

Subject:	Internal Audit Plan 2024/25 Progress Report July-August	Status:	For Publication
Report to:	Audit & Accounts Committee	Date:	25/09/2024
Report of:	Head of Internal Audit (Internal Audit Service)	Lead Member:	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
Contact Officer:	Mark Baskerville Audit Manager	Telephone:	01772 538615
Email:	mark.baskerville@lancashire.gov.uk		

1. RECOMMENDATION

- 1.1 The Committee are asked to consider the Internal Audit report on progress to deliver the 2024/25 audit plan.

2. EXECUTIVE SUMMARY

- To support the Audit and Accounts Committee in fulfilling its responsibility to monitor performance against the internal audit plan.
- 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

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. DETAILS

This paper reports progress with the delivery of each audit on the 2024/25 annual audit plan

5. RISK

All the issues raised and the recommendation in this report involve risk considerations as set out below: adequacy of Council management of risks in respect of the areas subject to audit.

6. FINANCE

Any financial implications are commented upon in the report.

7. LEGAL

Any legal implications are commented upon in the report.

8. POLICY AND EQUALITIES IMPLICATIONS

Reported findings have been discussed and agreed, including management responses to the recommendations, with respective Service Managers and Heads of Service prior to reporting.

9. REASON FOR DECISION

To support the Audit and Accounts Committee in fulfilling its responsibility to monitor Internal Audit performance.

No background papers.

Appendix A

Rossendale Borough Council

Internal Audit Service

Progress on Delivery of the 2024/25 Audit Plan

July – August 2024



1 Introduction

Purpose of this report

- 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 2024/25 audit plan agreed at the March 2024 Committee meeting.

2 Summary of progress against the 2024/25 audit plan

- 2.1 The table below reports progress with delivery of the 17 audits on the 2024/25 audit plan. Eight audits are progressing, the scope and approach have been agreed and testing has started. The remaining audits have been scheduled in for delivery through the year. Provision of IT audits will in future be carried out by Salford City Council's Technical Audit Service under a contract in place with Lancashire County Council, in place of Mersey Internal Audit Agency who had previously audited IT systems. We have also allocated two further auditors to provide additional flexibility and resource to support overall audit plan delivery.
- 2.2 Annex A includes extracts from the final 2023/24 audit reports not previously reported to committee. We provide moderate assurance that corporate projects are delivered effectively and in compliance with policy. We agreed one medium risk action to provide guidance on establishing programme monitoring groups for programme themes, to record key decisions, improve compliance with the requirement to complete a Project Initiation Document and to consider the Programme Board's role in ensuring policy compliance. We also completed the audits of accounts receivable (Limited), general ledger (Moderate) and income and banking (Substantial). While the internal controls for accounts receivable are well designed and mostly operating effectively, our limited opinion is based on the need to improve legal recovery action once the standard process by the Finance service has been exhausted. This action was initially raised in the 2018-19 debt management audit and all subsequent accounts receivable audits. On the general ledger audit, while control accounts reconciliations are completed, a definitive list of control and suspense accounts has not yet been created despite an agreed action in our 2022/23 report and we have therefore raised the action again

Control Area	Audit Progress	Assurance
Governance and democratic oversight		
Contract procedure rules	Progressing	
Procurement Act 2023	Progressing	
Subject Access/ Freedom of Information	Not started	
Business effectiveness		
Risk Management	Not started	
IT Audit – Cyber Security	Not started	
Service delivery		
Public Protection Unit	Not started	
Waste, Cleansing and Recycling Improvement	Progressing	
Service support		
Expense claims	Progressing	
Recruitment	Not started	
Business processes		

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Payroll	Progressing	
Council tax	Progressing	
Business rates/ NNDR	Progressing	
Housing benefits	Progressing	
Accounts payable	Not started	
Accounts receivable	Not started	
General ledger and budget setting	Not started	
Income collection/ banking	Not started	

Stage of audit process	Number of audits
Not started	9
Progressing	8
Draft report	0
Completed - Final Report <i>or</i> no report necessary	0
Deferred/ cancelled	0
Total number of audits	17

3 Update on the National Fraud Initiative (NFI)

- 3.1 The main exercise is run every two years. The most recent results from the 2022/23 data sets are shown in the table below.

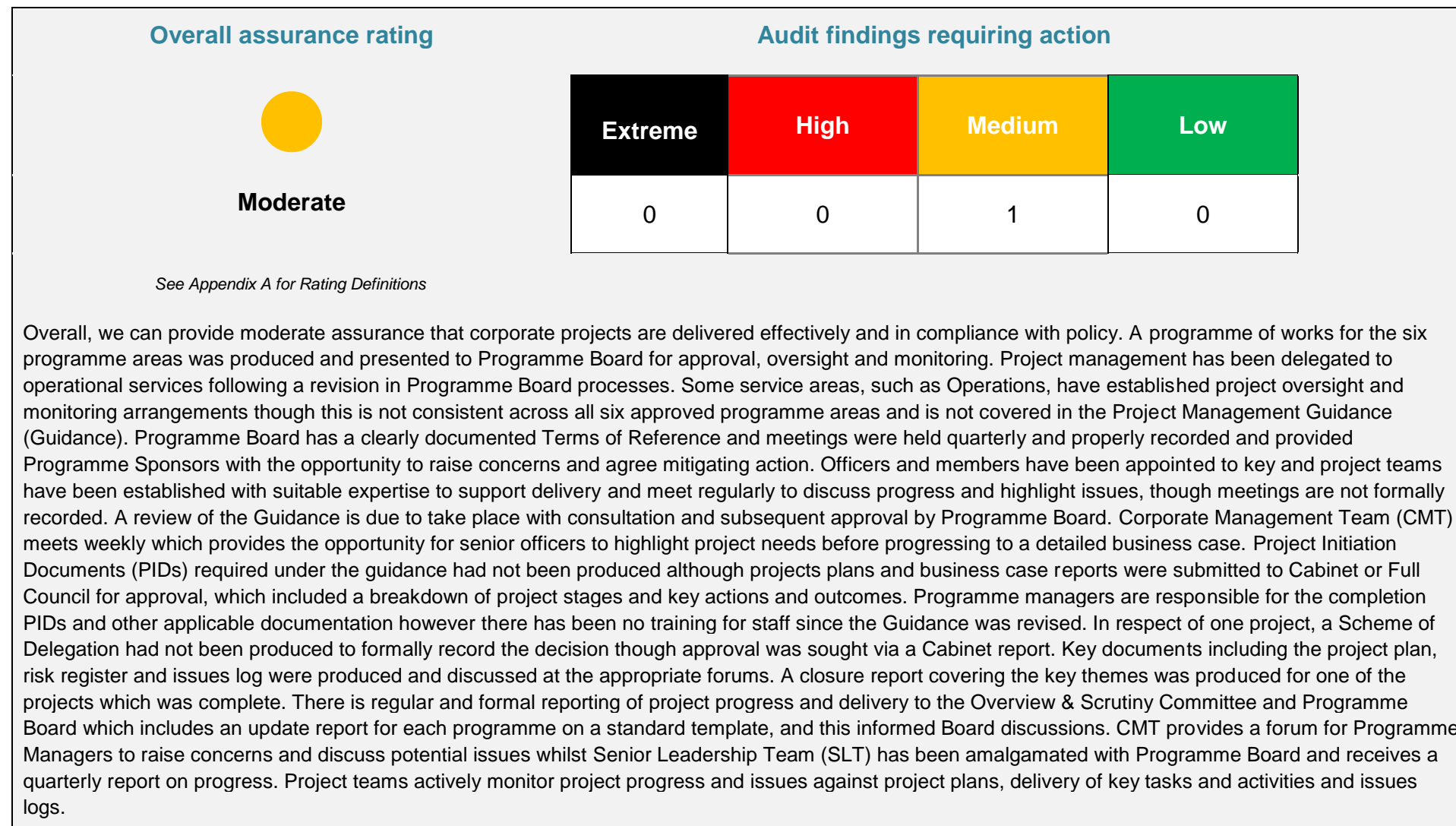
Data Category	Number of matches				Frauds	Errors	Savings £
	Identified	Processed	Cleared	Investigating			
Housing Benefit	21	21	21	0	0	0	0.00
Payroll	7	0	0	0	0	0	0.00
Waiting Lists	88	2	0	0	0	2	8,566.00
Council Tax Reduction	173	155	148	3	0	7	10,910.80
Creditors	26	0	0	0	0	0	0.00
Procurement	9	0	0	0	0	0	0.00
Totals	324	178	169	3	0	9	19,476.80

4 Use of this report


- 4.1 This report has been prepared solely for the use of Rossendale Borough Council and it would therefore not be appropriate for it or extracts from it to be made available to third parties other than the external auditors. We accept no responsibility to any third party who may receive this report, in whole or in part, for any reliance that they may place on it and we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

Extracts from Internal Audit reports

Project Management



Section One – Executive Summary

Agreed actions from the audit	Priority
<p>Management should carry out a formal review of the Project Management Guidance including consultation with the Programme Board, programme and project managers, and subsequent formal communication and training for relevant staff. This should include:</p> <ul style="list-style-type: none">- Guidance for project sponsors and managers on establishing a programme monitoring group or board for each programme theme.- The requirement to formally record key decisions in accordance with the Contract Procedure Rules.- Formal communication to Programme and Project Managers re-iterating the requirement in the Project Management Guidance to complete a PID document for all projects.- Consideration of Programme Board taking an active role in ensuring compliance with the guidance.	

2.1 Background

This audit has been undertaken in accordance with the 2023/24 Internal Audit Plan as approved by the Audit & Accounts Committee. The audit covers the period 1 April 2023 to 31 March 2024 and has been conducted in conformance with the Public Sector Internal Audit Standards.

2.2 Context


Corporate projects fit into one of the six programme themes and an outline of these was presented to Programme Board for approval. These themes include Capital Regeneration, Town Centre Regeneration, Properties, Climate Change, Operations and Digital Strategy. The main projects included within the Operations programme relate to implementation of the Bartec system and developing the Waste Transfer Station proposals. Other projects included in the programmes were the installation of car parking charging units as part of the Climate Change programme as well as other regeneration related projects focusing on town centre and highway improvements. The Guidance notes and associated procedures support officers in the effective delivery of corporate projects through guidance on the steps required to initiate, monitor, deliver and evaluate projects. The guidance notes set out a definition for corporate projects including roles and responsibilities for key officers and the Programme Board.

2.3 Scope of Audit

In this audit we reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Governance and accountability;
- Operational compliance; and
- Monitoring and reporting.

Accounts Receivable

Overall assurance rating	Audit findings requiring action			
 Limited	Extreme	High	Medium	Low
	0	0	1	2



See Appendix A for Rating Definitions




The internal controls for accounts receivable are well designed and mostly operating effectively. However, our limited opinion is based on the need to improve legal recovery action once the standard process by the Finance service has been exhausted. This action was initially raised in the 2018-19 debt management audit and all subsequent accounts receivable audits. Aged debt reports are issued weekly to service areas and we noted some service areas, such as Property, were taking active ownership of their debt and intervening directly. Members received quarterly reports of key performance indicators and the amount of aged and doubtful debt. The provision for doubtful debt in April 2023 was £380.6k and increased to £680.6k in 2023/24 financial year, against a total outstanding debt of £1.16m. Debt due for write-off was approved by Cabinet members in March 2024. We were told by the Head of Legal that action on sundry debts has not improved and the action agreed in the prior year's audit has not been implemented. The monitoring spreadsheet used by the Legal service records no debts since 2021 and limited action has been taken to pursue debts submitted to legal during the year. We have raised a further action to improve this control, including introducing a minimum threshold where the debt is greater than the cost of summons before pursuing legal action, given the limited resource available.

There is sufficient guidance for officers to create debtor invoices, with system controls preventing officers from amending invoices once created. The debt management policy outlines a credit check requirement although we were unable to confirm this in practice. We propose that a process is established and introduced to support compliance with policy. The recovery route is mostly compliant with the debt management policy and invoices are promptly input on the ledger with an appropriate code for the services/goods requested, but we noted inconsistency with the automated reminders issued by the system, with notifications issued later than required by policy. We confirmed the system is setup correctly and have proposed an action to test and correct this issue. The debtor control account is reconciled monthly, although there is a consistent known variance of -£6k. We have proposed an action to address this with the system provider in our Accounts Payable report, as a similar issue also impacts the creditor control account.

Ref	Agreed actions from the 2022-23 audit	Status	Audit findings	Priority
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Section One – Executive Summary

4.1	A process for credit checking suppliers should be established and implemented, with guidance and or training offered to responsible officers, to support compliance with policy.	Not implemented	We were unable to confirm a credit check process is established and operating in practice. We were told checks were not routinely carried out except for specific service areas, such as commercial tenancy agreements.	
4.2	<p>The spreadsheet of debtor invoices for legal action should be reviewed to ensure:</p> <ul style="list-style-type: none"> • Prompt action is being taken to pursue legal recovery of outstanding debt; • The legal spreadsheet is up to date with the debtor database; and • A priority status for recovery cases is implemented to ensure progress on legal action is monitored and resources allocated appropriately. 	Not implemented	<p>We were told by the Head of Legal Services that this action has not been implemented due to resource limitations. We attempted to test procedures as part of recovery action and write off testing, although found limited evidence of legal action beyond committal to land charges for relevant debtors.</p> <p>The council should consider whether pursuing legal action for all debt exceeding £100, as required by the debt management policy, is realistic. A higher limit may be needed to allow Legal Services to update monitoring action. No debt beyond 2021 is recorded on the monitoring spreadsheet.</p>	

Agreed actions from the 2023/24 audit	Priority
A process for credit checking suppliers should be established and implemented, with guidance issued to responsible officers, supported by training, if necessary, to support compliance with policy. The debt management policy is due for review in October 2024 and the limit on credit checks will be considered to ensure it is achievable.	
The inconsistent generation of Civica Debtor system reminders should be investigated and resolved to ensure reminders and notices are issued in compliance with the debt management policy. A test account has been created and officers are awaiting the system generated reminders to determine why notices are being issued later than instructed.	
<p>Action should be taken to ensure that all recoverable debt is identified, and recovery is promptly pursued. This should include:</p> <ul style="list-style-type: none"> • Reviewing, updating, and maintaining the spreadsheet of debtor invoices for legal action to ensure it fully reflects the current debt position and is consistent with the debtor database; • Taking prompt action to pursue legal recovery of outstanding debt; • Implementing a priority status for recovery cases to ensure progress on legal action is monitored and resources are allocated appropriately; and 	

Section One – Executive Summary

- Reviewing whether the minimum value of £100 for legal action as set out in debt management policy is realistic or should be increased given the work required to bring the monitoring spreadsheet up to date and address the current backlog. Any decision to change the policy should be subject to approval by members.

2.1 Background

This audit has been undertaken in accordance with the 2023/24 Internal Audit Plan as approved by the Audit, Risk & Governance Committee. The audit covers the period April 2023 to March 2024 and has been conducted in conformance with the Public Sector Internal Audit Standards.

2.2 Context

The council use the Civica Debtor system to manage and maintain the debtor database and raise invoices. This system is administered by the Finance Service, who control user access and report the overall debt position to senior managers and members. All service areas can raise debtor invoices or request that invoices are raised on their behalf. The system generates reminders and final notices to be issued at defined intervals if a debt is not paid promptly. If the system recovery procedure is exhausted, the Finance Service liaises with individual services and the Legal Service to escalate recovery, with action such as termination of service and pursuing legal recovery options.

2.3 Financial Information

There were approximately 3000 debtor invoices raised in the 2023-24 financial year, with a total value of £7m. The collection rate was reported as 90% in the quarter 4 financial outturn report, with £717k (10%) of in-year debt raised considered outstanding and £1.16m total debt including all years.

2.4 Previous audit

An internal audit of Accounts Receivable was last carried out in June 2023. This resulted in a moderate opinion being issued with one low risk regarding credit checking process and one medium risk action regarding legal recovery action. These actions have not been implemented and will be raised again within this report.

2.4 Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Invoices or credit notes are recorded in an inaccurate and untimely manner;
- Recovery procedures are not compliant with the council's debt management policy potentially leading to a loss of income that is recoverable and inappropriate or unauthorised write offs;
- Debts are not recovered in a timely manner and there is a lack of regular monitoring;
- Transactions are inaccurately recorded in the accounting system or evidence of liability of debts is not retained, potentially hindering the recovery of debts.

General Ledger

Section One – Executive Summary

Overall assurance rating



Moderate

See Appendix A for Rating Definitions


Audit findings requiring action

Extreme	High	Medium	Low
0	0	1	0

The annual budget for 2023-24 is accurate, reviewed and approved by members of both Cabinet and Full Council prior to the beginning of the financial year. Members receive quarterly financial monitoring reports with sufficient detail and narrative to inform decision making and monitor variances. Responsibility for monitoring service area budgets is assigned to individual officers and supported by evidence. Most journals are supported by a narrative and evidence, such as invoice images held on the system. Most suspense accounts were cleared at time of review and issues with control account reconciliations has improved, with prompt completion and approval by a senior officer in most cases. While control accounts reconciliations are completed, a definitive list of all control and suspense accounts has not yet been created with assigned responsible officers despite an action being agreed in our 2022/23 report to produce one. We acknowledge that responsible officers are known informally, however issues with reconciliations initially occurred when key members of staff left the authority and responsibility for monthly reconciliation was unclear for an extended period. We have therefore raised the action again.

Agreed action from 2022-23 audit report	Status	Priority
A complete list of all control and suspense accounts will be created showing the frequency of monitoring and reconciliation and the responsible officer. Reconciliations will be reviewed and approved by another officer once completed.	We were told by the Head of Finance that a complete list of control and suspense accounts with responsible officers has not been created. We used a report from the 2021-22 audit to sample control accounts for our testing. We acknowledge that the service capacity to implement the action has adversely affected by additional time spent working through previous year-end accounts, and that the control accounts sampled were assigned to responsible officers informally. However, we have raised this part of the action again in this report as it is good practice to maintain a record of all control and suspense accounts. We confirmed there was sufficient evidence that reconciliations were approved by another officer and considered this part of the action implemented.	Partially implemented.

Section One – Executive Summary

Agreed actions from 2023-24 audit	Priority
A complete list of all control and suspense accounts will be created showing the frequency of monitoring and reconciliation with an assigned responsible officer and approver.	Action ref 4.1 

2.1 Background

This audit has been undertaken in accordance with the 2023/24 Internal Audit Plan as approved by the Audit, Risk & Governance Committee. The audit covers the period April 2023 to March 2024 and has been conducted in conformance with the Public Sector Internal Audit Standards.

2.2 Context

The council agreed a net revenue budget for 2023/24 of £10.256m in February 2023. The budget is monitored and maintained using the Civica General Ledger module. The Finance Service has undergone significant change, with a restructure of the roles and responsibilities and the creation of a principal accountant and Director of Resources post.

2.4 Previous audit

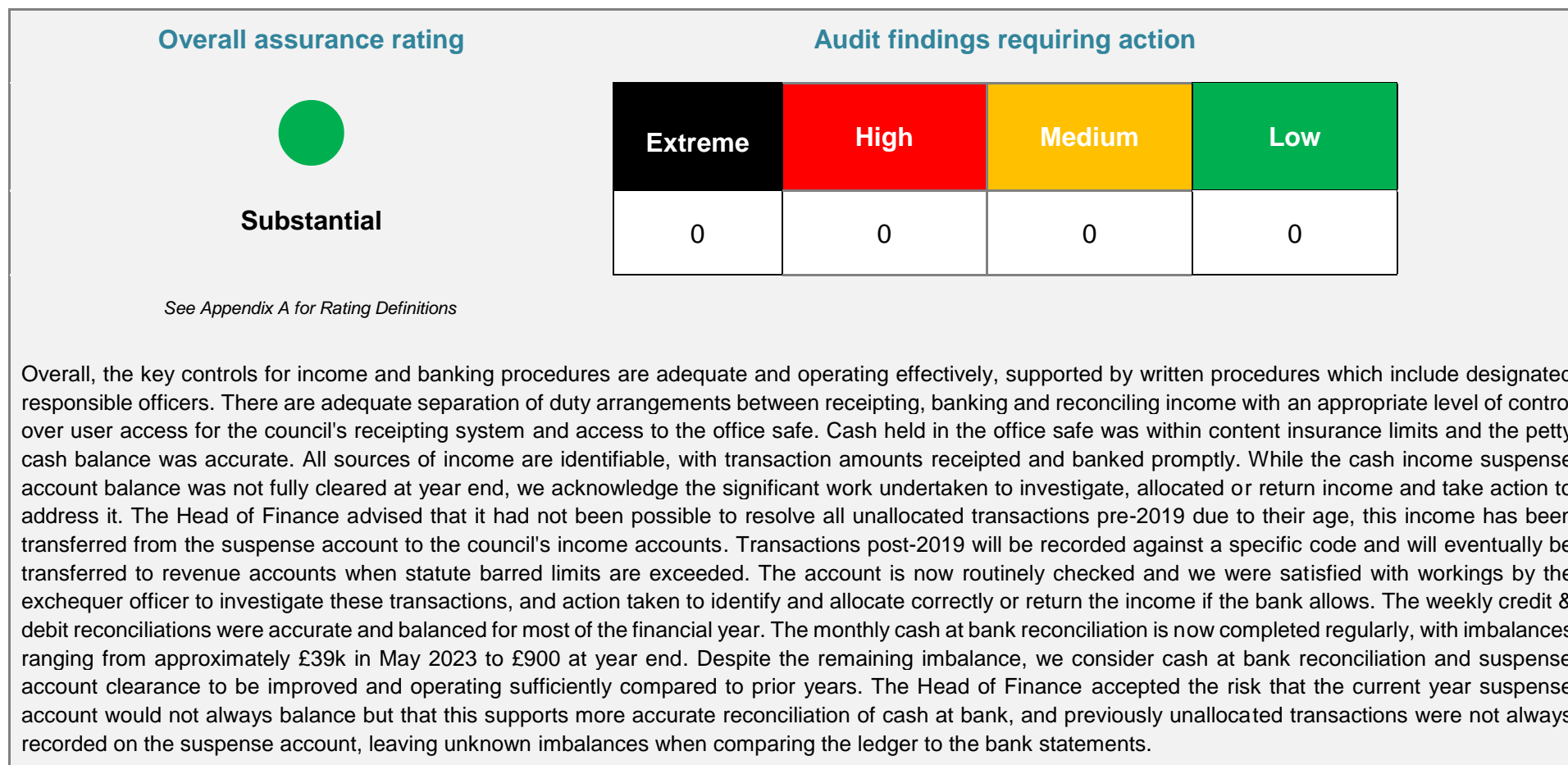
An internal audit of Accounts Payable was last carried out in June 2023. This resulted in a moderate assurance opinion being issued with one medium risk action regarding reconciliation of control accounts and approval by a senior officer.

2.4 Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Approved budgets are not correctly input to the system resulting in under or overspend by budget holders;
- Budget virements are not appropriately authorised or recorded resulting in inaccurate management accounts and reporting;
- Unauthorised system access and code creation/ amendment could lead to misappropriation of council funds;
- Control accounts are not reconciled on a timely basis resulting in inaccurate debtor and creditor balances;
- Budget variances are not adequately monitored and reported leading to financial loss.

Income Collection and Banking



Agreed action from 2022-23 audit report	Finding	Status
The income suspense account should be cleared, with income that cannot be identified or	The 2023-24 cash income suspense account was balanced at year end, with a balance of approximately £22k moved to a different code to be investigated and allocated or	Implemented.

Section One – Executive Summary

<p>returned held on a separate code and legal advice should be sought to determine what the council can do with the unallocated income.</p>	<p>returned if possible. This is a considerable improvement compared to the prior year, where the balance at year end was £48k and remained in the account complicating investigating recent transactions.</p> <p>The suspense account is now checked twice per month and we reviewed the exchequer officers working papers to confirm transactions are being investigated. Regarding transactions pre-2023-24 financial year, we were told by the Head of Finance these will eventually be written on and kept by the council if the income cannot be returned to original account and the statute barred period is exceeded. This approach is reasonable given the difficulty with resolving older transactions and we consider this action has been implemented with the control now operating sufficiently despite the unresolved transactions.</p>	
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2.1 Background

This audit has been undertaken in accordance with the 2023/24 Internal Audit Plan as approved by the Audit, Risk & Governance Committee. The audit covers the period April 2023 to March 2024 and has been conducted in conformance with the Public Sector Internal Audit Standards.

2.2 Context

The council uses the Webpay receipting system to record income, which is reconciled in conjunction with other systems, such as the Civica modules for general ledger and debtors and the Northgate modules for council tax and national non-domestic rates (NNDR). Cash and cheque transactions have significantly reduced, with the council's stated aim to no longer accept cash directly. Most income is now received electronically.

2.4 Previous audit

An internal audit of Accounts Payable was last carried out in June 2023. This resulted in a moderate assurance opinion being issued with one medium risk action regarding significant balances in the income suspense account.

2.4 Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Payments made to the Council are misappropriated or misused, resulting in financial loss;
- The collection and banking of income is not recorded to the general ledger promptly, completely or accurately;
- Unauthorised access to systems leads to misappropriation or misuse of council funds.

Scope, responsibilities and assurance

Approach

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

Responsibilities of management and internal auditors

- 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.
- 3 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.
- 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.
- 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

- 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. Sufficient, reliable and relevant evidence has been obtained to support the recommendations made.

Limitations to the scope of our work

- 7 Other than as set out in the audit plan for the year there have been no limitations to the scope of the audit work.

Limitations on the assurance that internal audit can provide

- 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 the future.

- 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

- 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.
- 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.

Audit assurance and residual risks

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 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.
- **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.
- **Limited assurance:** there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of its 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 its objectives.

Classification of residual risks requiring management action

All actions agreed with management are stated in terms of the residual risk they are designed to mitigate.

- **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.*