

Subject:	Internal Audit Progress Report Qtr 4 2020/21	Status:	For Publication
Report to:	Audit and Accounts Committee	Date:	9 th March 2021
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
1.1	The committee are asked to consider the internal audit progress report for Qtr 4 2020/21.

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

Quarter 4



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. Our previous progress report to Audit and Accounts Committee reported Internal Audit's position in response to the Covid-19 pandemic, with the internal audit function stepped back and audit staff redeployed to support operational teams. Despite this, some of the team have continued to work on the council's audit programme and the whole team are now set to return after Easter, meaning delivery of the 2021/22 audit plan should be unaffected by Covid-related capacity issues.
- 2.2. As a consequence of Covid restrictions, 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 are continuing to make progress with audit plan delivery and will deliver most of the agreed audits by the year end. There has been some delay in getting evidence to support audit testing, due to council capacity issues and Covid-related work such as administration of business grants and support for homeworking. However, the arrival of the new Finance Manager in March should help address this. We have issued final audit reports on payroll and accounts payable, giving substantial assurance over the effectiveness and operation of the control framework. We have also issued a draft report on accounts receivable and five audits are progressing satisfactorily. We have not started our audit of Rossendale Together Barnfield and, following discussion with the Head of HR, we deferred the planned Health and Safety audit to 2021/22 to better align with a planned health and safety review by the council's insurers. We have replaced this with an audit of emergency planning and business continuity. Mersey Internal Audit Agency (MIAA) have started their audit of IT business continuity.
- 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	Progressing	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 (<i>replaced by Emergency Planning and Business Continuity</i>)	Deferred to 2021/22	1+2	N/A
Emergency Planning and Business Continuity	Progressing	1+2	
Business processes (follow up and compliance)			
Payroll	Final report	2	Substantial
Accounts payable	Final report	2	Substantial
Accounts receivable	Draft	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		2	
Draft report		1	
Progressing		5	
Not started		2	
Deferred/ cancelled		1	
Total number of audits		11	

3. Findings from audits finalised in Q4

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.

Accounts Payable – Substantial assurance

- 3.3. The council's Civica Creditor's financial software enables automated matching to purchase orders and goods received notes so that invoices can be processed for payment more efficiently. The Finance Service working arrangements have changed significantly due to the pandemic which necessitated changes in existing controls, such as use of email to evidence approval, and we have taken this into account in our audit testing.
- 3.4. Overall, accounts payable controls are adequately designed and operating effectively. The requisition, purchase order, invoice and payment processes have appropriate separation of duties. User access to Civica is appropriate to roles and access is subject to appropriate line manager approval. Expenditure is accurately coded to the general ledger and creditor control accounts are reconciled weekly and monthly, and variances explained. Quarterly monitoring reports were delayed over summer 2020 due to the pandemic, but are normally submitted for Cabinet review with an explanation of variances between forecast and actual budgets.

4. Update on the National Fraud Initiative (NFI)

- 4.1. The main exercise is run every two years. Matches were released in February 2021 but there were subsequent releases during the year and all datasets have now been uploaded to the NFI website.

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

Internal Audit Service progress report

2018/19 biennial exercise	Number					Savings
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

- 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 and 2021) is re-matched against data from a credit agency, for which RBC pays a fee. Checks are now progressing on data. Council Tax matches were released in February 2021. Checks are being completed and outstanding matches are under investigation. Council tax and the electoral register have bow been uploaded to the NFI website.

Data categories	Number					Savings
	Reports	Matches	Processed	Frauds	Errors	£
Premium council tax – SPD January 2019	1	240	240	15	2	4642.86
Council Tax to HMRC household composition August 2019	1	1738	308	68	79	67467.38
Council Tax January 2020	3	1496	1424	41	42	33120.22
Council tax – Other datasets Jan 2020 release	2	2394	954	36	3	4505.18
Premium council tax – SPD February 2020	1	364	352	0	3	1393.85
Premium council tax – SPD February 2021 (inc. electoral register and rising 18s)	2	359	271	0	20	404.10
Total	10	6515	3328	211	137	111533.59

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 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.