prior to Covid-19. As a result, the Council does not handle any petty cash, mitigating risks around security and access to petty cash

### **3 Summary of recommendations and observations**

- The financial accounts team completes new investment forms which contain the details of the investment prior to a new investment being made.

Our sample testing of 15 investments in year found that new investment forms are not consistently used, with deficiencies in completion, accuracy, and regularity of these forms.

Our testing also identified instances where there was no documentation – such as investment confirmations - retained for historical investments, and where investments were not included on monthly investment returns.

**See Recommendation One.**

- In line with mandatory reporting requirements, the council produces three documents annually regarding treasury management. However, our review found that the Council currently does not regularly and consistently report on core treasury management areas, such as investment performance or cash-flow forecasts.

**See Recommendation Two.**

- Monthly bank reconciliations are performed for each of the five bank accounts held by the Council on the first day of the month. We tested a sample of 15 bank reconciliations and found that the breakdown of reconciling items tab had not been updated for the October 2020 bank reconciliation, and the November 2020 bank reconciliations – except for the FIBCA account – had not been marked as reviewed.

**See Recommendation Three.**

#### 4 Management Action Plan

Management Action Plan				
	Risk/Issue	Risk Assessment	Management Response	Responsible Officer
1.	<p>There is the risk that investments which are not in line with the Council's needs are approved, if information is not completed correctly on the new investment form, or the correct approval processes are not followed.</p> <p>Where information and key documentation is not stored, there is an inadequate audit trail for investments</p>	Medium	<p>Investments forms are consistently used for 3 new investments in 2021- 22 and all supporting documents are saved. Form has been upgraded for 2021-22 to add additional authorisation level to improve audit trail. Also, to avoid further administration issues where wrong number has been used as the Form reference, the Investment logging sheet has been simplified as discussed to improve visibility and controls.</p> <p>Actions Completed</p>	Mendip Finance Manager
2.	<p>There is the risk that there is inadequate oversight of the treasury management process and activities, specifically pertaining to investments, resulting in a potentially negative impact on the Council's overall financial position.</p>	Medium	<p>Management Response: Cashflows are saved on Hart shared drive and are shared with senior management. If there is a need to have additional audit trace of management review, financial accountant can set up monthly task for them and the finance manager where up to date cashflows will be sent to Finance Manager for review by email and if any further concerns discussed afterwards. Monthly</p>	Mendip Finance Manager



Audit Committee – July 2021  
Appendix 1  
Treasury Management Key Findings

			<p>Investment report will be sent starting from next month's report by email to S151 and Finance Manager.</p> <p>This will be completed from July 2021 when next report received.</p>	
3.	There is the risk that errors in the performance of bank reconciliations are not identified, due to inadequate review.	Low	<p>The bank reconciliations in questions were reviewed however regrettably not signed off on the spreadsheet, these recs have subsequently been re-reviewed and remain accurate. All bank reconciliations for 2021-22 are completed by the second working day of each month and have been reviewed and signed off. One presentational issue logged with CST remains outstanding and has been chased and the priority for it has been increased</p> <p>Actions completed</p>	Mendip Finance Manager