

Subject:	Internal Audit Annual Assurance Opinion 2020/21	Status:	For Publication
Report to:	Audit and Accounts Committee	Date:	28 th July 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(S)
1.1	The committee are asked to consider the internal audit annual assurance report for 2020/21.

2. PURPOSE OF REPORT

2.1 The Audit and Accounts Committee's terms of reference require it to advise the Council on the planned activity and results of internal audit. The Committee will, on a periodic basis, consider the head of internal audits annual opinion and report.

3. BACKGROUND AND OPTIONS

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government in the United Kingdom. CIPFA has published Public Sector Internal Audit Standards ('PSIAS'), which encompass the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework, including its Definition of Internal Auditing, Code of Ethics, and its International Standards for the Professional Practice of Internal Auditing. These documents are therefore mandatory for internal audit in local government in the United Kingdom, and they are supplemented within PSIAS by additional public sector interpretation and guidance. CIPFA has also published a Local Government Advisory Note setting out sector-specific requirements for local government within the United Kingdom.

3.2 The Internal Audit Service therefore operates in accordance with this mandatory definition, code, standards and advice.

3.3 The Annual Report of the head of internal audit meets these requirements and is attached in Appendix A.

4. RISK

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

- Failure to comply with the Public Sector Internal Audit Standards issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) would undermine the ability to provide the Council with the necessary level of assurance in relation to their governance, risk management and internal control arrangements;
- The report enables the Leader and Chief Executive to report in the Annual Governance Statement.

4.2 Any financial implications are commented upon in the report.

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 Annual Report provides an independent, objective opinion on the adequacy of design and the effectiveness of operation of the Council's systems of governance, risk management and internal control.

8.2 Overall, I can provide **moderate** assurance over these systems for 2020/21, based on the work undertaken by the Internal Audit Service in the year.

No background papers

Rossendale Borough Council

Internal Audit Service annual report for 2020/21



Rossendale Borough Council
Internal Audit Service annual report 2020/21

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Introduction

Purpose of this report

- 1.1 In March 2020 the Audit and Accounts Committee considered and approved an internal audit plan for 2020/21. This was subsequently revised to take account of the pandemic, and the Committee approved a shortened plan at their July 2020 meeting. This report summarises the Internal Audit Service's work during the year and key themes arising in relation to internal control, governance and risk management across the council.

The role of internal audit

- 1.2 The Internal Audit Service is an assurance function designed to evaluate and improve the effectiveness of risk management, control and governance processes. The Public Sector Internal Audit Standards (PSIAS) require the head of internal audit to provide an opinion on the council's frameworks of governance, risk management and control environment and a written report to those charged with governance, timed to support the annual governance statement. This report presents my opinion based on the work the Internal Audit Service performed during 2020/21. An Internal Audit Service Charter is in place that establishes the framework within which the Internal Audit Service operates to best serve the council and to meet its obligations under professional standards.
- 1.3 This report is written in the context of the impact of the Covid pandemic which required a shortened plan to be agreed due to council managers' reduced capacity to support audits due to their additional Covid-related work, as well as the redeployment of Internal Audit staff. Despite this, we have carried out sufficient work in council services, systems and processes to support an overall assurance opinion.

Interim progress reports

- 1.4 We have provided summaries of the individual audits completed in the year in progress reports to each meeting of the Audit and Accounts Committee. Audit reports will be provided to members if they wish.

Acknowledgements

- 1.5 I am grateful for the assistance provided the staff of Rossendale Borough Council in the course of our work.

Ruth Lowry
Head of Internal Audit
Rossendale Borough Council

2 Summary assessment of internal control

Overall opinion

- 2.1 I can provide **moderate** assurance overall regarding the adequacy of design and effectiveness in operation of the council's frameworks of governance, risk management and control. In forming my opinion I have considered the work undertaken by the Internal Audit Service throughout the year, work of external assurance providers and information from sources other than planned audit engagements.
- 2.2 A summary of the assurance available from the audits we have undertaken during the year and more detailed notes of the findings arising from each are set out in Annex A and B. An explanation of the levels of assurance the Internal Audit Service provides is set out in Annex C. The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Annex D.

The council's control framework

- 2.3 Our work has been organised in accordance with the Internal Audit Service's planning principles and an understanding of the council's controls at the start of the year, which was set out as follows:

A framework for governance, risk management and control			
Governance and democratic oversight			
Corporate governance framework		Democratic processes	
Business effectiveness			
Risk management	Performance monitoring and management	Organisational design	Working in partnership
Service delivery			
Customer services		Operations and environmental health	Business
Benefits administration	Revenue collection	Refuse collection and recycling	Parks and open spaces
Leisure services		Street sweeping	Planning
Service support			
Contract monitoring and management		Public interface	
Business processes			
Financial processes	ICT	Facilities management	Human resources
Investment	Payroll	Procurement	Business continuity

Summary of assurance provided by the Internal Audit Service

2.4 The following table summarises the assurances we provided on the 2020/21 audits which contributed to our annual assurance opinion, including comparative figures from previous years.

2019/20 assignments	Total	Assurance Opinion					
		Substantial	Moderate	Limited	None	Incomplete	Deferred
Governance/ democratic oversight	1		1				
Business effectiveness	2						2
Service delivery	2					1	1
Service support	1		1				
Business processes	5	4	1				
Total	11	4	3	0	0	1	3

Management's responses to our findings

2.5 We have discussed the issues we raised during the year with service managers and members of the Senior Management Team and we are satisfied that work is in hand to implement agreed actions.

3 Key issues and themes

3.1 Delivery of the shortened audit plan has been affected by the additional work and different ways of working required of people during the pandemic and, as a result, audits have generally taken longer to complete than we would otherwise have expected. Despite this, we have completed all but one planned audit (aside from deferrals) and assurance opinions have been positive, with all audits being given substantial or moderate assurance, though with some need for improvement agreed with managers. Two of the moderate opinions reflected improvements needed in the critical area of emergency planning and business continuity, and in the ongoing response to the empty homes scheme. However, our annual assurance opinion reflects the fact that systems and processes are generally working effectively. In most of the areas audited we were satisfied that policy and procedures were in place, but were often overdue for review and revision and there was a clear need for further staff training in some areas to ensure staff are aware of correct processes.

4 Implications for the annual governance statement

- 4.1 In preparing its annual governance statement the council should consider this annual assurance opinion in relation to its control environment, risk management processes and corporate governance. The council should therefore reflect the progress made in delivering the actions set out in the council's improvement plan, describing the impact of completed actions on corporate governance and its plans to implement the remaining actions.

5 Organisational independence

- 5.1 The Internal Audit Service has access to and support from the council's Senior Management Team and is able to operate independently within the organisation, so is properly able to fulfil its responsibilities. In accordance with its charter the service remains independent of the council's other functions and, with the exception of its support to management in relation to counter fraud work, no member of the Internal Audit Service has any executive or operational responsibilities.
- 5.2 The Internal Audit Service's work programme and priorities are determined in consultation with the Senior Management Team and the Audit and Accounts Committee, but remain decisions for the head of internal audit. The head of internal audit and audit manager have direct access to and freedom to report in their own names and without fear or favour to all officers and members.

6 Internal audit performance

- 6.1 We carried out audit work in the year in accordance with the audit plan submitted to and approved by the Audit and Accounts Committee in July 2020. Of 11 planned audits we completed seven, one is in progress and three have been deferred to 2021/22. We agreed action plans to address areas for improvement and will follow up implementation of these in our 2021/20 audit plan.
- 6.2 The 'Summary of Findings and Assurance' table at Annex A records the status, assurance opinion and summary comments for each audit.

7 Internal Audit quality assurance and improvement

- 7.1 The Internal Audit Service has established and regularly reviews a quality assurance and improvement programme. PSIAS requires that all aspects of internal audit activity are considered by a combination of ongoing internal monitoring, periodic self-assessment or internal assessment by others with sufficient knowledge, and independent external review at least once every five years.

Type of review	Internal review		External review
	Ongoing	Periodic	At least 5-yearly
Frequency			
Audit assignment quality	✓		✓
Professional and operational framework		✓	✓

External review

- 7.2 Our previous assessment was undertaken by the Chartered Institute of Internal Auditors in November 2017. This confirmed that the Internal Audit Service 'generally conforms' to the full range of standards set out in the International Professional Practice Framework, PSIAS and Local Government Application Note. All actions arising from the review were addressed by June 2018. Our next external assessment is due at the end of 2022.
- 7.3 The Internal Audit Service can therefore say that its work has been in accordance with the International Professional Practices Framework, PSIAS and the Local Government Application Note.

Internal review

- 7.4 The Internal Audit Service has designed procedures and an audit methodology that conform to PSIAS and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit assignment. The audit managers assess the quality of each audit concurrently as it progresses, and during the year a post-audit file review processes was also set out to test conformance with the service's working practices and the quality of work undertaken. The file reviews indicate that there is good evidence of compliance with our audit methodology and input from the audit managers to support the work of the auditors, although some learning points have been drawn out and shared with the team

Annex A

Summary of findings and assurance

A.1 A summary of the assurance from each of the audits completed during the year is provided below. A longer explanation of the findings arising from each audit is set out in Annex B. The type of audit work is shown as:

- 1 - phase one/ consultancy work
- 2 - phase two/ compliance testing
- 1+2 - full risk and control evaluation
- F - follow-up on implementation of actions from previous audits.

Audit Title	Status	Assurance	Type	Summary of findings
Governance and democratic oversight				
Rossendale Improvement Plan	Final Report	Moderate	1+2	The council's governance framework was revised to address issues arising from the Empty Homes Scheme and we found improvements in some areas, including project management.
Business effectiveness				
IT service continuity (MIAA)	Deferred	N/A	1+2	At management's request work is planned to start in August 2021.
ICT Strategy (MIAA)	Deferred	N/A	F	
Service delivery				
Rossendale Together Barnfield	Progressing		1+2	
Service support				
Health and Safety	Deferred	N/A	1+2	Work will start after the planned review by the council's insurers.
Emergency Planning and Business Continuity	Final Report	Moderate	1+2	While the council has effective procedures for assessing risk, maintaining emergency and business continuity plans, coordinating with the resilience forum and communicating with the public there was a need for improvement in some areas.

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Audit Title	Status	Assurance	Type	Summary of findings
Business processes				
Payroll	Final report	Substantial	2	Payroll controls are operating effectively to ensure salaries are accurately and promptly paid.
Accounts payable	Final report	Substantial	2	Controls are operating effectively despite changes in some controls due to the pandemic.
Accounts receivable	Final report	Moderate	2	Controls are broadly effective but some improvement is needed and several previous actions have not been implemented.
General ledger and budget	Final report	Substantial	2	Controls are operating effectively although reporting to members had been affected by the pandemic.
Income collection and banking	Final report	Substantial	2	All controls were operating effectively overall, with some limited changes to mitigate the impact of the Covid19 pandemic.

Stage of audit process	Number	Percentage
Complete/ final report	7	77%
Draft report	0	0%
Progressing	1	1%
Not yet started	0	0%
Deferred	3	32%
Total number of audits	11	100%

Annex B

Findings arising from each audit completed during the year

Governance and democratic oversight

Rossendale Improvement Plan – Moderate Assurance

- 1.1. The Rossendale Improvement Plan was developed by the council to address issues arising from the Empty Homes Programme. It identified four key themes and related improvement actions, implementation of which was monitored and reported to members. This ended in 2018 when the Plan was considered to have been implemented. In 2020 the Chief Executive asked us to look again at Plan improvements and whether they remain in place. This audit therefore reviewed council's governance framework and supporting principles. 2021/22 audits of procurement and performance management will look at these systems in detail.
- 1.2. We confirmed that the Constitution had been revised in line with Plan actions, is reviewed and approved annually by Full Council and complies with the Chartered Institute for Public Finance and Accountancy's (CIPFA) International Framework for Good Governance in the Public Sector. The Scheme of Delegation sets out procurement responsibilities for staff and members, project management arrangements are simply stated and we can provide some assurance over compliance with them. Changes to council policies and processes are approved at an appropriate management level. However, training and the induction process needs to be refreshed in key areas, although we are aware of some current training in areas such as procurement. We also acknowledge that development and delivery of some training, such as the in-house fraud module, may have been impacted adversely by the pandemic.

Service support

Emergency Planning and Business Continuity – Moderate Assurance

- 1.3. The council's civil protection duties as a category 1 responder are set out in the Civil Contingencies Act 2004 and we have used associated Government guidance to test compliance with these duties. We confirmed that the council has a local civil emergency plan and business continuity and recovery plans designed to deliver statutory obligations, and is an active member of the Lancashire Resilience Forum (LRF), the multi-agency responder panel, from which the council draws on shared risk registers, plans, communication channels and training. We were satisfied that the council has effective

procedures for assessing risk, maintaining emergency and business continuity plans, coordinating with LRF members and communicating with the public. However, there was a need for improvement in some areas. For example, two out of the ten service areas had no completed business continuity plan, we could not confirm that incident logging forms were completed, plans need to be tested, training refreshed and the local civil emergency plan contained some errors.

Business processes

Key financial systems

Accounts Receivable – Moderate Assurance

- 1.4. While controls are broadly effective there are issues in some areas that require action, and several previous actions have not been implemented. We confirmed that access to the debtor system is appropriately restricted and invoices cannot be amended once raised. The procedure for raising, sending reminders and recovering debtor invoices is generally compliant with the debt management policy, and payments received are accurately recorded on the general ledger. The debtor control account is accurately reconciled and reviewed by an additional officer. The quarterly reporting of aged debt to members is sufficient to provide oversight and context regarding the council sundry debt position. However, the updated debt management policy does not appear to have been shared across the council. There is a need for guidance on raising debtor invoices, management of debtor records and more consistent retention of supporting evidence. We also noted inconsistency with the content of debtor invoice reporting to Legal Services. We have agreed actions in this report to address these issues, and management have again agreed to implement actions agreed in our 2018/19 audit report.

General Ledger and Budget – Substantial Assurance

- 1.5. We confirmed access to the general ledger system is appropriately restricted and control accounts have assigned responsible officers. Journals entered and virements are supported by an appropriate reason and evidence, the suspense account is cleared periodically and control accounts are reconciled either on a monthly or annual basis. We noted that quarterly budget monitoring reporting to members was delayed due to work pressures following the beginning of the covid19 pandemic. As a result, both quarter 1 and 2 reports were combined and presented to members in December 2020, and the quarter 3 report in February 2021. We noted minor issues with the recording of quarterly budget monitoring discussion with budget holders. Due to working from home arrangements for finance officers, we were told that meetings were not held and discussion of

variances with budget holders was done informally over the phone. We were provided with sufficient evidence of budget monitoring otherwise and accepted this explanation as a reasonable adjustment to existing controls.

Income and Banking – Substantial Assurance

- 1.6. The council's financial procedures define key controls with regards to income and banking. We confirmed separation of duties is maintained and access to the receipting system is appropriately restricted. Income received is identifiable, receipted and banked promptly and reconciled regularly with unallocated transactions investigated and resolved. We confirmed all controls were operating effectively overall, with some limited changes to mitigate the impact of the Covid19 pandemic. We were told that due to the change in working arrangements, the assistant accountant had provided cover for the receipting process for a brief period. Although this may be considered a conflict to the established separation of duties procedures, we accepted this as an exception given the small team size and the need to limit how many officers were on site. We found that some income recorded on the market spreadsheet was not banked promptly, with approximately £1.8k of income collected over a four month period banked in one sum. This is non-compliant with the council's financial procedures and should be addressed with advice and guidance.

Accounts Payable – Substantial assurance

- 1.7. 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. 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.

Payroll – Substantial assurance

- 1.8. 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. 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, should be retained.

Deferred audits

- 1.9. 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, and replaced this with an audit of emergency planning and business continuity. Mersey Internal Audit Agency (MIAA) have had to defer their audits of IT business continuity and the ICT strategy follow up work due to difficulties in aligning this with the availability of council managers. This work is now scheduled to start in August.

Annex C

Audit assurance levels

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 will 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.

Classification of residual risks requiring management action

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.*

Annex D

Scope, responsibilities and assurance

Approach

- D.1 The Internal Audit Service operates in accordance with Public Sector Internal Audit Standards, 2017. The scope of internal audit work encompasses all of the council's operations, resources and services including where they are provided by other organisations on its behalf.

Responsibilities of management and internal auditors

- D.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.
- D.3 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to management as they have become known to us, without undue delay, and have worked with management to develop proposals for remedial action.
- D.4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- D.5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing to ensure those controls were operating effectively for the period under review.

Basis of our assessment

- D.6 My opinion on the adequacy of control arrangements is based upon the result of internal audit work undertaken and completed during the period in accordance with the plan approved by the Audit and Accounts Committee, which has been limited in its range during 2020/21. Sufficient, reliable and relevant evidence has been obtained to support the recommendations made.

Limitations to the scope of our work

- D.7 The scope of internal audit work has been restricted by the impact of the COVID-19 pandemic on the organisation, but this has not limited the scope of the annual opinion provided.

Limitations on the assurance that internal audit can provide

- D.8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Further, there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- D.9 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Access to this report and responsibility to third parties

- D.10 This report has been prepared solely for Rossendale Borough Council. It forms part of a continuing dialogue between the Internal Audit Service, the chief executive, Audit and Accounts Committee and management of the council. It is not therefore intended to include every matter that came to our attention during each internal audit assignment.
- D.11 This report may be made available to other parties, such as the external auditors. However no responsibility is accepted to any third party who may receive this report for any reliance that may be placed on it and, in particular, the external auditors must determine the reliance placed on the work of the Internal Audit Service.