INTERNAL AUDIT ANNUAL REPORT AND ANNUAL STATEMENT OF ASSURANCE

Rushcliffe Borough Council

2022-23

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SUMMARY OF 2022-23 WORK

**Internal Audit 2022-23**

This report details the work undertaken by internal audit for Rushcliffe Borough Council (the Council) and provides an overview of the effectiveness of the controls in place for the full year. The following reports have been issued for this financial year:

* Risk Management
* Fraud Report
* Safeguarding (Children and Vulnerable Adults)
* Main Financial Systems
* IT Asset Management
* Environment
* Project Management
* Channel Shift
* Health and Wellbeing
* Sustainable Warmth.

We have detailed the opinions of each report and key findings on pages five to ten. Our internal audit work for the period from 1 April 2022 to 31 March 2023 was carried out in accordance with the internal audit plan approved by management and the Governance Scrutiny Group. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

**Head of Internal Audit Opinion**

The role of internal audit is to provide an opinion to the Full Council, through the Governance Scrutiny Group (GSG), on the adequacy and effectiveness of the internal control system to ensure the achievement of the Council’s objectives in the areas reviewed. The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the Council’s risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period. The basis for forming my opinion is as follows:

* Overall, we are able to provide **Substantial Assurance** that there is a sound system of internal controls, designed to meet the Council’s objectives, that controls are being applied consistently across various services. In forming our view we have taken into account that:
  + Of the ninereviews that we have undertaken in 2022/23 (excluding Fraud Report which was an advisory piece of work), we have provided Substantial assurance over the control design or the control effectiveness, or both, in eight reports reflecting the robust processes that the Council have in place. Critically, we were able to provide Substantial assurance for both control design and effectiveness in the Risk Management and Main Financial Systems reviews. In comparison to 2021/22, there has been an increase in the Substantial Assurance opinions on both design and control. There has also been a reduction in Medium findings issued in 2022/23 compared to the previous year from 12 to 10. Collectively, the positive direction of travel supports that the Council’s control environment remains Substantial
  + The E-Financials system has robust system access controls for identifying discrepancies in data that is uploaded into it. Additionally, our review of purchases noted that broadly there were separations of duties and transactions were processed accurately. This supports a strong financial control environment. Similarly, the Council’s Risk Management procedures were strong and supported a mature framework for reviewing and reporting on risks
  + BDO undertook an Annual Fraud Report for the Council in June 2022 which identified no allegations or instances of fraud, although it was noted that there could be better promotion to staff of the whistleblowing hotline
  + We follow up on all High and Medium recommendations bi-annually from prior audit reports as they fall due. During 2022/23, the Council have implemented the majority of audit recommendations that have been raised in the year. At the time of writing, of the nine Medium recommendations raised in the year that have fallen due by June 2023, five have been fully implemented. There has also been significant progress towards implementing the recommendations that are ‘in progress’. This demonstrates good progress around implementing recommendations and improving controls
  + The Council have been nominated as finalists for the Local Authority of the Year by the Municipal Journal, demonstrating the strength of leadership and delivering for its residents.

REVIEW OF 2022-23 WORK

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| **Report Issued** | **Recommendations and significance** | | | **Overall Report Conclusions**  **(see Appendix 1)** | | **Summary of Key Findings / Recommendations** |
|  | **H** | **M** | **L** | **Design** | **Operational Effectiveness** |  |
| Risk Management | - | 1 | 2 | Substantial | Substantial | Conclusion  The Council’s controls and processes within risk management were adhered to and there was a robust and mature framework in place for reviewing and reporting on its risks. This supported clarity around roles and responsibilities, as well as regular reporting on risk. Some exceptions were identified around the rating of risks and quality of the mitigating controls.  Findings:   * Risks, on risk registers, were not always assessed using the cause-risk-consequence approach and controls/mitigating actions were occasionally not specific, measurable, achievable, relevant and time-bound (SMART) * The Risk Management Strategy could provide more clarity for staff on risk management processes, including the identification and scoring of risks. For instance, it does not specify whether risk scores should be based on the inherent risk (pre-controls) or residual risk (after controls have been implemented) * Key risk information is not recorded in the risk reports from Pentana, including risk owners, mitigating controls/actions and the progress of implementing the controls. |
| Fraud Report |  | | | Advisory Report | | No instances or allegations of fraud were identified in 2021/22. |
| Safeguarding | - | 2 | 1 | Substantial | Moderate | Conclusion  The Council have some good practices in relation to the management of safeguarding in particular having a clear policy and completing a Section 11 assessment. However, there were gaps identified around the ongoing checking with service manager on staff that require a DBS. Furthermore, the Internal Steering Group for safeguarding met more sporadically, with areas having poor attendance. Mandatory training modules were also not completed by all staff.  Findings:   * The Internal Steering Group meetings took place less regularly than scheduled in the last 12 months due to COVID and appropriate representation by Leisure Services was not present at either meeting * 20% of staff failed to complete safeguarding training within the deadline with most of these being in the Planning department * Ongoing checks were not undertaken with service managers to ensure all staff requiring a DBS check have had one completed. |
| Main Financial Systems | - | - | 3 | Substantial | Substantial | Conclusion  The Council has good controls in place to manage its main financial systems. The E-Financial system has automatic parameters to identify discrepancies within data that is uploaded from other systems and conducts bank reconciliations. However, there was one case identified in which an individual was granted both access to raise and approve a purchase order and procurement card procedure notes do not provide guidance on the type and value of transactions that are considered acceptable.  Findings:   * One individual was granted Requisitioner and Authoriser level of access on the E-Financial System allowing them to bypass a separation of duties when process purchases * The procurement card guidance documents do not explicitly outline the permissible use of the cards or the requirement for cardholders to retain receipts and attach them to the procurement log * There was two purchases where the goods received note was input for an annual contract in advance of the full service being provided. This was due to errors made by new staff who have subsequently received refresher training on the process. |
| IT Asset Management | - | 1 | 3 | Moderate | Substantial | Conclusion  The Council has a good control environment, derived primarily from clear roles and responsibilities being assigned to staff members and appropriate security controls being in place for data on mobile devices. However, there were exceptions identified relating to the Council’s documentation of asset management procedures, asset refresh procedure and the software licensing procedures.  Findings:   * The Hardware Asset Policy, Remote Working Policy, Encryption Policy and Software Policy were due to be reviewed in March 2022 but had not been reviewed at the time of the audit. The Council would also benefit from a documented procedure for managing IT assets * The IT Asset Register was not maintained with appropriate evidence in all cases. From a sample of 10 Assets there were cases in which the purchase order number, historic notes, cost and supplier is either not recorded or recorded inaccurately with one case in which an asset was lost or stolen and no notes were added to explain this * The ICT Strategy Delivery Plan covers 2017-2021 and was being reviewed at the time of the review. Although the procedure for refreshing IT assets is well understood by management, a documented refresh procedure should be implemented to ensure that IT assets are being managed in accordance with the Council’s expectations * There was not a proactive procedure in place to regularly review license allocation. While the software portals do show how many licenses are in use and will notify admin when the maximum allocated licenses are exceeded, management did not take a proactive approach to reviewing software licenses to ensure they remained appropriate to business needs. |
| Environment | - | 2 | 2 | Substantial | Moderate | Conclusion  The Council is demonstrably committed to tackling climate change and has devised a clear strategy and action plan to reduce its emissions and impact on the environment, incorporating the requirements of the Environment Act. However, while there was positive intent to talking climate changes, there were issues identified with data quality of emissions data underpinning actions. There were also areas for improvement for cooperation between service areas in relation to transparency of work plans and decision making.  Findings:   * Data quality issues were identified due to data from some leisure centres and depots being omitted from the Annual Emissions Report * The reporting of environmental impact of decisions to Cabinet could be improved by quantifying, or more clearly stating, whether the decision would have a direct impact on greenhouse emissions or biodiversity * Actions within the Carbon Management Plan were not SMART (specific, measurable, achievable, realistic and time-bound), limiting the Corporate Scrutiny Group’s ability to monitor performance against tangible targets. |
| Project Management | - | 1 | 2 | Moderate | Substantial | Conclusion  The Council has historically successfully managed large-scale and complex projects, such as the Rushcliffe Arena. Whilst this review has identified that there is a control gap in relation to the absence of an up-to-date Project Management Framework, testing of specific projects found that operationally this has not impeded their delivery and that robust measures such as regular and transparent reporting to Cabinet and continuous risk assessment is in place.  Findings:   * The Project Management Framework has not been reviewed since 2012, resulting in some processes no longer being relevant to how the Council manage project. Furthermore, the Framework omitted key information on financial/budgetary monitoring and procedures to follow when external contractors are used to manage projects * The approval of the Project Initiation Document (PID) for the Bingham Leisure Centre project had not been dated and there was no evidence that the Stragglesthorpe Crematorium had been approved and reviewed in accordance with the Scheme of Delegation * Lessons learned from projects are discussed as part of the project closure process but not formally recorded. |
| Channel Shift | - | - | 2 | Substantial | Substantial | Conclusion  The Council have strong controls in place to support its channel shift, with robust customer access and ICT strategies supporting the transition of customer contact. There was adequate reporting to the Executive Management Team (EMT) on the number of telephone calls and face-to-face interactions with customers. However, there could be improvement in identifying channel shift savings in the Transformation Strategy and identification of SMART KPIs in the Customer Access Strategy.  Findings:   * While there is robust monitoring of the savings generated through the channel shift, the target savings have not been clearly articulated or collated within a strategy document * The 10 objectives in the Customer Access Action Plan were not supported by SMART KPIs to measure the effectiveness of the actions. |
| Health and Wellbeing | - | 3 | 3 | Moderate | Moderate | Conclusion  The Council have a positive culture and commitment towards supporting employee health and well-being, evident through its regular initiatives and dedicated Workplace Health Group structure. However, many of the processes to establish and guide future activity had not been formalised. Additionally, the Council has not adopted an Employee Health & Well-Being Strategy. There was adequate communication to staff on health and well-being through Staff Matters, but other platforms such as the intranet could be utilised more to improve awareness around initiatives and other support.  Findings:   * The Council do not have an Employee/Workplace Health & Well-Being Strategy outlining its vision, mission and objectives on staff health and wellbeing. It should also identify roles and responsibilities, including highlighting the Workplace Health Champions * Sickness absence days are reported to each performance clinic but it did not provide a breakdown on the reasons for absence. Additionally, overall sickness absence rates and days lost were not reported to the Total Clinic * The Workplace Health page on the Council’s intranet site was not updated regularly, limiting the communication with staff on initiatives being delivered. Additionally, not all Workplace Health Champions were listed on the page. As a result, from our discussions with Workplace Health Champions, we were informed that they were unsure whether staff knew about the role or support they could provide. |
| Sustainable Warmth | - | - | 2 | Substantial | Substantial | Conclusion  Overall, from the evidence we reviewed, the Council were compliant with the conditions of the grant set by the Department for Business, Energy & Industrial Strategy (BEIS) and have used the funding correctly. However, documentation of signed contracts and letters of intent had not been retained, and E.ON did not report fully on the KPIs that the Council are required to feed back into the Midlands Net Zero Hub.  Findings:   * The KPI reporting to the Midlands Net Zero Hub did not include the target forecast spend of the grant which is required by the Memorandum of Understanding that Nottingham City Council, who administer the grant, have with the BEIS. Monthly reports are provided to the Council by E.ON who have been contracted to deliver the grant funded works * The contract proposal form for LAD 2 grant has been carried forward for the LAD 3 / HUG 1 grant but not all conditions are relevant to these grants * A signed and final version of the letter of intent and the JCT Intermediate with Design Contract with E.ON had not been retained by the Council. |

SUMMARY OF FINDINGS

RECOMMENDATIONS AND ASSURANCE DASHBOARD

In 2022-23 there were 3 Moderate and 6 Substantial design opinions, which is an improvement on the opinions provided in 2021-22.

In 2022-23 there were a total of 30 recommendations issued; 10 Medium and 20 Low.

In comparison, in 2021–22, there were a total of 26 recommendations issued; 12 Medium and 14 Low recommendations. There has been an increase in the overall number of recommendations issued however, this has been more weighted towards Low recommendations.

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| **Recommendations** |  |  |
| 2020/21 | 2021/22 | 2022/23 |
| **Control Design** |  |  |
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| **Operational Effectiveness** |  |  |
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In 2022-23 there were 6 Substantial and 3 Moderate control effectiveness opinions, which is an increase in Substantial opinions issued in 2021-22.

This indicates an improvement with compliance of controls across the Council.

ADDED VALUE

KEY THEMES

BACKGROUND TO ANNUAL OPINION

**Introduction**

Our role as internal auditors to Rushcliffe Borough Council (the Council) is to provide an opinion to the Full Council, through the Governance Scrutiny Group, on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation’s objectives in the areas reviewed. Our approach, as set out in the firm’s Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our internal audit work for the 12-month period from 1 April 2022 to 31 March 2023 was carried out in accordance with the internal audit plan approved by the Executive Management Team and the Governance Scrutiny Group, adjusted during the year for any emerging risk issues. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation’s risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

**Scope and Approach**

**Audit Approach**

We have reviewed the control policies and procedures employed by the Council to manage risks in business areas identified by management set out in the 2022/23 Internal Audit Annual Plan which has been approved by the Governance Scrutiny Group. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation. Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards, the Chartered Institute of Internal Auditors’ Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with the Council’s management for each review, by:

* Considering the risks that have been identified by management as being associated with the processes under review
* Reviewing the written policies and procedures and holding discussions with management to identify process controls
* Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage
* Performing walkthrough tests to determine whether the expected risk management activities and controls are in place
* Performing compliance tests (where appropriate) to determine that the risk management activities and controls have operated as expected during the period.

The opinion provided on page 3 of this report is based on historical information and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity.

**Reporting Mechanisms and Practices**

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports.

Our method of operating with the Governance Scrutiny Group is to agree reports with management and then present and discuss the matters arising at the Governance Scrutiny Group meetings.

**Management actions on our recommendations**

Management were engaged with the internal audit process and provided considerable time to us during the fieldwork phases of our reviews, in some cases providing audit evidence promptly and allowing the reviews to proceed in a timely manner, including opportunities to discuss findings and recommendations prior to the issue of draft internal audit reports. Management responses to draft reports were mostly within our requested time frame, however, there were some instances where the turnaround of draft reports was slow.

**Recommendations follow-up**

Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented in a timely manner then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management’s commitment to the maintenance of a robust control environment.

We have noted that there has been an improvement in the implementation of recommendations issued 2021/22, with all but one prior year recommendations now completed. In the one exception, the recommendation is almost complete and we expect it to be implemented in full by our next follow up. There has been some progress in implementing 2022/23, although some recommendations have been given revised due dates.

**Relationship with external audit**

All our final reports are available to the external auditors through the Governance Scrutiny Group papers and are available on request. Our files are also available to external audit should they wish to review working papers to place reliance on the work of internal audit.

**Report by BDO LLP to Rushcliffe Borough Council**

As the internal auditors of Rushcliffe Borough Council we are required to provide the Governance Scrutiny Group, and the Executive Management Team with an opinion on the adequacy and effectiveness of risk management, governance and internal control processes, as well as arrangements to promote value for money.

In giving our opinion it should be noted that assurance can never be absolute. The internal audit service provides the Council with **Substantial assurance** that there are no major weaknesses in the internal control system for the areas reviewed in 2022/23. Therefore, the statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control.

In assessing the level of assurance to be given, we have taken into account:

* All internal audits undertaken by BDO LLP during 2022/23
* Any follow-up action taken in respect of audits from previous periods for these audit areas
* Whether any significant recommendations have not been accepted by management and the consequent risks
* The effects of any significant changes in the organisation’s objectives or systems
* Matters arising from previous internal audit reports to the Council
* Any limitations which may have been placed on the scope of internal audit – no restrictions were placed on our work.

KEY PERFORMANCE INDICATORS

KEY PERFORMANCE INDICATORS

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| Quality Assurance | KPI | RAG Rating |
| Quality of work | Feedback from our work was positive and recommendations were agreed with management prior to finalisation of reports. We issue a survey after each audit which we were rated 4/5 for overall audit experience. |  |
| Effective planning | We completed many of our reviews in the first three quarters of the year however, there have been limitations due remote working. |  |
| Completion of the audit plan | We have finalised reports for all reviews for 2022/23. |  |
| Follow-up of recommendations | We followed up all recommendations for the prior and current year as they have fallen due, and sought evidence from management to support those that have been implemented. |  |

We will obtain feedback during the year upon finalisation of each report and feed the results back to the Governance Scrutiny Group.

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| **ANNUAL OPINION DEFINITION** | |
| **Substantial - Fully meets expectations** | Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is only a small risk of failure or non-compliance. |
| **Moderate - Significantly meets expectations** | Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is some risk of failure or non-compliance. |
| **Limited - Partly meets expectations** | Our audit work provides assurance that the arrangements will deliver only some of the key objectives and risk management aims of the organisation in the areas under review. There is a significant risk of failure or non-compliance. |
| **No - Does not meet expectations** | Our audit work provides little assurance. The arrangements will not deliver the key objectives and risk management aims of the organisation in the areas under review. There is an almost certain risk of failure or non-compliance. |

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| REPORT OPINION SIGNIFICANCE DEFINITION | | | | |
| Level of Assurance | Design Opinion | Findings | Effectiveness Opinion | Findings |
| 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 noncompliance 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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| **RECOMMENDATION SIGNIFICANCE DEFINITION** | |
| **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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