

Subject:	Internal Audit Plan 2024/25 Progress Report September- November 2024	Status:	For Publication
Report to:	Audit & Accounts Committee	Date:	3rd December 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
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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

September - November 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. Six audits are actively progressing and we expect to issue draft reports on the contract procedure rules and the Procurement Act shortly. The IT audit of cyber security is at the planning stage and in December we will meet representatives of the new IT audit provider, Salford City Council's Technical Audit Service, to agree the scope. We have issued draft reports for audits of the systems administered by Capita, housing benefits, council tax and business rates. We gave substantial assurance over payroll in our final report in October, agreeing one recommendation to improve review of starter and leavers pay.

Control Area	Audit Progress	Assurance
Governance and democratic oversight		
Contract procedure rules (2023/24)	Progressing	
Procurement Act 2023	Progressing	
Subject Access/ Freedom of Information	Not started	
Business effectiveness		
Risk Management	Progressing	
IT Audit – Cyber Security	Planning	
Service delivery		
Public Protection Unit	Not started	
Waste, Cleansing and Recycling Improvement	Progressing	
Service support		
Expense claims	Progressing	
Recruitment	Progressing	
Business processes		
Payroll	Completed	Substantial
Council tax	Draft report	
Business rates/ NNDR	Draft report	
Housing benefits	Draft report	
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	6
Progressing/ planning	7
Draft report	3
Completed - Final Report <i>or</i> no report necessary	1
Deferred/ cancelled	0
Total number of audits	17

3 Update on the National Fraud Initiative (NFI)


3.1 We are unable to report NFI statistics in this period due to issues with the reliability of some Council Tax Reduction Scheme data reports provided by the DwP. We have contacted the NFI team to resolve the position and we are awaiting a response. We expect to provide an updated report to the January 2025 committee meeting.


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

Payroll

<p>Overall assurance rating</p>  <p>Substantial</p> <p><i>See Appendix A for Rating Definitions</i></p>	<p>Audit findings requiring action</p> <table border="1"> <tr> <td style="background-color: black; color: white; text-align: center;">Extreme</td> <td style="background-color: red; color: white; text-align: center;">High</td> <td style="background-color: yellow; color: black; text-align: center;">Medium</td> <td style="background-color: green; color: white; text-align: center;">Low</td> </tr> <tr> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">1</td> <td style="text-align: center;">0</td> </tr> </table>				Extreme	High	Medium	Low	0	0	1	0
Extreme	High	Medium	Low									
0	0	1	0									
<p>Overall, we are satisfied that the control operating over the payroll system are operating effectively, the organisational structure is reviewed and updated annually in July and was accurate, other than recent new starters, with officers and roles matching the payroll system. Access to the payroll system is restricted to officers in the Human Resources (HR), payroll and Information Technology (IT) service areas. The tax thresholds input on the system are accurate to the figures published by central government. Four out of five new starters had been paid correctly according to their contract. We identified that one employee's first monthly pay was incorrectly calculated but brought this to the payroll officer's attention and they corrected it on the day of our visit. Evidence of identity and right to work is retained on file for all but one officer, which the Human Resources (HR) manager was aware of and was working to resolve. Leavers final month's salary is paid correctly, although exit interviews are not always conducted and leavers checklists not always completed but all equipment and ID badges are returned. We will address the right to work and exit interview findings up in our planned 2024/25 recruitment audit. All overtime and expenses are approved by a line manager and the relevant evidence is retained. Voluntary deductions are appropriately requested by either the officer or a third party. Absence and maternity leave adjustments are supported by doctor's notes and declaration forms, and absences that impacted pay are calculated correctly. The monthly payroll is reviewed by the payroll systems officer and approved by the Head of Finance prior to payment. The final BACS submission amount is input into the Civica finance system by an accountant.</p>												

Agreed actions from the audit	Priority
The first or final payment calculations for new starters and leavers should be checked by another officer prior to monthly approval of the payroll.	

2.1 Background

This audit has been undertaken in accordance with the 2024/25 Internal Audit Plan as approved by the Audit, Risk & Governance Committee. The audit covers the period January to August 2024 and has been conducted in conformance with the Public Sector Internal Audit Standards.

2.2 Context

The council uses the Complete Human Resource Information System (CHRIS21) to administer and calculate payroll. HR and payroll functions are undertaken by council officer's and system access is restricted to those in HR, payroll and ICT service.

The council employed 178 officers at the time of our review, with an approximate monthly net pay of £360k.

2.3 Previous audit

An internal audit of payroll was last carried out in September 2023. This resulted in a substantial assurance opinion being issued with no improvement action required.

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:

- Non-compliance with tax legislation related to employees, including the incorrect processing of deductions from salaries may lead to fines and penalties being imposed by HM Revenue and Customs;
- Access to the payroll system is not restricted or personal data is not stored securely;
- Unauthorised amendments to pay are processed resulting in inaccurate or untimely payment of salaries;
- Amendments relating to new starters and leavers are processed incorrectly or without sufficient authorisation, potentially resulting assets belonging to the Council being lost or stolen;
- Salaries and deductions are incorrectly calculated leading to employees being over or under paid;
- Bogus employees are set up on the payroll system enabling misappropriation 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.*