

BRENTWOOD BOROUGH COUNCIL INTERNAL AUDIT PROGRESS REPORT

Presented to the Audit and Scrutiny Committee 29 July 2019

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SUMMARY OF 2018/19 AND 2019/20 WORK

Purpose of Report

This report is intended to inform the Audit and Scrutiny Committee of progress made against the 2018/19 and 2019/20 internal audit plans. 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.

For audits with a substantial or moderate assurance opinion, the executive summaries from the final report will be included in the Internal Audit Progress Report. For audits with a limited or no assurance opinion, the full report will be included with the papers.

2018/19 Internal Audit Plan

The following report has been finalised, and the executive summary is included in this report:

- Main Financial Systems

The following report has been issued in draft, we are awaiting management comment and responses to the recommendations raised:

- Housing Department audit

The following audit remains in fieldwork, we are reviewing documentation received from management before we complete the audit and draft our report:

- Workforce Strategy and Organisational Structure

Changes to the 2018/19 Plan

There have been the following changes to the approved internal audit plan:

- Risk Management and Governance - This audit has been deferred to 2019/20 at the request of management and agreed by internal audit as it was reviewed last year.
- Housing Department Audit - a review was requested by management.

We agreed changes to the timings of the two audits below:

- Disaster Recovery and Business Continuity - moved from Q2 to Q4 (to allow for arrangements with Basildon Council to be confirmed and in operation).
- General Data Protection Regulations - moved from Q2 to Q4 (to allow for the new systems and process to become embedded, and provide a sufficient basis for audit testing).
- Risk Management and Governance - This audit has been deferred to 2019/20 at the request of management and agreed by internal audit as it was reviewed last year.

2019/20 Internal Audit Plan

Work is underway on the following two audits, which will be reported at the next Audit and Scrutiny Committee meeting in October 2019:

- Leisure Services Audit
- Human Resources Recruitment Audit

Planning is also underway for the following audits, which will be out in quarter 2:

- Housing Benefits and Universal Credit
- Trade Waste
- Environmental Health - Food Safety

We are also in the process of arranging risk management training and our counter fraud awareness work.

Changes to the 2019/20 Plan

We agreed changes to the timings of the audits below:

- Human Resources Recruitment Audit - moved from Q1 to Q2 (to take account of key contact annual leave absence)
- Leisure Services Audit - moved from Q1 to Q2 (planning completed in Q1 but audit resource booked to carry out the fieldwork in July 2019)
- Corporate Plan Audit - moved from Q2 to Q3 (to allow for corporate plan process to be completed).

REVIEW OF 2018/19 WORK

Audit	Executive Lead	Due Date	Planning	Fieldwork	Reporting	Design	Effectiveness	
Risk Management and Governance Arrangements	Sue White	Q4 Mar 2019	This audit has been deferred to 2019/20.					
Main Financial Systems	Phoebe Barnes	Q3/ Q4 Dec 2017	✓	✓	✓ Final			
Disaster Recovery and Business Continuity	Sue White	Q4 w/c 18 Mar 2019	✓	✓	✓ Final			
General Data Protection Regulations	Daniel Toohey	Q4 w/c 18 Mar 2019	✓	✓	✓ Final			
Local Development Plan	Phil Drane	Q3 Dec 2018	✓	✓	✓ Final			
Commercial Activities	Chris Leslie	Q1/Q2 Jun to Sep 2018	✓	✓	✓ Final			
Corporate Projects	Steve Butcher	Q3 Dec 2018	✓	✓	✓ Final			
Workforce Strategy and Organisation Structure	Phil Ruck	Q4 Apr 2019	✓	✓ Fieldwork completed	✓ Completion stage			
Housing - Homelessness	Stuart Morris	Q4 Feb 2019	✓	✓	✓ Final			
Building Control	Gary Sampson-Price	Q1 May/ Jun 2018	✓	✓	✓ Final			
Planning	Andy Millard	Q1 May/ Jun 2018	✓	✓	✓ Final			
PCI / DSS Compliance	Christopher Houghton/ Tim Huggins	Q2 Jul 2018	✓	✓	✓ Final			
Housing Department Audit	Phil Ruck / Steve Summers	Q4 Mar 2019	✓	✓	✓ Draft issued 29-May 2019			
Follow Up	Jacqueline Van Mellaerts	Ongoing	-----Separate follow up report to Audit and Scrutiny Committee in June 2019-----					

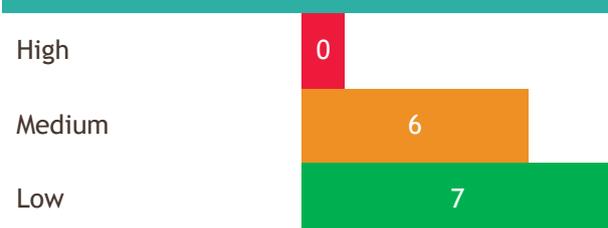
EXECUTIVE SUMMARY – MAIN FINANCIAL SYSTEMS

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE:

Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions.
Effectiveness	Moderate	Evidence of non compliance with some controls that may put some of the system objectives at risk.

SUMMARY OF RECOMMENDATIONS:



TOTAL NUMBER OF RECOMMENDATIONS: 13

BACKGROUND:

The Council's main financial systems are subject to annual cyclical reviews; this year the focus was on the General Ledger, Payroll, Treasury Management and Accounts Receivable. The Council is required to have sound controls in place with regards to its finance systems, in order to detect error and fraud. The purpose of this review is to ensure that there are adequate controls in operation relating to the areas stated above.

GOOD PRACTICE:

- Journals are appropriately authorised by a senior member of the finance team prior to being posted to the general ledger. There is a clear segregation of duties between input and authorisation.
- Investments and investment income is regularly monitored.
- Payroll performance is closely monitored and there appears to be strong communication channels between the Council and the new payroll provider to identify and address and issues and errors. Recommendations raised around contract management and the monitoring of Key Performance Indicators (KPIs) in the last financial year's audit have been sufficiently addressed.

KEY FINDINGS:

- Reconciliations between the general ledger and feeder systems have not been carried out on a timely basis or reviewed on a timely basis, and payroll reconciliations have not been prepared and approved in line with best practice of the 15th of the following month (payroll reconciliations are approved by the end of the following month).
- No process is in place to report aged debt to senior management.
- There was insufficient documentation to identify and confirm the account to which entries to suspense account should be/was transferred to (NB: the amounts involved are small).
- User access for finance system and access to payroll information is not appropriately authorised.
- Reminders for debt recovery and sending debts to the enforcement agents for recovery have not been carried out in accordance with the timeframes in the policy.
- Invoices have not been raised within a reasonable time period from the date of the service request.

ADDED VALUE:

We have carried out data analytics on risks associated with Payroll and Accounts Receivables. This has identified some high levels of overtime and duplicate customer accounts, which might indicate potential inefficiencies. These are being investigated by the Council.

CONCLUSION:

We have concluded that overall, the Council has a satisfactory system of controls in place over the finance processes included in this review as well as a satisfactory level of operational effectiveness of controls. However, further improvements can be made to strengthen the controls over some of the processes and also improve the operational effectiveness of controls. Such improvements relate mainly to the review of reconciliations, aged debt monitoring and reporting, and the approval of systems access. The table below illustrates how the Council can move towards substantial assurance for control design and operational effectiveness.

MANAGEMENT ACTION PLAN:

Recommendation	Priority	Management Response	Responsible Officer and Implementation Date
The Council should ensure that reconciliations are prepared by the 15 th of the following month, and that the Interim Financial Controller reviews the reconciliations by the 22 nd of the following month (one week later).	Medium	This is always the aim, however, it would be more realistic to say that reconciliations will be completed by 15 th of two months following and reviewed by the 22 nd of that month as during year end April-July the officers involved are focussing on end of year accounts so these recs won't be completed till July. This will still provide enough time to rectify any issues identified.	Phoebe Barnes (Interim Financial Controller) 31 st July 2019

Recommendation	Priority	Management Response	Responsible Officer and Implementation Date
<p>The reconciliations should be clearly signed by the reviewer, which could be done by approving reconciliations via email and embedding the approval email within the reconciliation spreadsheet.</p>		<p>Not agreed - we understand why this has been recommended, however, we don't feel it's realistic. We are only a small team and this adds an extra step in the process. We have the reconciliation monitor that allows us to monitor reconciliations centrally and determine if they are being reviewed or not. This monitor was very much welcomed by a previous auditor and felt this was a good example of best practice. In order to physically sign the reconciliations off, we would be required to print a page off, sign it and then scan in to file again. This is adding to the process and inefficient use of paper. We could email and file and link but this again is adding another step in the process, and we do not believe that this adds any value to the process. Journals get approved for reconciliations which have the reconciliation attached as a working paper. This keeps an electronic audit trail of who reviewed the journal and therefore the reconciliation. Managers will review processes again during the next audit.</p> <p><i>Internal Audit comment - The Council's process for evidencing the review and approval of reconciliations is not in line with best practice. This may also be commented on by external audit when they review the process.</i></p>	<p>Phoebe Barnes (Interim Financial Controller) 31st March 2020</p>
<p>Aged debt analysis should be carried out on a monthly basis, and reported Senior Management.</p>	<p>Medium</p>	<p>Agreed that there is a lack of reporting. Debts are chased but there is no escalation of reports. Since the audit, a Daily Debt report is sent to the Interim Financial Controller and Accounts receivable and is reviewed on a daily basis. For any debt that is exceptionally high, the S151 would be consulted. For 2019/20 it is</p>	<p>Phoebe Barnes (Interim Financial Controller) 31st August 2019</p>

Recommendation	Priority	Management Response	Responsible Officer and Implementation Date
		proposed that the debt position is reported to Exec Board/CLB on a monthly basis commencing September 2019.	
The Finance Team should ensure that a backing document is always in place before authorising a transfer from the suspense account.	Medium	Agreed that there should be documentation in place. When officers transfer from suspense this is done through Income management. The information is placed on a Direct Credit schedule, which now refers to evidence of the transfer. In some cases if a transfer is requested by phone then there is no trail. A note should be made in the Income Management system detailing the telephone call.	Phoebe Barnes (Interim Financial Controller) 31 st August 2019
<p>Debt should be sent to the Enforcement Agent within prescribed time frame for a speedy recovery of the due date.</p> <p>In all cases, reminders must be sent on time as prescribed in the Debt Recovery and Write off Policy. The Systems and Finance Officer should run a monthly report of reminder letters due in the following month and ensure that these are sent.</p> <p>Management should review monthly reports to ensure that reminder letters have been sent to debtors on time.</p>	Medium	<p>Agreed.</p> <p>Agreed.</p> <p>Management do not support this recommendation. It is felt this is bureaucratic and micromanaging routine processes. During the audit a responsible officer had recently left the Council and another was on maternity, therefore there was a temporary knowledge gap within the team. Management have since embedded the working practices within in the team. Reminder Application in the system is run twice a week (Tuesdays and Fridays); this generates the letters than need</p>	<p>Alex Webber (Systems and Finance Officer) 1st April 2019</p> <p>Alex Webber (Systems and Finance Officer) 31st July 2019</p> <p>Not supported - can be reviewed at follow up</p>

Recommendation	Priority	Management Response	Responsible Officer and Implementation Date
		to be sent out. We believe this is efficient enough for the debt we hold. A report from the system details all invoices that are overdue by 35 days and 3 reminder letters are sent. This report comes weekly. If there is anything on there this is sent to the Enforcement Agent by the next working day. These routines can be managed through regular one to ones as well as aged debt reports to senior management.	
<p>There should be guidance on the time frame within which an invoice should be raised after the service request or from the date of the work commencement for building control related accounts.</p> <p>The process of invoicing should be regularly monitored to ensure that timely invoicing is carried out. As a good practice, invoices should be raised within 30 days of the service start date or before the commencement of the specific period in the case of season parking tickets.</p> <p>For all cases, the system generated compiled reports should match the data on the system. If there is an error in extraction of reports, this should be rectified.</p>	Medium	<p>There is no current guidance on the timeliness of Raising of invoices and therefore Internal Audit comments will be taken into account when reviewing the Corporate Debt Policy during 2019/20.</p> <p>During the audit a responsible officer had recently left the Council and another was on maternity, therefore there was a temporary knowledge gap within the team. Managing have sought an internal secondment opportunity and are reviewing recruitment options for the vacancy to oversee this service area to review the above.</p> <p>With regards to the reports, this was run from business objectives and information should be up to date, however, we will run another report and check this.</p>	<p>Phoebe Barnes (Interim Financial Controller) and Alex Webber (Systems and Finance Officer)</p> <p>1st November 2019 - due to timeliness of recruitment</p>
<p>The Systems and Finance Officer should remove the 'public user' account access.</p> <p>The Council should ensure that access for any test accounts are removed once they are no longer required, to reduce the risk of unauthorised data amendments, and review access at least annually.</p>	Medium	<p>Agreed. This should be picked up in security review currently taking place where all user access is being reviewed. Where there is no response from authorisers, access is being removed. Will carry out annual systems access reviews.</p> <p>The 'public user' has now been deactivated on the system.</p>	<p>Alex Webber (Systems and Finance Officer)</p> <p>1st April 2019</p>

Recommendation	Priority	Management Response	Responsible Officer and Implementation Date
Furthermore, there should be segregation of duties between the individual signing off user access rights and the individual reviewing the sign-off.			

KEY PERFORMANCE INDICATORS 2019/20

Quality Assurance as per the Internal Audit Charter	KPI Results	RAG Rating
Annual Audit Plan delivered in line with timetable	Three audits have been deferred, as detailed on page 4	
Actual days are in accordance with Annual Audit Plan	To date this KPI has been met	
Customer satisfaction reports - overall score at least 70% for surveys issued at the end of each audit	No surveys have been received relating to 2019/20 as yet	
Annual survey to Audit Committee to achieve score of at least 70%	Survey to be issued in June 2020	
At least 60% input from qualified staff	To date this KPI has been met	
Issue of draft report within 3 weeks of fieldwork `closing` meeting	At the time of drafting this report, only one closing meeting has been held (on 12 July) and the draft report will be issued within the time frame	
Finalise internal audit report 1 week after management responses to report are received	At the time of drafting this report, no final reports have been issued	
Positive result from any external review	No external audit reviews have been carried out to date.	
Audit sponsor to respond to terms of reference within one week of receipt and to draft reports within two weeks of receipt	For the two audits in progress, one terms of reference (the Leisure Services audit) was responded to within 8 days of receipt	
Audit sponsor to implement audit recommendations within the agreed timeframe	No recommendations raised for 2019/20 audits to date	
Internal audit to confirm to each meeting of the Audit and Scrutiny Committee whether appropriate co-operation has been provided by management and staff	We can confirm that for the audit work undertaken to date, management and staff have supported our work and their co-operation has enabled us to carry out our work in line with the terms of reference through access to records, systems and staff as necessary.	
KEY for RAG rating:  = met target  = not met target  = partly met target  = not applicable		

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.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
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.



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