

Subject:	Internal Audit Progress Report Qtr. 2 2019/20	Status:	For Publication
Report to:	Audit and Accounts Committee	Date:	3 December 2019
Report of:	Head of Internal Audit (Internal Audit Service)	Portfolio Holder:	Resources and Performance
Key Decision:	<input type="checkbox"/> Forward Plan <input type="checkbox"/>	General Exception <input type="checkbox"/>	Special Urgency <input type="checkbox"/>
Equality Impact Assessment:	Required:	No	Attached: No
Biodiversity Impact Assessment	Required:	No	Attached: No
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1.	RECOMMENDATION(S)
1.1	The committee are asked to consider the internal audit progress report for 2019/20 Quarter 2 July to September.

2. PURPOSE OF REPORT

2.1 To support the Audit and Accounts Committee in fulfilling its responsibility to monitor performance against the internal audit plan, and to consider a summary of internal audit activity and the level of assurance it gives over the council's governance, risk management and internal control arrangements.

3. CORPORATE PRIORITIES

- 3.1 The matters discussed in this report impact directly on the following corporate priorities:
- **A clean and green Rossendale:** our priority is to keep Rossendale clean and green for all of Rossendale's residents and visitors, and to take available opportunities to recycle and use energy from renewable sources more efficiently.
 - **A connected and successful Rossendale that welcomes sustainable growth:** our priority is to ensure that we are well connected to our residents, key partners and stakeholders. We want to make the most of every pound we spend and we are always looking for new and innovative ways to make the resources we do have, work harder for us.
 - **A proud, healthy and vibrant Rossendale:** our priority is to ensure that we are creating and maintaining a healthy and vibrant place for people to live and visit.

4. RISK ASSESSMENT IMPLICATIONS

4.1 This report addresses the adequacy of the council's management of risks in respect of the areas subject to audit.

5. BACKGROUND AND OPTIONS

5.1 In the context of fulfilling its responsibility to monitor the adequacy and effectiveness of the internal audit service, and to review internal audit reports, the Committee is asked to consider the assurance provided by the Internal Audit Service.

COMMENTS FROM STATUTORY OFFICERS:

6. SECTION 151 OFFICER

6.1 Any financial implications are commented upon in the report.

7. MONITORING OFFICER

7.1 Any legal implications are commented upon in the report.

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 Reported findings have been discussed and agreed, including management responses to the recommendations, with respective service managers and heads of service prior to reporting.

9. CONCLUSION

9.1 The audit programme is progressing in line with the plan.

No background papers

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Progress report on delivery of the 2019/20 internal audit plan

Quarter 2

1. Introduction

- 1.1. This report supports Audit and Accounts Committee's responsibility under its terms of reference to consider regular performance reports from the internal audit function on delivery of the annual audit plan, which the Committee approved in May 2018.

2. Summary of progress against the audit plan

- 2.1. Delivery of the 2019/20 plan is progressing well. 16 (62%) of 26 planned audits are either complete, are at fieldwork testing stage or are being actively planned. Eight audits are due to start in Quarter 4, mainly on financial systems, and following discussions with senior management we have deferred three until 2020/21.
- 2.2. We issued final reports on audits of freedom of information/ subject access requests and environmental health follow up, and draft reports on community partnership grants/ community fund and information security/ GDPR follow up. We are drafting reports on audits of project management, council tax, housing benefits and business rates and our audit of compliance with CCTV regulation is nearing completion. We recently started audits of IT strategy implementation, and Mersey Internal Audit Agency's audit of the council's IT infrastructure is progressing well and a draft report should be ready for consideration in December.
- 2.3. Our assurance opinions on completed audits have varied from 'Limited' to 'Substantial', but no audits resulted in 'No' assurance being given. There have been few surprises for the council's managers as they generally understand where services, systems or processes are not as effectively controlled as they would wish. The audit team has been given good access to undertake planned work and have been well supported by managers and teams.
- 2.4. The table below shows the current status of audits on the 2019/20 audit plan. We have included assurance opinions where final reports have been issued or draft reports have been agreed.

Audit Title	Status	Assurance Opinion
Governance and democratic oversight		
Contribution to LGA peer review	Deferred to 2020/21	N/A
Freedom of information and subject access requests	Final report	Moderate
Information security/ GDPR: follow-up	Draft report	N/A
Business effectiveness		
ICT strategy overview - (MIAA)	Progressing	
Digital strategy implementation	Progressing	

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Audit Title	Status	Assurance Opinion
Corporate risk register	Progressing	
Contract and procurement rules	Not started – Qtr. 4	
Service delivery		
Homes England accelerated construction fund - grant conditions	Deferred to 2020-21	N/A
Community safety: CCTV compliance	Progressing	
Community partnership grants and community fund	Draft report	Substantial
Environmental health: follow up	Final report	N/A
Waste collection: follow up	Progressing	N/A
Service support		
Project management	Progressing	
Purchase/ lease rental	Progressing	
IT system access: follow-up	Progressing	
Business processes (follow up and compliance)		
Industrial rent and arrears	Deferred to 2020/21	N/A
Council tax	Progressing	
Housing benefits	Progressing	
Business rates	Progressing	
Payroll	Progressing	
Accounts payable	Not started – Qtr. 4	
Accounts receivable	Not started – Qtr. 4	
General ledger and budget	Not started – Qtr. 4	
Income collection and banking	Not started – Qtr. 4	
Treasury management	Not started – Qtr. 4	
Debt management: follow up	Not started – Qtr. 4	

Stage of audit process	Number of audits
Completed (no report necessary)/ Final Report	2
Draft report	2
Progressing	12
Not started	7
Deferred	3
Total number of audits	26

2.5. The key findings from each of the completed audits are set out below.

Community partnership grants and community fund (Substantial assurance)

- 2.6. Community Partnerships manage the issuing of grants to local community and voluntary groups of up to £500 to support delivery of community initiatives. Policy and guidance notes set out application and approval criteria and procedures and grants of around £18,000 were awarded in 2018/19. The Community Foundation for Lancashire manages delivery of the Rossendale Community Fund using investment income from historical council assets, funding grants of up to £750 for local community and voluntary organisation projects. This funding is allocated between four area partnerships. Two funding rounds were held in 2018/19 and grants exceeding £11,000 were awarded.
- 2.7. Funding arrangements and decision making processes are approved by Cabinet, are well established and include an appropriate level of council oversight and scrutiny. For both grants, funding rounds are well publicised and the approval process operates effectively. Grant application forms are accessible online, with guidance to assist completion, and can be submitted by email or post.
- 2.8. The Communities Team maintains a record of applications and tracks progress, and their data informs reporting to relevant bodies including community partnership meetings. We satisfactorily reconciled 2018/19 grant payments on the general ledger, though there were some minor discrepancies due to misallocation of grants between partnerships and minor errors. Record keeping could be improved by regularly reconciling grant payments to budget monitoring reports, and recording approvals and monitoring dates. Monitoring information is received from recipients and reviewed to confirm spending. We have discussed these issues with managers and agreed actions to address them.

Freedom of information and subject access requests (Moderate assurance)

- 2.9. Data protection legislation allows individuals to submit Subject Access Requests (SAR) to obtain information an organisation holds on them, including personal data. Under freedom of information (FOI) legislation individuals and organisations have access to recorded information held by public sector organisations. The council must have arrangements in place to process requests within statutory timescales, subject to statutory exemptions. Five SARs and 622 FOI requests had been received in 2019 at the time of our audit.
- 2.10. The council has an FOI Policy and a DPA Policy in draft. While it adopts the ICO model publication scheme this has not been updated since 2012 and is not accessible on the website. The policies establish principles for regulatory compliance though more detailed written procedures would clarify processes. Most requests are processed within statutory timescales although three of 13 FOI requests tested missed the statutory deadline due to lack of timely responses from services. Such cases should be escalated to service managers more promptly and response letters to the requestor should acknowledge delays. We also noted that the deadline for submitting FOI responses was calculated from the wrong start date, giving a day less to respond.
- 2.11. The council's website includes guidance on both types of requests, which can be submitted online, and a wider range of information to reduce the need for requests. Statutory exemptions are considered and the Legal Services Team review FOI responses before they are sent. There is periodic reporting to senior management

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and members on compliance with statutory requirements. We have discussed the issues raised with managers and agreed actions to address them.

3. Follow up audits

- 3.1. We have carried out the following work to establish whether actions agreed by managers on previous audits have been implemented. Overall, while we are content that work is in hand to implement agreed actions most Medium risk actions have not been fully implemented by the date agreed with service managers.

Environmental health services

- 3.2. Service managers have implemented five medium risk and two low risk actions. These address improvements in the Public Protection Unit's service action plan, a risk assessment against local, regional and national priority areas, placement of air monitoring tubes and the identification and risk assessment of private water supplies. A further three medium risk actions were not complete at the time of our follow up work but we were satisfied action is being taken to address the need for revised environmental health request targets, a new clean air strategy and private water supply questionnaires.

Information security/ GDPR: follow-up

- 3.3. The current status of the agreed actions is that implementation of four Low risk actions is complete and of five Medium risk actions is not yet complete. Work has been carried out on the Medium risk actions, including reassignment of the conflicted Data Protection Officer role, new and renewed contracts which include GDPR clauses, training for managers and members and online reporting of data breaches. However, there is still work to do to train staff, refresh information audits and ensure existing contracts are GDPR compliant.

Waste collection

- 3.4. As we raised only four low risk actions we will not follow up implementation in line with our standard operating methodology.

4. Deferred audits

- 4.1. We agreed with the Director of Economic Development to defer the following two audits until 2020/21:

Contribution to LGA peer review

- 4.2. Internal audit had been asked to contribute to the planned peer review but we understand that this has now been deferred until 2020/21.

Homes England accelerated construction grant

- 4.3. The Director confirmed that payment of this grant has been deferred until 2020/21. We have therefore agreed to delay until then our work on the control framework needed to ensure compliance with the conditions attached to grant usage.

Industrial rent and arrears

- 4.4. The Property Services Team manager recently recruited additional resource to carry out an industrial rents review, with a view to implementing any changes with effect from 1 April 2020. Given the relatively short time frame to carry out the

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review, and the questionable value of auditing a scheme which will change in a few months, we agreed to defer this audit until after implementation of the rent review.

5. Audit assurance levels and classification of residual risk

5.1. The definitions of the assurance given by internal audit work, and the categories of residual risk used to prioritise any actions arising from audit work are set out below.

Assurance levels

5.2. Note that our assurance may address the adequacy of the control framework's design, the effectiveness of the controls in operation, or both. The wording below addresses all of these options and we refer in our reports to the assurance applicable to the scope of the work we have undertaken.

- **Substantial assurance:** the framework of control is adequately designed and/or effectively operated.
- **Moderate assurance:** the framework of control is adequately designed and/or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.
- **Limited assurance:** there are some significant weaknesses in the design and/or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.
- **No assurance:** there are some fundamental weaknesses in the design and/or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

Residual risks

- **Extreme residual risk:** critical and urgent in that failure to address the risk could lead to one or more of the following: catastrophic loss of the county council's services, loss of life, significant environmental damage or significant financial loss, with related national press coverage and substantial damage to the council's reputation. Remedial action must be taken immediately.
- **High residual risk:** critical in that failure to address the issue or progress the work would lead to one or more of the following: failure to achieve organisational objectives, significant disruption to the council's business or to users of its services, significant financial loss, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation. Remedial action must be taken urgently.
- **Medium residual risk:** failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. Prompt specific action should be taken.
- **Low residual risk:** matters that individually have no major impact on achieving the service's objectives, but where combined with others could give cause for concern. Specific remedial action is desirable.

6. Update on the National Fraud Initiative (NFI)

6.1. Data was uploaded in October 2016 for the 2016/17 NFI exercise. The matches were released in January 2017 and checking of these is still progressing. The total

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savings of £73,657 includes £31,554 due to the Department for Work and Pensions (DWP), but which they have decided not to recover. Details are shown below.

2016/17 biennial exercise	Number				Savings
Data categories	Reports	Matches	Frauds	Errors	£
Housing benefit	18	299	4	2	66,768
Payroll	2	16	0	0	0
Insurance	0	0	0	0	0
Taxi drivers	3	8	0	0	0
Council tax reduction scheme	28	464	3	7	6,889
Creditors	6	899	0	0	0
Value Added Tax	1	135	0	0	0
Housing tenants	1	2	0	0	0
Procurement – payroll	2	19	0	0	0
Individuals - more than one report	1	148	0	0	0
Total	63	1,990	7	9	73,657

- 6.2. The 2018/19 biennial exercise matches were released on 31 January 2019, but checking is only just starting and has not yet identified savings.

2018/19 biennial exercise	Number				Savings
Data categories	Reports	Matches	Frauds	Errors	£
Housing benefit	15	207	0	1	1378.80
Payroll	4	13	0	0	0
Insurance	0	0	0	0	0
Taxi drivers	1	3	0	0	0
Council tax reduction scheme	19	517	4	4	7071.04
Creditors	6	351	0	0	0
Value Added Tax	1	42	0	0	0
Housing tenants	0	0	0	0	0
Procurement – payroll	1	8	0	0	0
Individuals - more than one report	1	95	0	0	0
Total	48	1236	4	5	8449.84

- 6.3. Separate matching is undertaken of council tax data to the electoral roll. Data is released in December when the process to check matches begins. The council also buy comparison against a range of other data sets in all local authorities, uploaded in April and August 2017, and a new premium single person discount match uploaded in January 2019. The table below shows the latest matches and comparison with previous years' results.

	Number				Savings
Data categories	Reports	Matches	Frauds	Errors	£
Council tax December 2015 release	2	370	0	44	16,521
Council tax December 2016 release	2	614	0	103	21,485
Council tax December 2017	3	2207	0	20	4172.90

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Data categories	Number				Savings
	Reports	Matches	Frauds	Errors	£
Council tax December 2018	2	283	13	44	4762.15
Council tax – Other datasets April & August 2017 release	4	2919	89	53	52,925.97
Premium council tax – SPD January 2019	1	240	15	2	0