

Subject:	Internal Audit Progress Report Qtr 2 2021/22	Status:	For Publication
Report to:	Audit and Accounts Committee	Date:	01 December 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 2 2021/22.

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 2021/22 internal audit plan

Quarter 2 2021/22



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 progress with delivery of the 2021/22 audit plan agreed at the March 2021 Committee meeting. Our annual assurance opinion report, submitted to the July 2021 Committee, sets out the position with delivery of the 2020/21 audit plan including summary audit findings.

2. Summary of progress against the 2021/22 audit plan

2.1. We are continuing to make progress with audit plan delivery and plan to deliver the agreed audits by the year end. There are six audits which have not started, although two of these are following up on implementation of actions agreed on previous audits and will not take significant time to complete. We have continued to experience some delay in getting evidence to support audit testing, due to council capacity issues and new ways of working. However, we have issued final audit reports on the three financial systems managed by Capita, issued draft reports on the payroll and Covid business grants audits, and are progressing work on the remaining finance audits. Work by Mersey Internal Audit Agency (MIIA) is also progressing well with good support from management. We have issued a final report on the audit of IT Resilience – Service Continuity and the audits of homeworking arrangements and Civica are close to completion. We have also completed our audit of the Rossendale Together Barnfield's partnership governance and procurement arrangements, the final audit from our 2020/21 audit plan.

2.2. The table below shows the current status of audits.

Audit Title	Status	Audit Type	Assurance Opinion
Governance and democratic oversight			
Performance management	Progressing	1+2	
GDPR/ information security policies	Progressing	1+2	
Rossendale Improvement Plan	Progressing	F	
Risk Management	Progressing	F	
Freedom of information/ subject access requests	Progressing	F	
Business effectiveness			
Procurement	Not started	1+2	

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Audit Title	Status	Audit Type	Assurance Opinion
Critical application review – Civica (MIAA)	Progressing	1+2	
IT - Homeworking arrangements (MIIA)	Progressing	1+2	
IT Resilience - Service Continuity (MIAA)	Completed - Final Report	1+2	Moderate
Digital Strategy	Completed	F	N/A
Service delivery			
Planning Controls	Not started	1+2	
Commercial rents	Not started	1+2	
Rossendale Together Barnfield	Draft Report	1+2	
CCTV regulatory compliance	Progressing	F	
Service support			
Health and Safety	Not started	1+2	
Emergency Planning and Business Continuity	Not started	F	
Purchase/ lease rental	Not started	F	
Business processes (follow up and compliance)			
Business grant allocations	Draft report	1+2	
Accounts payable	Progressing	2	
Accounts receivable	Progressing	2	
General ledger, budget setting and monitoring	Progressing	2	
Income collection/ banking	Progressing	2	
Payroll	Draft Report	2	
Council tax	Completed - Final Report	2	Moderate
Business rates/ NNDR	Completed - Final Report	2	Moderate
Housing benefits	Completed - Final Report	2	Substantial

Stage of audit process	Number of audits
Completed (no report necessary)/ Final Report delivered	5
Draft report	3
Progressing	12
Not started	6
Deferred/ cancelled	0
Total number of audits	26

Audit type:

- '1' - phase one/ consultancy work
- '2' - phase two/ compliance testing
- '1+2' - full risk and control evaluation
- 'F' - follow-up work.

Background and Context – Capita Audits

2.3. The council outsources the management of housing benefit, council tax and business rates services to Capita PLC, under a contract awarded in 2019. The council's Service Assurance (SA) team monitor performance against this contract through key performance indicators and thematic exercises, and report quarterly to Members for oversight. Capita and the SA Team use the Northgate system to input and manage claims and Anite, an electronic document management system, for storing evidence.

Council Tax – Moderate Assurance

2.4. Our assurance opinion allows for the fact that, while some established debt recovery procedures were suspended by senior managers during 2020/21 in response to the pandemic, Members were made aware of the potential impact on the collection rate and outstanding debt. Council tax bands, discounts and exemptions are correctly input, and the database is well maintained. Bill reductions are supported by evidence and properties are inspected where necessary. Refund and write off procedures are compliant with the debt management policy and members have adequate oversight of the key performance indicators.

2.5. However, the debt management policy has not been reviewed and updated for some time, despite an action to address this being agreed in our previous report. We notified managers of two active user accounts on the Northgate system for officers who no longer

work for the council, which have now been closed, and we were unable to confirm formal access approval for eight accounts. We agreed an action to periodically review access rights and to establish a process between the council and Capita for management oversight of access requests, and we understand a new application and approval template has been produced. There has been an increase in the level of outstanding council tax debt of approximately £1m between April 2019 and March 2021. While the suspended recovery procedures are the probable cause managers should continue to monitor the position and consider developing an aged debt key performance indicator for council tax and non-domestic rates debt, such as year-on-year percentage reduction/ increase.

Business Rates/ NNDR – Moderate Assurance

2.6. As with Council Tax, we acknowledge that the decision was made not to manage debt in full compliance with established policy during the pandemic, but the issues regarding debt management policy and Northgate user access apply equally here. We confirmed that business rate system parameters are correctly input, bills are calculated accurately and exemptions and discounts are applied appropriately. Refund and write off procedures are compliant with debt management policy. Members have adequate oversight of the key performance indicators and missed targets are explained with context. We were also unable to confirm that Valuation Office Agency reports were reconciled to the NNDR database due to the absence of key staff and working from home arrangements and agreed an action to modify procedures, including using email to record approval. The majority of our sample of empty properties were not inspected during 2020/21 due to social distancing restrictions but we understand that there will be a return to normal arrangements as restrictions are lifted.

Housing Benefits – Substantial Assurance

2.7. Overall, controls are adequately designed and operating effectively to meet the council's objective to provide housing benefits and council tax support to eligible claimants. We are satisfied that procedures for new claims and changes in circumstances correctly assess eligibility prior to award or amendment for all the claims we sampled. Due to the pandemic, 2019/20 quarterly key performance indicator targets have been retained, were met for processing efficiency and accuracy and are reported quarterly to Members. There is appropriate separation of duties between responsibility for approving claims, making payments and reconciliation. We reconciled all but one payment between Capita and the council's records, where we received a satisfactory explanation for the difference.

Rossendale Together Barnfield Partnership – Moderate Assurance (2020/21 internal audit plan)

2.8. Rossendale Together Barnfield is a joint venture established in 2013 between the council, Together Housing and Barnfield Construction to deliver regeneration projects within the borough, including the Spinning Point development in Rawtenstall. Overall, we can provide moderate assurance that partnership governance and procurement arrangements operate effectively. Articles of association establish governing structures and rules for decision making and Board appointments, and these are consistently complied with. Full Council approves project funding under the Capital Programme and members receive regular updates on project

progress. Partners apply their own procurement rules and procedures, but partnership expenditure must be approved by the three partners and non-construction invoices, such as pre-work assessments and administration costs, are split between partners and jointly approved monthly for payment. The costs incurred seemed reasonable and in line with expected expenses. Council approval of payments is recorded in email from a designated officer, the Chief Executive Officer. However, we could not confirm whether payments had been approved as email evidence had not been found at the time we published this report.

IT Resilience Service Continuity (MIAA) – Moderate Assurance

2.9. The council uses its network IT environment to store and access applications and data which are critical (fundamental to the council's normal operations) and sensitive (including resident or employee data). As system disruptions could adversely affect operations, service continuity and recovery arrangements are necessary to minimise any impact. The IT service utilises resilient technologies to provide system resilience and contingency, including backup processes and multiple computer rooms (council-based and using third party hosts). We audited against five key themes: business continuity and disaster recovery; data management and recovery; incident management; virtualised environment and contracts and service level agreements. We noted both good practice and areas for improvement in all five key themes.

2.10. There has been no reported outage since 2018. An ICT Disaster Recovery Plan was in place and remote working and new cloud-based services were quickly deployed during the pandemic. The Public Services Network (PSN) had been re-certified, emails were being held securely (using a third-party solution) and forensic services and retained data backups were contracted out. The two third-party data centres were 27001:2013 compliant. At the time of the audit work a new supplier assurance process was being matured and embedded and procurement for a new disaster recovery/ offline backup solution was being prepared. We agreed a number of actions to address areas for improvement including annual tests of the Business Continuity Plan, updates to the disaster recovery/ incident management documentation, risk assessing the new disaster recovery/ backup solution, formalising and approving monitoring and logging, backup and scanning strategies, approval of a draft hardening policy, and the upgrade of a legacy server (as scheduled within the Digital Strategy Plan).

3. Update on the National Fraud Initiative (NFI)

3.1. 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.

2020/21 biennial exercise	Number					Savings
	Reports	Matches	Processed	Frauds	Errors	£
Housing benefit	14	126	38	0	1	2,210

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2020/21 biennial exercise	Number					Savings
Payroll to payroll/ creditors	2	8	8	0	0	0
Council tax reduction scheme	13	185	122	0	3	4430
Creditors - duplicates	6	266	3	0	0	0
SBGF/ RHLG - Duplicates	4	38	28	0	0	0
Discretionary/ Other Grants	1	8	0	0	0	0
Value Added Tax	1	23	0	0	0	0
Procurement – payroll	2	13	13	0	0	0
Individuals - more than one report	1	17	0	0	0	0
Total	44	684	212	0	4	6,640

- 3.2. 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 buys a 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.
- 3.3. Premium Council Tax data is re-matched against data from a credit agency, for which the council 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 now been uploaded to the NFI website.

Data categories	Number					Savings
	Reports	Matches	Processed	Frauds	Errors	£
Premium council tax – SPD Nov 2021	3	937	937	17	21	16,909
Council Tax to HMRC household composition Nov 2021	1	1738	1738	68	79	67,467
Premium council tax – SPD Nov 2021 - electoral register	2	697	697	41	73	39,515
Council Tax rising 18s	2	58	58	0	20	77
Council tax – Other datasets Jan 2020 release	1	2285	2277	6	19	8,961
Total	9	4530	4522	132	192	132,930

4. Audit assurance levels and classification of residual risk

4.1. 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

4.2. 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.