

AGENDA MANAGEMENT SHEET

Report Title:	Audit Findings Report – Management Response to Recommendations
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	14 December 2021
Report Director:	Chief Financial Officer
Portfolio:	Finance, Performance, Legal and Governance
Ward Relevance:	All wards
Prior Consultation:	None
Contact Officer:	Jon Illingworth Section 151 and Chief Financial Officer 01788 533410, jon.illingworth@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	Yes
Report En-Bloc:	No
Forward Plan:	Yes
Corporate Priorities:	This report relates to the following priority(ies): <input type="checkbox"/> Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C) <input type="checkbox"/> Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E) <input type="checkbox"/> Residents live healthy, independent lives, with the most vulnerable protected. (HC) <input checked="" type="checkbox"/> Rugby Borough Council is a responsible, effective and efficient organisation. (O) Corporate Strategy 2021-2024 <input type="checkbox"/> This report does not specifically relate to any Council priorities but
Summary:	This report asks Members to consider and approve the management responses to the recommendations of the External Auditors Audit Findings Report of 4 November 2021.
Financial Implications:	None as a direct result of this report

Risk Management Implications:	As detailed in the financial statements.
Environmental Implications:	There are no environmental implications arising from this report.
Legal Implications:	The Council is required to produce and publish its Financial Statements under the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015.
Equality and Diversity:	There are no equality and diversity implications arising from this report.
Options:	None.
Recommendation:	<ol style="list-style-type: none"> 1) The management response to the External Auditor's Audit Findings Report recommendations be approved. 2) Updates on the progress in implementing the actions set out in the management response be provided at future meetings.
Reasons for Recommendation:	The Council is statutorily required to produce and publish its Financial Statements for the 2020/21 financial year.

Audit and Ethics Committee - 14 December 2021

**Audit Findings Report – Management Response to
Recommendations**

Public Report of the Chief Financial Officer

Recommendation

- 1) The management response to the External Auditor's Audit Findings Report recommendations be approved.
- 2) Updates on the progress in implementing the actions set out in the management response be provided at future meetings.

1 Purpose

- 1.1 Following their audit of the Council's Statement of Accounts, the external auditors have issued their Audit Findings Report (AFR), which contains three recommendations for the Council to address. This report sets out the management response to the recommendations contained in the AFR.

2 Background

- 2.1 The Council is required to produce and publish its Statement of Accounts under the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015. The Statement of Accounts are subject to external audit, currently undertaken by Grant Thornton UK LLP.
- 2.2 Following their audit, the external auditor provides details of the work undertaken, adjustments to the accounts, any matters which they wish to bring to the attention of Members. The external auditor has identified three recommendations which the Council needs to address.

3 External Auditor Recommendations

- 3.1 The external audit has identified one high risk and two medium risk issues and made recommendations accordingly, which are detailed in Appendix 1. The risks identified relate to:

High

- Agresso and the journal control environment

Medium

- Deficiencies in the IT control environment
- The determination of bad debt provision in relation to non-statutory debt has not been assessed in line with International Financial Reporting Standard 9, Financial Instruments.

3.2 Details of the management response are set out in Appendix 1.

3.3 Updates on the implementation of actions to mitigate the risks identified by the external auditor will be reported to this committee at future meetings.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 14 December 2021

Subject Matter: Audit Findings Report – Management Response to Recommendations

Originating Department: Finance, Performance, Legal and Governance

DO ANY BACKGROUND PAPERS APPLY YES NO

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink
1	The Audit Findings Report for Rugby Borough Council

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

Ref	A/ment	Issue and Risk	Recommendation	Management Response and Progress
2021/01	High	<p>In regard to the Agresso system and journal control environment, we have noted that:</p> <ul style="list-style-type: none"> • A Senior ICT Officer has some role involvement in business processes. E.g. administering the automatic postings, when requested by Finance staff, posting interface files. • Our review under the journal entries - shows that the Senior ICT officer has also posted a journal transaction in the year. • The Agresso system includes a ‘dummy user’ set up in the ledger. Review shows that there have only been 4 transactions in the year posted by the ‘dummy user’ account. 	<p>Where individuals with privileged IT access levels are also involved in business processes and the posting of journal entries, this increases the risk of management override of controls. However, we acknowledge that in certain circumstances and where teams are limited in numbers, this is necessary. Likewise, risk of transactions being posted that cannot be identified to an individual, increasing the potential for fraud or error.</p> <p>We would recommend that management review the role of senior ICT staff in business processes related to financial reporting and consider the need for spurious accounts such as ‘dummy user’ and if not necessary, remove access.</p>	<p>The “dummy user” is used by the system to progress workflows in Agresso. Each workflow has steps which are clearly assigned and authorised by individual officers.</p> <p>The senior ICT officer privileges to post journals entries remains necessary for resilience. However, governance and an auditable authority process will be introduced should the senior ICT officer be required to post journal entries and each request will be authorised by Senior Finance officers.</p>
2021/02	Medium	<p>We have identified some deficiencies in the IT control environment as follows:</p> <ul style="list-style-type: none"> • Not all those responsible for creating new user accounts (system/administrators) are within the IT function i.e. these can be created by those in finance. • There is no process of automated notification from the HR system to ensure all users listed as leavers are communicated to IT for removal. • There is not always formal documented investigation of security violations. • There is no documented change management policy or procedure or no formal request process for program changes. 	<p>None of the identified deficiencies are significant in nature however we would recommend that management review points noted as part of a wholistic review of the IT control environment and where best practice improvements can be implemented these are addressed.</p>	<p>IT is currently embedding change control procedures within the central servicedesk system. New user requests and leaver notifications have formal documented procedures. During the review of Agresso account creation, withdrawing the ability for finance staff to create accounts will be considered to ensure there is a fully auditable procedure within the IT servicedesk system. This change control process includes designation of requesters from approvers. A dedicated Cyber</p>

Ref	A/ment	Issue and Risk	Recommendation	Management Response and Progress
		<ul style="list-style-type: none"> • Whilst all changes to IT systems are tested, it is not as part of a formal documented process. Further, change approvers are not clearly separate from change developers / testers. • Developers have access to change and interact with the live system. • Post implementation reviews occur, but they are not formally documented or evaluated. • Although underpinned by a robust IT control environment, there is no dedicated sub-section within the control environment for cyber security. 		<p>Security sub section will be considered during the change management review for all user account creation and changes to be placed within.</p> <p>There is no automated notification from the HR system, but the capability of the system is constantly being reviewed and will be implemented at the earliest opportunity.</p>
2021/03	Medium	<p>As a result of our audit procedures performed on the bad debt provision (excluding provisions for statutory debts) we have noted that the Authority do not utilise forward looking information or considerations in their calculation of expected credit losses. This is not in line with IFRS 9 and there is a risk that the provision is understated if based only a previous experience of default.</p>	<p>We acknowledge that management have impaired financial assets based on a reasonable methodology and therefore the risk of material misstatement as a result of under provision is highly remote. However, we would recommend that management review methodology in place in order to determine how forward looking information can be incorporated in order to comply with the standard.</p>	<p>The bad debt provision was calculated on the old basis but still represents a reasonable estimate of the likely level of default. However, IFRS9 does require a different approach in calculating expected losses from default and this will be adopted for future financial statements.</p> <p>A training session on the impact of IFRS9 has been presented to the finance team and attendance was mandated.</p> <p>A review of relevant working papers for the year end will be undertaken to ensure compliance with IFRS9.</p>