

3 LOOKING AHEAD

Assignment area	Timing per approved IA plan 2017/18	Status
Contract Management (15.17/18)	July 2017	Draft report issued 9 May 2018
IT Audit	November 2017	Deferred to 2018/19 as independent consultants have completed a review instead.
Follow Up	Throughout the year	Ongoing

4 OTHER MATTERS

4.1 Changes to the audit plan

As noted above there have been a number of minor changes to the timing of reviews to take account of operational pressures on management time at the Council. The only change to the content of the plan is a request to defer the planned review of IT as the Council has recently received a review from an independent consultant.

FOR FURTHER INFORMATION CONTACT

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APPENDIX A: INTERNAL AUDIT ASSIGNMENTS COMPLETED TO DATE

Reports previously seen by the Audit Committee and included for information purposes only:

Assignment	Opinion issued	Actions agreed		
		H	M	L
Planning & Development (1.17/18)	Reasonable Assurance	0	2	0
Financial Management (2.17/18)	Substantial Assurance	0	0	0
Local Plan (3.17/18)	Substantial Assurance	0	0	0
Casual Payments & Member (4.17/18)	Partial Assurance	0	5	1
Revenues (5.17/18)	Reasonable Assurance	0	2	1
Benefits (6.17/18)	Substantial Assurance	0	1	0
Data Quality (7.17/18)	Reasonable Assurance	0	1	4
Complaints (8.17/18)	Substantial Assurance	0	0	1
Main Accounting (9.17/18)	Substantial Assurance	0	0	1
Disabled Facilities Grant (10.17/18)	N/a – Advisory	2	4	3
Corporate Governance (11.17/18)	Substantial Assurance	0	1	2
Risk Management (12.17/18)	Substantial Assurance	0	1	1

APPENDIX B: INTERNAL AUDIT ASSIGNMENTS COMPLETED SINCE LAST MEETING

Assignment: Southern Building Control Partnership (13.17/18)	Opinion:	Partial
<p>The key findings from this review are as follows:</p> <p><u>Well Designed Controls:</u></p> <ul style="list-style-type: none"> • The partnership is underpinned by an Inter Authority Agreement (IAA) which sets out the delegation of functions and the main terms of the partnership together with the risks, costs and liabilities shared across the partners. In addition, clear governance arrangements in respect of oversight and scrutiny are evident for the service. • We note that performance reported to Joint Partnership Board at their meeting in January 2018 indicated that for the first two quarters of this financial year 87% of applications met the statutory deadline. Current performance in the third quarter had improved to exceed 95%. Additional dashboard indicators were also approved by the Joint Board going forward. • We satisfactorily verified evidence that fee harmonisation was agreed by the three sponsoring Councils. From our sample of thirty building control applications (10 selected for each of the three sourcing Authorities) we confirmed that calculations relating to the category and size of building were correct and the fee charged corresponded with the fee schedule. We additionally confirmed that each application was assigned to a correctly designated cost centre and ledger source code. We also verified for our sample that all supporting data and the application itself is electronically archived (using Box.com) and linked into the Salesforce account for each Building Control application. We confirmed that where appropriate fees are obtained at the point of application. • We satisfactorily confirmed that the individual authorities receive the data required to carry out their residual / complementary functions through a secure data transfer protocol. (The accuracy of this data cannot however be fully assured until such time as the data originally migrated from legacy systems is found to be complete - see above). • We examined evidence that the Salesforce system creates unique accounts for the monitoring of the BC caseload and the recovery of income due. The system has been set up with embedded workflow, workload management and exception reports to ensure key deadlines are met. <p><u>Controls Requiring Management Action:</u></p> <p>We have raised one 'high', four 'medium' and two 'low' priority management actions. Details of the two 'low' priority management actions can be found in the table below. The 'high' and 'medium' actions relate to:</p> <ul style="list-style-type: none"> • Assurances were weak that migrated data from legacy systems within RBBC and MVDC accurately and completely transferred to the Salesforce system. This was in part due to incomplete or incorrect datasets being imported. At the time of our audit, work was ongoing to cleanse, verify and validate this data. We note that these migration weaknesses added considerable delay into the process of raising invoices. This was in the most part due to the absence of first inspection dates and triggered payment requests being accurately captured. (Since completing our field work in January we have been informed that migration data has now been fully validated and signed off) (High) 		

<ul style="list-style-type: none"> • The Salesforce application portal requires correction to correctly capture and account for VAT in respect of 'regularisation' fees. (Medium) • The absence of a reconciliation between the accounting ledger and the Salesforce system is a control weakness and there is a consequent risk that either system is incorrectly recording income received. (Medium) • Building Control income received is manually input in to the Salesforce system. This process is inefficient and potentially subject to human error. (Medium) • The system does not currently require posting of payment into its records before the production of a Building Control Completion Certificate. Potentially there is a risk that services could be delivered and a building completion certificate produced without payment being received. (Medium) • We examined evidence that the Salesforce system creates unique accounts for the monitoring of the work caseload and the recovery of income due. The system has been set up with embedded workflow, workload management and exception reports to ensure key deadlines are met. We note that TDC have received notification that the current Salesforce software is being upgraded to a new version in 2018/19. This new version 'Lightning' will not support the team diary and staff appointment schedule. This has been added to the partnership's Risk Register as 'high' as the impact on users could be significant and we have therefore not raised a formal action regarding this as it is a known issue which needs addressing. 		
Action	Date	Responsible Officer
<p>The Salesforce application portal requires correction to correctly capture and account for VAT in respect of 'regularisation' fees.</p> <p>The second version of portal is due to be delivered in Spring 2018 by the software supplier Arcus Global and officers are actively progressing (Medium)</p>	June 2018	A Hughes / Arcus Global Ltd
A monthly reconciliation between the accounting ledger and the Salesforce system will provide assurances that income received is accurately and promptly recorded in both systems. (Medium)	April 2018	A Hughes / P Franklin
Officers have commented that progress on this issue will be a strategic decision for TDC and will be dependent on the decision to make partnership a company model and the progress of TDC's Customer First Model. (Medium)	February 2019	Piers Mason
Confirmation has been received from RBBC that the expected income funds will be transferred to TDC in March. This will be verified by the TDC Accountant. (Low)	March 2018	A Hughes R Leitch (TDC Accountant)
At the time of finalising this report in March 2018 (After audit field work in January 2018) officers have confirmed that migration data has now been fully validated and signed off (High)	March 2018 - Completed	A Hughes
Further investigation will be undertaken to ensure all income due from the Tandridge Housing Department in respect of Building Control work	March 2018	A Hughes

done is received and actioned through internal accounting journals (Low)		
The preferred solution is to introduce programming changes within the Salesforce software to preclude the issue of a building certificate until such time as a payment is received. In the meantime, to mitigate this risk, the process of issuing Completion Certificates has been returned from surveyors to the Business Support Team as they have a better grasp of the system in relation to fees and payments and the ability to recover outstanding debts quickly. (Medium)	April 2018	A Hughes / M Simpson

Assignment: Community Grants (14.17/18)	Opinion:	Reasonable
<p>The key findings from this review are as follows:</p> <p><u>Well Designed Controls:</u></p> <ul style="list-style-type: none"> Mole Valley District Council has a published Community Grants Policy document that is available for residents in the community to review on the Council's website. The Grants Policy was updated in February 2018 and includes information related to the application, payment, and decision process including how applications can be made, who can make them, who makes a decision on applications within the council and the estimated time of response. Companies that are awarded grants are required to issue an outcome report the following financial year. For grants of over £10,000 the organisation is required to present to the Council's Scrutiny Committee on how this grant has benefited the local community. The Scrutiny Committee is provided with the original application form prior to these presentations so that they can assess the outcomes against the initial application. <p>Our sample confirmed that, where required, presentations had been held or were scheduled and outcome reports had been published. In cases where these reports had not been published the grants team had followed effective processes to reclaim the full award. We were also informed that the Council requires confirmation of the outcomes of grants for both revenue and capital grants under £10,000 through the grant completion reports.</p> <p><u>Controls Requiring Management Action:</u></p> <ul style="list-style-type: none"> Grant applications are consistently assessed against agreed criteria and authorised for payment by the Executive for Revenue Grants over £5,000, Capital Grants and by the Officer under delegated authority for small community grants as per the policy document. The Council has internal Grant Evaluation Forms that are used as a template to assess grant awards. <p>From our sample of grant awards, we confirmed that they were assessed in accordance with the policy requirements, that the evaluation form was followed and a risk score assigned where appropriate. For all of our samples we found that evaluation sheets were not signed or dated by the preparing officer or an authorised manager. While there are commensurate controls in place such that grants are assessed at the operational and strategic level before being awarded, there is a risk that without evidencing secondary</p>		

checks and authorisation an error will occur and grants will be awarded to organisations that do not meet the Council's eligibility criteria. **(Medium)**

- Mole Valley District Council has an internal memorandum which details the selection criteria and approval process related to Grants. Grant applications are made through the use of set application forms. These application forms ask detailed questions that can be traced through to the internal decision process.

For a sample of ten grants we confirmed that the Council had received complete application forms and supporting evidence was documented against the application in the grants system.

The Administration Process document is primarily issued for use by new starters, alongside their training, to inform them of the selection criteria. The document relates back to 2011 and there is therefore a risk that the procedural processes outlined in the document do not fully capture the Council's current policies related to grant funding, or detail the procedures to be followed for new grants. **(Low)**

Action	Date	Responsible Officer
<p>Procedures will be put in place such that all evaluation forms are signed and dated by both the assessing officer and the Head of Grants.</p> <p>When Excel spreadsheets are used for revenue grants, the preparing officer will complete the excel form before signing and dating it. They will then email the authorising officer (manager) to let them know that the sheet is ready to be approved. (Medium)</p>	30 April 2018	Stella Keen
<p>The administration document which is used as internal guidance to the grants process will be updated to reflect the current grant offerings and where appropriate will be updated to reflect the Council's current policy. (Low)</p>	30 April 2018	Stella Keen

Assignment: Payroll (15.17/18)	Opinion:	Substantial
<p><u>Well Designed Controls:</u></p> <ul style="list-style-type: none"> • The Council has a procedural document detailing the processes in place with regards to the payroll function at the Council. The document clearly outlines the roles and responsibilities of HR and Payroll. • The Council authorises the payment run and BACS payments. For a sample of five payroll payment runs we found that all had been authorised by an appropriate individual in a timely manner and prior to the payment run. • We selected five changes to staff position, or person grade, made between April 2017 and February 2018 and found all changes to have sufficient change forms to support those changes. • We reviewed a sample of five salary deductions and can confirm for each deduction there was an Application To Buy Annual Leave Form in place. We noted through testing that the form was signed by the 		

employee and a member of the Senior Management Team (SMT) or Business Management Team (BMT), therefore authorised in line with segregation of duties. Furthermore, the correct salary deductions were made from the employees' monthly payslips.

- We obtained the overpayments log and noted that there had only been six overpayments during the period 2017/18. Review of the log confirmed that four overpayments had been repaid in full, one overpayment was waived and the money was required to be taken from the department budget, and there was one overpayment in which the manager was in the process of communicating with the ex-employee. Of the four overpayments which have been repaid in full, we can confirm that two were taken from the employees' salaries, a debtor's invoice was raised for one overpayment and a full amount invoice was sent to the employee's address. For the two overpayments which were deducted from the employee's salary, we can confirm that we saw this deduction in their June 2017 payslips.

Controls Requiring Management Action:

- We noted that there was no written evidence to confirm that the exception reports have been reviewed by the HR department. Where there is no evidence, we cannot confirm that review has taken place. This leads to a risk that errors in the payment runs reports are not identified which could lead to inaccurate payments being made against the Councils name. **(Medium)**
- We selected a sample of five reconciliations, we found in four cases the reconciliations had been reviewed by the senior manager more than two months after the reconciliation had been conducted by the accounts assistant. There is a risk that reconciliations are undertaken and journals are created to account for any differences, but have not been appropriately reviewed or authorised. **(Medium)**

We have raised a further two low priority actions, which can be found in the table below.

Action	Date	Responsible Officer
<p>HR will ensure that there is a consistent process in place for the submission of leaver forms by line managers. All leavers should be processed using a leaver form.</p> <p>Once processes are in place, a reminder will be circulated to all line managers regarding leaver forms and their use. (Low)</p>	<p>Already implemented since Oct 2017</p>	<p>Sue Scott</p>
<p>The HR team should ensure that a Notification of Starter form is received from the new starter's line managers for all new starters before they can be processed and input onto ITrent.</p> <p>This is because by obtaining a Notification of Starter form, HR are receiving authorisation from the line manager.</p> <p>Once processes are in place, a reminder will be circulated to all line manager regarding Notification of Starter forms and their use (Low)</p>	<p>Already implemented since Oct 2017</p>	<p>Sue Scott</p>
<p>Once an exception report is received by the HR department from MHR, they should review all exceptions in a timely manner and ensure that the report is signed and dated as evidence of review. (Medium)</p>	<p>Already implemented from February 2018</p>	<p>Sue Scott</p>

Reconciliations will be reviewed by senior management within a week of the initial reconciliation being conducted. (Medium)	From March 2018	Simon Kay
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Assignment: Commercial Property Acquisition (17.17/18)	Opinion:	Reasonable
<p>The key findings from this review are as follows:</p> <p><u>Well Designed Controls:</u></p> <ul style="list-style-type: none"> • In October 2016, the Council approved the Asset Investment Strategy (AIS) which set out a strictly defined set of evaluation criteria for investment properties. These criteria reflected the Council's requirement to generate income through a satisfactory level of return, and took account of the Council's appetite for risk. These evaluation criteria are summarised below: <ul style="list-style-type: none"> ○ A minimum Net Initial Yield (NIY) threshold of 5.0%; ○ A minimum Internal Rate of Return (IRR) threshold of 7.0%; and ○ An investment evaluation score of at least 100 out of a maximum potential score of 168. <p>The strategy also set out recommendations for a new ad hoc and cross-party working group, the Asset Investment Working Group (AIWG). This working group enabled the preparation and submission of bids in consultation with Members.</p> • In light of the first year 's investment operations applying this framework a revised strategy was adopted on 20 February 2018. Key areas of revision were: <ul style="list-style-type: none"> a) To increase the funds for investment through the Asset Investment Strategy by £51.5m, bringing the total to £100m, in order to generate total income of £1.35m pa by 2020 (net of financing costs and portfolio administration costs). b) To update the evaluation criteria for the potential purchase of property assets to enable a more diverse portfolio, specifically a reduction in the reference Internal Rate of Return to 6%, and a revised Investment Evaluation Matrix. c) To extend the scope of the Asset Investment Strategy to include possible investment in property funds, subject to identification of suitable funds by the Council's treasury management advisors. • The strategy defines a scoring Matrix that allows the relative merits of an investment opportunity to be measured and assessed against a target threshold for a range of criteria: <ul style="list-style-type: none"> ○ Location – any property is categorised as either prime, secondary or tertiary in terms of its locational desirability. For example, a shop located in the best trading position in a town would be prime, whereas a unit on a peripheral neighbourhood shopping parade would be considered tertiary. ○ Tenant Covenant – the financial strength of a tenant determines the security of the property's rental income. A financially weak tenant increases the likelihood that the property will fall vacant. The minimum acceptable financial strength for any given tenant will be determined through financial appraisal of company accounts and the use of appropriate methods of risk assessment and credit scoring. To minimise management and risk, the preference will be for single occupancy investments wherever possible. 		

- Building Quality – a brand new or recently refurbished building will not usually require capital expenditure for at least 15 years. This is attractive for income investors requiring long term rental income with the minimum of ongoing capital expenditure.
- Occupational Lease Length – the lease term will determine the duration of the tenant’s contractual obligation to pay rent. The most attractive investments offer a long lease with a strong tenant covenant.
- Tenure – anything less than a freehold acquisition will need to be appropriately reflected in the price.
- Tenant Repair obligations – under a Full Repairing & Insuring Lease (FRI), the tenant is responsible for the building’s interior and exterior maintenance / repair. The obligation is limited to the building’s interior under an Internal Repairing & Insuring Lease (IRI).
The preference will be to favour FRI terms (or FRI by way of service charge i.e. all costs relating to occupation and repairs are borne by the tenants and administered through a service charge).
- Lot Size – The most preferable Lot size attracting the highest weighting is £10m- £15m
- We verified evidence that the membership of the AIWG agreed to the purchase of the two properties based on investment assessments against the 2016 strategy criteria. We confirmed the overall weighted matrix calculations and checked a number of these criteria assessments for factual accuracy.

In particular in respect of the following criteria assessment for ASDA we confirmed that

- There is a Full Repairing & Insuring lease requirement with the Tenant (Criteria Score 4)
- The occupational Lease length is 20 years (Criteria Score 4)
- There is a single tenant with a strong financial covenant (Criteria Score 4)
- The lot size was between £6m and £12m (Criteria Score 4)

In respect of the Basingstoke purchase we confirmed that

- There is a Full Repairing & Insuring lease requirement with the Tenant (Criteria Score 4)
- The occupational Lease length was more than 10 years (Criteria Score 4)
- There is a single tenant with a strong financial covenant (Criteria Score 4)
- The lot size was between £12m and £18m (Criteria Score 3)
- We reviewed evidence that these considerations were presented to the AIWG and found that:
 - the decisions were based on a business case, in line with the Property Investment Strategy
 - the business cases considered capital costs, revenue costs and revenue income
 - the business cases showed that borrowing costs would be covered by income, giving a net gain
- We satisfactorily verified that the conveyancing transactions for both properties were satisfactorily recorded in the Councils accounting ledger and vouched the CHAPS transfer from the date of purchase. In addition, we verified that:
 - an independent valuation of the property was obtained and that a binding legal contract between the tenants and the Council now exists;
 - structural surveys of both properties provided a positive assurance regarding each building's condition; and
 - the financial integrity of the current tenants was examined through independent credit searches.
- Clear evidence of risk consideration and risk appetite was evidenced in all of the documentation reviewed. At a corporate level the asset investment strategy recognises that there are risks that capital values and rental values can fall as well as rise. There is the risk of tenants defaulting, and that financing costs could also rise which could potentially impact on the net return to the Council. The strategy therefore specifies that it is vital that the Council maintains an adequate level of reserves and balances to ensure it can manage any down turn in the property market. In particular the individual business case for the purchase of the properties

reviewed, assessed risk within the context of the investment criteria set out in the Council's investment strategy and contextual narrative provided SWOT analysis to support the investment decision.

- The income generated from these properties will be monitored through the routine budget monitoring and financial reporting framework that exists within the council.

There are no management actions arising as result of this audit.