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| Subject: | Internal Audit Progress Report April – October 2020 | Status: | For Publication |
| Report to: | Audit and Accounts Committee | Date: | 26 November 2020 |
| Report of: | Head of Internal Audit (Internal Audit Service) | Portfolio Holder: | Resources |
| 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 April–October 2020 |

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. BACKGROUND AND OPTIONS

3.1 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.

4. RISK

4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:

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

5. FINANCE

5.1 Any financial implications are commented upon in the report.

6. LEGAL

6.1 Any legal implications are commented upon in the report.

7. POLICY AND EQUALITIES IMPLICATIONS

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

8. CONCLUSION

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

No background papers

Rossendale Borough Council

Internal Audit Service

Progress report on delivery of the 2020/21 internal audit plan

April to October 2020



Internal Audit Service

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 its delivery of the 2020/21 annual audit plan, which the Committee approved in July 2020.

2. Summary of progress against the audit plan

- 2.1. In response to the Covid-19 pandemic the county council identified staff in non-critical services to support the extraordinary requirements placed upon it. In response, the Internal Audit Service's emergency response plan has been to step back the internal audit function and provide operational support, and most of its staff have been redeployed to critical Covid related duties since April. Despite this, we have been able to release some of the team to continue work for three external clients, including Rossendale Borough Council.
- 2.2. As a consequence of restrictions imposed due to the pandemic, in July the Audit and Accounts Committee agreed a significantly reduced audit plan comprising ten audits to be delivered over the last six months of the year. While this may add less value to the organisation than the previously agreed plan we have had to balance audit delivery against the county council's need for additional operational resources and Rossendale Borough Council's capacity to support delivery of a full audit plan. The reduced plan covers all control areas and is sufficient to support an overall assurance opinion for 2020/21.
- 2.3. We have worked with the council's managers to obtain remote access to the council network and we are now making progress with audit plan delivery and, assuming we can retain our current resources, should be able to deliver the agreed plan. The audit of payroll has been completed and we gave substantial assurance over the effectiveness of the control framework and its operation. Five audits are progressing satisfactorily or are due to start shortly, and four audits have not yet started. Mersey Internal Audit Agency (MIAA) are fully operational and have agreed with managers to start their audit of IT business continuity in January 2021.
- 2.4. The table below shows the current status of audits on the 2019/20 audit plan. We have included assurance opinions where we have issued final reports. The type of audit work is shown as:
 - '1' for phase one/ consultancy work
 - '2' for phase two/ compliance testing
 - '1+2' for a full risk and control evaluation
 - 'F' for follow-up work.

Internal Audit Service progress report

| Audit Title | Status | Audit Type | Assurance Opinion |
|---|--------------|-------------------------|-------------------|
| Governance and democratic oversight | | | |
| Rosendale Improvement Plan | Not started | 1+2 | |
| Business effectiveness | | | |
| IT service continuity (MIAA) | Progressing | 1+2 | |
| ICT Strategy (MIAA) | Not started | F | |
| Service delivery | | | |
| Rosendale Together Barnfield | Not started | 1+2 | |
| Service support | | | |
| Health and safety | Not started | 1+2 | |
| Business processes (follow up and compliance) | | | |
| Payroll | Draft report | 2 | Substantial |
| Accounts payable | Progressing | 2 | |
| Accounts receivable | Progressing | 2 | |
| General ledger and budget | Progressing | 2 | |
| Income collection and banking | Progressing | 2 | |
| Stage of audit process | | Number of audits | |
| Completed (no report necessary)/ Final Report delivered | | 0 | |
| Draft report | | 1 | |
| Progressing | | 5 | |
| Not started | | 4 | |
| Deferred/ cancelled | | 0 | |
| Total number of audits | | 10 | |

3. Findings from audits finalised in Q3

Payroll – Substantial assurance

- 3.1. The council's payroll included 160 employees at the time of testing and is processed through the Complete Human Resource Information System (CHRIS21). Overall, we can provide substantial assurance that payroll controls are adequately designed and operated effectively to ensure salaries are accurately and promptly paid. The tax parameters in the payroll system are aligned with central government figures and system access is appropriately restricted. Separation of duties between key functions is maintained, exception reports are reviewed prior to processing payment runs and BACS and control accounts are reconciled and approved.
- 3.2. While the council's current organisational structure chart has not been submitted for senior management review and approval, we confirmed that the structure aligned with payroll. Access to CHRIS21 is appropriately restricted to payroll and HR officers. New starters are now fully supported by evidence of proof of right to work in the UK, and leavers are promptly removed from payroll. Starting and final salaries are calculated accurately. For voluntary deductions, evidence of agreement in certain cases, such as union membership, is not typically retained.

4. Update on the National Fraud Initiative (NFI)

- 4.1. The main exercise is run every two years. Matches were released on 31 January 2019 but there were subsequent releases during the year, and we are satisfied that the checks have been largely completed. All datasets have been uploaded to the NFI website during October 2020 and results are due to be released on 31 January 2021.

| 2018/19 biennial exercise | Number | | | | | Savings |
|------------------------------------|-----------|-------------|-------------|----------|----------|-----------------|
| | Reports | Matches | Processed | Frauds | Errors | £ |
| Housing benefit | 16 | 236 | 233 | 1 | 1 | 5867.32 |
| Payroll | 4 | 13 | 13 | 0 | 0 | 0 |
| Insurance | 0 | 0 | 0 | 0 | 0 | 0 |
| Taxi drivers | 1 | 3 | 3 | 0 | 0 | 0 |
| Council tax reduction scheme | 18 | 496 | 409 | 6 | 6 | 9719.69 |
| Creditors | 6 | 351 | 351 | 0 | 0 | 0 |
| Value Added Tax | 1 | 42 | 42 | 0 | 0 | 0 |
| Housing tenants | 0 | 0 | 0 | 0 | 0 | 0 |
| Procurement – payroll | 1 | 8 | 8 | 0 | 0 | 0 |
| Individuals - more than one report | 1 | 96 | 0 | 0 | 0 | 0 |
| Total | 48 | 1245 | 1059 | 7 | 7 | 15587.01 |

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- 4.2. 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 and a new premium single person discount match. The table below shows the latest matches, numbers processed and outcomes.
- 4.3. Premium Council Tax data (January 2019 and February 2020) is re-matched against data from a credit agency, for which RBC pays a fee. Checks are now progressing on 2020 data. Checks of Council tax to HMRC household data (August 2019) identifies individuals that may not have declared additional properties for council tax purposes, and significant overpayments of £67k were identified. Main Council Tax matches were released in January 2020, and will now be released every 12 months. Checks are mostly complete and outstanding matches are under investigation. Council tax and the electoral register are due to be prepared and uploaded to the NFI website from 1 December 2020, although this may well be delayed given the complications of compiling the register this year due to Covid.

| Data categories | Number | | | | | Savings |
|--|-----------|-------------|-------------|------------|------------|------------------|
| | Reports | Matches | Processed | Frauds | Errors | £ |
| Council tax December 2018 | 2 | 283 | 283 | 51 | 11 | 39433.56 |
| Council Tax January 2020 | 3 | 1496 | 1424 | 41 | 42 | 33120.22 |
| Council tax – Other datasets Mar 2019 and Jan 2020 release | 2 | 2394 | 954 | 36 | 3 | 12704.50 |
| Premium council tax – SPD January 2019 | 1 | 240 | 240 | 15 | 2 | 4642.86 |
| Premium council tax – SPD February 2020 | 1 | 364 | 119 | 0 | 0 | 0 |
| Council Tax to HMRC household composition August 2019 | 1 | 1738 | 308 | 68 | 79 | 67467.38 |
| Total | 10 | 6515 | 3328 | 211 | 137 | 157368.52 |

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.

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- **Substantial assurance:** the framework of control is adequately designed and/or effectively operated overall.
- **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.