Rossendale BOROUGH COUNCIL

Subject:	Internal Audit Progress Report Qtr 3 2021/22	Status:	For Publication
Report to:	Audit and Accounts Committee	Date:	09 March 2022
Report of:	Head of Internal Audit (Internal Audit Service)	Portfolio Holder:	Resources
Key Decision:	☐ Forward Plan ☐	General Exception ☐	Special Urgency ☐
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. 3 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 3

Internal Audit Service

1. Introduction

1.1. This report supports Audit and Accounts Committee's responsibility under its terms of reference to consider performance reports from internal audit 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 good progress with audit plan delivery and plan to deliver all but one of the agreed audits by the year end, and have been well supported on the audits by officers. We will defer the health and safety audit until early 2022/23 to give the new Health and Safety Officer time to implement new guidance and procedures. We have completed 16 audits to at least draft report stage and are making good progress on the others. Mersey Internal Audit Agency (MIIA) have issued final reports for their audits and have been complimentary about the management support they received. The table below shows the current status of audits.

Audit Title	Status	Audit Type	Assurance Opinion
Governance and democratic oversight			
Performance management	Final Report	1+2	Substantial
GDPR/ information security policies	Progressing	1+2	
Rossendale Improvement Plan	Completed	F	N/A
Risk Management	Completed	F	N/A
Freedom of information/ subject access requests	Completed	F	N/A
Business effectiveness			
Procurement	Draft Report	1+2	
IT Critical application review: Civica (MIAA)	Final Report	1+2	Moderate
IT Mobile (remote) working (MIIA)	Final Report	1+2	Substantial
IT Resilience and service Continuity (MIAA)	Final Report	1+2	Moderate
Digital Strategy	Completed	F	N/A
Service delivery			
Planning controls	Progressing	1+2	
Commercial rents	Progressing	1+2	

Audit Title	Status	Audit Type	Assurance Opinion
Rossendale Together Barnfield	Final Report	1+2	Substantial
CCTV regulatory compliance	Progressing	F	N/A
Service support			
Health and safety	Not started	1+2	
Emergency planning and business continuity	Progressing	F	N/A
Purchase/ lease rental	Completed	F	N/A
Business processes (follow up and compliance)			
Business grant allocations	Final Report	1+2	Moderate
Accounts payable	Progressing	2	
Accounts receivable	Progressing	2	
General ledger, budget setting and monitoring	Progressing	2	
Income collection/ banking	Progressing	2	
Payroll	Final Report	2	Substantial
Council tax	Final Report	2	Moderate
Business rates/ NNDR	Final Report	2	Moderate
Housing benefits	Final Report	2	Substantial

Stage of audit process	Number of audits
Completed (no report necessary)/ Final Report delivered	15
Draft report	1
Progressing	9
Not started	0
Deferred/ cancelled	1
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.

3. **Audit Findings and Assurance**

Performance management (Substantial)

3.1. The council manages delivery of corporate priorities by setting and monitoring organisational and operational objectives. A formal performance framework sets established, accessible policy and procedures, realistic targets and indicators of success, progress monitoring and reporting, and accurate data. Responsibility is assigned for delivery of objectives, targets and actions. The framework was revised in June 2021 to reflect the vision and priorities of the new Corporate Plan 2021-25, and is administered effectively by the HR Manager. Performance is regularly monitored and reported to the Corporate Management Team and Overview and Scrutiny Committee. A revised template for reporting performance was introduced with an enhanced focus on underperforming targets, but action being taken to improve performance should also be reported to inform oversight and decision making. Framework compliance is supported by training for heads of service and managers. Senior managers have the opportunity to review performance and supporting data, but the HR Manager acknowledges the need for accuracy and completeness of data to be validated centrally.

IT - Critical application review: Civica (Moderate)

3.2. Civica is used to deliver and access all financial transactions including creditors, debtors, purchasing, and reporting. It is critical to operations and data use must comply with GDPR legislation to minimise the risk of downtime or data breach. An Information Asset Owner (IAO) has been appointed and is reviewing the governance structure and operational roles and responsibilities. System access is controlled and reviewed, and leavers are removed from Active Directory. Application processes and procedures are not formalised or performed routinely, and the IAO is reviewing housekeeping procedures. Certifications and assurances are held for the Public Service Network, Civica HQ and third-party date centre but there is limited evidence of assurance over system support, such as penetration tests. Disaster recovery tests are performed and a business continuity plan should be agreed with regular testing. While backups are taken and checked daily, the data cleansing process and retention, archiving and destruction policy should be approved. A draft migration plan has been produced but we were unable to confirm that all migration risks were included.

IT - Mobile (remote) working (Substantial)

3.3. Overall, the system of internal control meets system objectives and controls are consistently applied. The increase in mobile working during the pandemic was supported by remote access to the council network on laptops, tablets and smart phones which may not integrate with security and support frameworks, increasing the risk of data breaches. Policy, guidance and training is in place, but should include areas such as home working risks. Users valued the benefits of flexible working and understood security requirements. A Virtual Private Network operates for remote connections, access to secure emails is through Mimecast and MS Teams is used, although a corporate background should be enabled. ICT had provided required equipment, addressed technical queries and rolled out updates but the management of offsite assets could be improved.

IT - Resilience and service continuity (Moderate)

3.4. The council uses its network IT environment to store and access applications and data which is critical and sensitive, and effective service continuity and recovery arrangements minimise the impact from system disruption. The IT service uses resilient technologies to provide resilience and contingency, including backup processes and multiple internal and outsourced computer rooms. There has been no reported outage since 2018. An ICT Disaster Recovery Plan is in place and remote working and new cloud-based services were quickly deployed during the pandemic. The Public Services Network has been re-certified, emails are held securely and forensic services and data backups are contracted out. The two third-party data centres are 27001:2013 compliant. A new supplier assurance process is being matured and embedded and disaster recovery/ offline backup is being procured. Areas for improvement include annual Business Continuity Plan testing, updates to 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 upgrading a legacy server.

Business grant allocations (Moderate)

3.5. The council administered 16 Government grants totalling £33m to support businesses through Covid lockdowns and restrictions. Eligibility was assessed against specific or discretionary criteria and approximately £27m has been paid to businesses. Appropriate action was taken to make prompt, equitable payments to eligible claimants, which were subject to review and scrutiny and complied with grant conditions. Anti-fraud checks were carried out using Spotlight, the Government's due-diligence tool, and the National Fraud Initiative, and investigations were coordinated with the National Anti-Fraud Network. Payments were recorded, awarded and paid using the Northgate, Anite and Civica systems. The need to allocate funding quickly and comply with grant conditions caused initial difficulty and some early decisions, such as recording payments on Northgate, were reversed. The council subsequently improved the payment method, pre-payment assurance and reconciliation. Returns to central government were completed accurately, though some were submitted late. Submitted claims were retained and, while some rejected claims were not retrieveable or recorded, decisions complied with eligibility criteria.

Rossendale Together Barnfield Partnership (Moderate)

3.6.   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, such as Spinning Point in Rawtenstall. We confirmed that articles of association establish governing structures, rules for decision making and Board appointments, and are complied with. Full Council approves project funding under the Capital Programme and members receive regular updates on progress. Partners apply their own procurement rules but partnership expenditure such as non-construction invoices for pre-work assessments and administration are split and jointly approved. Costs incurred seemed reasonable and in line with expectations. Council payment approval is recorded in emails from the Chief Executive Officer which could not be found at the time of our report, but were subsequently produced.

Financial Systems

Payroll (Substantial)

3.7.   At time of audit the council had 176 employees with a monthly payroll of around £300k, administered using the Complete Human Resource Information System (CHRIS21). Procedures were largely unchanged during the pandemic, other than recording approval by email. The structure chart and the payroll record are accurately maintained, starters and leavers are processed correctly, tax thresholds are up to date and access to CHRIS21 is based on business need. Additional pay and absence, such as overtime or maternity leave, are paid correctly, evidenced and approved. Monthly payroll is calculated accurately and approved by a senior officer prior to payment, with adequate separation of duties.

Capita Audits - Background and Context

3.8.   The council outsources the management of housing benefit, council tax and business rates services to Capita PLC. The council's Service Assurance (SA) team monitor Capita performance and report quarterly to Members. Claims are managed through the Northgate IT system and stored on a document management system, Anite.

Council Tax (Moderate)

3.9.   Some debt recovery procedures were suspended due to the pandemic but Members were informed of the likely impact on collection rates and debt. Council tax bands, discounts and exemptions are correctly input, and the database is well maintained. Bill reductions are evidenced and properties inspected where necessary. Refund and write off procedures comply with policy, and performance against targets is reported to Members. Debt management policy has not been reviewed and updated, despite agreeing to address this in our previous report. Two live user accounts on Northgate were for ex-employees, and have now been closed, and we could not confirm approval for eight accounts. Access rights will be periodically reviewed in future and a new process between the council and Capita will improve access oversight. Council tax debt increased by around £1m between April 2019 and March 2021 and suspended recovery procedures are the likely cause, but managers should continue to monitor the position and we agreed an aged debt key performance indicator would be introduced.

Business Rates/ NNDR (Moderate)

3.10. As with Council Tax, a decision was made not to manage debt in full compliance with policy during the pandemic, but issues regarding debt management policy and user access apply equally here. 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 policy. Members have oversight of performance indicators, and missed targets are explained. We could not 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 use of email to record approval. Most empty properties were not inspected in 2020/21 due to Covid restrictions but we understand that normal arrangements will be resumed as restrictions are lifted.

Housing Benefits (Substantial)

3.11. Overall, controls are adequately designed and operating effectively to provide housing benefits and council tax support to eligible claimants. Procedures for new claims and changes in circumstances correctly assess eligibility prior to award or amendment. Due to the pandemic, 2019/20 quarterly performance targets were retained and met for processing efficiency and accuracy and are reported to Members. There is appropriate separation of duties between approving claims, making payments and reconciliation. We could not reconcile one payment between records held by Capita and the council, but received a satisfactory explanation for the difference.

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.

2020/21 biennial exercise	Number					Savings
Data categories	Reports	Matches	Processed	Frauds	Errors	£
Housing benefit	15	141	38	0	1	2,210
Payroll to payroll/ creditors	2	8	8	0	0	0
Council tax reduction scheme	15	206	179	0	5	12,029
Creditors - duplicates	6	266	3	0	0	0
SBGF/ RHLG - Duplicates	4	38	30	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	19	0	0	0	0
Total	**44**	**722**	**271**	**0**	**6**	**14,239**

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 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.

4.3. 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 bow been uploaded to the NFI website.

	Number					Savings
Data categories	Reports	Matches	Processed	Frauds	Errors	£
Premium council tax – SPD Feb 2022	3	937	937	17	21	16,909
Council Tax to HMRC household composition Feb 2022	2	1738	1738	68	79	67,467
Premium council tax – SPD Feb 2022 - electoral register	3	875	844	41	84	41,068
Council Tax rising 18s Feb 2022	3	83	83	0	42	77

	Number					**Savings**
Data categories	**Reports**	**Matches**	**Processed**	**Frauds**	**Errors**	**£**
Council tax – Other datasets Feb 2022	3	3887	3011	6	24	10,403
Total	**14**	**7520**	**6613**	**132**	**250**	**135,924**

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.