

Rossendale Borough Council

Internal Audit Service Annual Report for the year ended 31 March 2022

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the council's Internal Audit Service has undertaken during 2021/22 and the key themes arising in relation to internal control, governance and risk management across the council. In April 2021 the Audit and Accounts Committee considered and approved an internal audit plan for 2021/22. At the time it was important that the plan remained flexible to enable the Internal Audit service to react to the changing risk environment as services adapt and change. As the council and the Internal Audit Service continues to overcome the challenges that Covid-19 has presented, it is critical that as a service we are able to react quickly to changing circumstances.
- 1.2 Despite these challenges, and with the support of council officers, we have been able to deliver the plan in full, although one audit is in progress, one in draft and one was deferred to 2022/23 for operational reasons. We have reported any amendments to the plan to the committee during the course of the year. The work for the year is now sufficiently complete to support the overall opinion on the frameworks of governance, risk management and internal control. This has added value to the council and ensures a robust annual audit opinion can be provided.

The role of internal audit

- 1.3 The Internal Audit Service is an assurance function that provides an independent and objective opinion on the adequacy and effectiveness of the council's control environment. The Public Sector Internal Audit Standards (PSIAS) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) require the Head of Internal Audit to provide an opinion on the council's control environment and a written report to those charged with governance, timed to support the annual governance statement. This report gives my opinion based on the work the Service performed during 2021/22.

Interim progress reports

- 1.4 We have provided summaries of findings from audits completed throughout the year in progress reports to each Audit and Accounts Committee meeting.

Acknowledgements

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

2 Summary assessment of internal control

Overall opinion

- 2.1 I can provide **moderate** assurance overall on the adequacy of design and effectiveness in the operation of the council's framework of governance, risk management and control. In forming my opinion, I have considered the work undertaken by the Internal Audit Service throughout the year as well as the work of external assurance providers and information available from less formal sources than planned audit engagements. Audit work has covered the full range of the council's services.

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- 2.2 Internal Audit's work established that, as would be the case in any normal organisation, there are some areas of the council's business where improvements need to be made, but there are plans and agreed management actions in place to address these.
- 2.3 Annex 1 to this report includes extracts from the final reports issued, and we will provide full reports to members if they wish. Annex 2 describes Internal Audit's scope, responsibilities and assurance, and an explanation of the assurances we provide is set out in Annex 3.

Key issues and themes

- 2.4 Delivery of the audit plan continued to be affected to a degree by different ways of working required during the pandemic and limited capacity to support audit work and, as a result, audits took longer to complete than would otherwise be expected. Despite this, we have completed all but one planned audit to at least draft report stage, and deferred one audit to 2022/23 for operational reasons. We gave positive assurance opinions, either 'substantial' or 'moderate', on all audits but one, where we gave limited assurance (we have not yet reported the findings of this audit to the Committee as the final report had not been issued at the time of writing). We agreed areas for improvement with managers on most audits. Our 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, were not consistently complied with and there was a need for staff training in some areas to ensure staff are aware of correct processes.
- 2.5 As the table at 3.1 below indicates we have given a higher proportion of 'moderate' than 'substantial' assurances in comparison to previous years. This is likely to be related to the increasing difficulty of recruiting and retaining staff, and the impact on officer's ability to sustain compliance with operational controls, to support audits and to implement agreed audit actions with reduced capacity. The council's Qtr. 4 2021/22 Performance Management report identifies this as a concern, reporting a significant rise in staff turnover and that "It is currently extremely challenging for the council to attract and recruit officers at all levels due to the current pay and grading structure". The Corporate Risk 8 on sustainable workforce also highlighted as 'Amber' the impact of not having a fully resourced, trained staff as at Qtr. 3 2021/22.

Management's responses to our findings

- 2.6 We have discussed the issues we raised during the year with service managers and members of the Senior Management Team and agreed action plans to address the need for improved controls. Follow up work during 2021/22 indicates that risks identified in previous years are largely being addressed and we are satisfied that work is in hand to implement agreed actions, although some improvement work is still ongoing. The senior management team also receive regular reports on implementation of audit actions.

The council's control framework

2.7 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 | Decision-making | | Oversight and scrutiny | | Policy setting | |
| Business effectiveness | | | | | | |
| Risk management | Performance monitoring and management | | Organisational design | Financial governance and planning | | Working in partnership with others |
| Service delivery | | | | | | |
| Growth, environment, transport & community services | | | Children's services & education | | Adult services, health & wellbeing | |
| Economic development & planning | Programmes & project management | Community services | Children's services | School improvement & services | Adult Services | Public health |
| Service support | | | | | | |
| Legal services | Skills, learning & development | Core business systems | Property management | Programme management | Business intelligence | Customer access |
| Business processes | | | | | | |
| Financial systems & processes | | Procurement | Facilities management | | Human resources | |
| Budget monitoring | | Contract monitoring & management | | Information management | | Payroll processing |
| Investment | | Business continuity | | | ICT systems | |

3 Summary of findings and assurance

3.1 We returned to a full audit plan in 2021/22 having delivered a shortened plan in the previous year. Covid-19 continues to present a major challenge to the council and impact all areas of the organisation, but with the exception of one audit, which was deferred to 2022/23, we have not needed to amend the audit plan. The table below summarises the assurances we provided on finalised 2021/22 audits which contributed to our annual assurance opinion, including comparative figures from previous years. This excludes follow up work from previous audits. The table at 3.2 reports the status of each audit, Annex 1 to this report contains an extract from all final audit reports and Annex 3 includes definitions of the assurances we give.

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| 2021/22 assignments relating to: | Total | Assurance provided | | | | Audits not finalised | |
|-----------------------------------|-------------|--------------------|------------|-----------|-----------|----------------------|----------|
| | | Substantial | Moderate | Limited | None | Incomplete | Deferred |
| Governance | 2 | 1 | 1 | - | - | - | - |
| Business effectiveness | 4 | 1 | 3 | - | - | - | - |
| Service delivery | 3 | 1 | - | - | - | 2 | - |
| Service support | 1 | - | - | - | - | - | 1 |
| Business processes | 9 | 2 | 7 | - | - | - | - |
| 2021/22 total assignments: | 19 | 5 | 11 | - | - | 2 | 1 |
| | 100% | 26% | 58% | 0% | 0% | - | - |
| 2020/21 | 11 | 4 | 3 | - | - | 1 | 3 |
| 2019/20 | 21 | 6 | 4 | 2 | - | - | 9 |
| 2018/19 | 18 | 11 | 5 | - | - | 1 | 1 |

3.2 The table below reports the status of each audit completed during the year and the assurance opinion given. The 'Audit Type' is:

- 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 | Audit Type |
|---|--------------|---------------|------------|
| Governance and democratic oversight | | | |
| Performance management | Final Report | ● Substantial | 1+2 |
| GDPR/ information security policies | Final Report | ● Moderate | 1+2 |
| Rossendale Improvement Plan | Completed | N/A | F |
| Risk Management | Completed | N/A | F |
| Freedom of information/ subject access requests | Completed | N/A | F |
| Business effectiveness | | | |
| Procurement | Final Report | ● Moderate | 1+2 |
| IT Critical application review: Civica (MIAA) | Final Report | ● Moderate | 1+2 |
| IT Mobile (remote) working (MIIA) | Final Report | ● Substantial | 1+2 |
| IT Resilience and service Continuity (MIAA) | Final Report | ● Moderate | 1+2 |
| Digital Strategy | Completed | N/A | F |
| Service delivery | | | |
| Planning controls | Draft Report | | 1+2 |
| Commercial rents | Progressing | | 1+2 |
| Rossendale Together Barnfield | Final Report | ● Substantial | 1+2 |
| CCTV regulatory compliance | Completed | N/A | F |
| Service support | | | |
| Health and Safety | Deferred | N/A | 1+2 |
| Emergency planning and business continuity | Completed | N/A | F |
| Purchase/ lease rental | Completed | N/A | F |
| Business processes | | | |
| Business grant allocations | Final Report | ● Moderate | 1+2 |
| Accounts payable | Final Report | ● Moderate | 2 |
| Accounts receivable | Final Report | ● Moderate | 2 |
| General ledger, budget setting and monitoring | Final Report | ● Moderate | 2 |
| Income collection/ banking | Final Report | ● Moderate | 2 |
| Payroll | Final Report | ● Substantial | 2 |
| Council tax | Final Report | ● Moderate | 2 |
| Business rates/ NNDR | Final Report | ● Moderate | 2 |
| Housing benefits | Final Report | ● Substantial | 2 |

| Stage of audit process | Number | Percentage |
|-------------------------------|-----------|-------------|
| Complete/ final report | 23 | 88% |
| Draft report | 1 | 4% |
| Progressing | 1 | 4% |
| Not yet started | 0 | 0% |
| Deferred | 1 | 4% |
| Total number of audits | 26 | 100% |

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 who, with the Audit Manager, have direct access to and freedom to report in their own names and without fear or favour to all officers and members. Within the year the Service's establishment increased by one part time Senior Auditor (0.4fte) and is currently fully staffed.
- 5.3 The Internal Audit Service has a stable and experienced audit team, with very little staff turnover in recent years. However, a new Head of Internal Audit was appointed in December 2021 to replace, Ruth Lowry, who retired last year. To maintain continuity during this change of leadership there was a two-month handover period which enabled a smooth transition of Team leadership.
- 5.4 During the year, there have been no matters arising which have impacted on the independence of the Internal Audit Service and there have been no inappropriate scope or resource limitations on internal audit work

6 Internal audit performance

Client satisfaction

- 6.1 Internal Audit invites feedback on the quality of service provided by issuing a 'satisfaction questionnaire' at the end of each audit. This is an important process in terms of identifying how the audit was received by the service area and of identifying aspects of the audit process that can be improved. Responses from auditees indicated that, overall, they were satisfied with the way we conducted our work with them. There were no common themes in the responses received that highlighted particular areas for Service improvement.

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.

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| Type of review | Internal review | | External review |
|--|-----------------|---------|-----------------|
| | Frequency | Ongoing | Periodic |
| Audit assignment quality | ✓ | | ✓ |
| Professional and operational framework | | ✓ | ✓ |

7.2 Following this framework, the Service's quality assurance and improvement programme consists of internal ongoing monitoring of audit assignment quality, periodic internal assessment of the professional and operational framework, and external review.

External review

7.3 The findings of the last external quality assessment undertaken by the Chartered Institute of Internal Auditors were reported to the Committee in January 2018. This confirmed that the Service 'generally conforms' to the full range of standards set out in the International Professional Practice Framework, PSIAS and Local Government Application Note. There were no departures from these arrangements in 2021/22. An external review is due to be completed in 2022/23 and findings will be reported to this Committee.

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 reasons for non-compliance, and to demonstrate compliance on every assignment. Audit managers assess the quality of each audit as it progresses, and a post-audit file review process is undertaken. These 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.

7.5 In addition to these periodic file reviews, the Service's methodology requires the Head of Internal Audit to read each report as it is finalised. This does not entail additional detailed review and the auditors' reports remain theirs, using their own style and wording, but is intended to ensure that each assignment can be adequately understood and is properly communicated.

Areas for development

7.6 As with many teams, over the last two years the Covid-19 pandemic impacted significantly on the Internal Audit Service and the way in which it delivers its work. This year the Service has returned to completing normal audit assignments after approximately a year of supporting other council services in their responses to Covid-19. This return was aided by a move to remote auditing, which was initially challenging for the audit team. Despite this, as the year has progressed this has proved to be a successful arrangement. As council staff have returned to the office on a flexible, hybrid working basis the Internal Audit team have adopted a similar hybrid approach to work, with staff predominantly being home-based but going into the office as the requirements of the service dictate.

7.7 In response to these changes, some revised performance management and support arrangements have been put in place for the Internal Audit team. These changes are intended to help ensure quality and delivery of work, whilst also providing support to staff working remotely and to maintain a sense of 'team'.

7.8 These arrangements include:

- Allocating an annual plan of work to each auditor to manage and agree delivery timescales with the relevant service areas;

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- A greater focus on outcomes, with each auditor identifying the audits they will aim to complete for each meeting of the Committee;
 - Brief daily team meetings to discuss progress with work and to allow the team to discuss issues and to support one another.
- 7.9 We have completed a minor team restructure, providing an additional part time senior auditor who will solely review, monitor, and report on the progress of the implementation of agreed management actions.
- 7.10 The Service has introduced a new report format designed to communicate the results of audit engagements clearly and concisely to the recipient. As previously, this highlights areas of good practice, areas for improvement and agreed management actions. Feedback from auditees on the new report format has been very positive, and supports the new style report summary at Annex 1.
- 7.11 The service will continue to reflect on its performance and seek to continually improve, making further refinements to internal audit processes. Where appropriate we will seek to apply the principles of Lean Audit within our working practices, to work in the most efficient and effective way to ensure the whole process adds value to the customer by removing waste and focusing on excellence.