

Subject:	Internal Audit Progress Report Oct- Nov Qtr 3 2022/23	Status:	For Publication
Report to:	Audit and Accounts Committee	Date:	30 November 2022
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 progress report for October and November Qtr 3 2022/23

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 2022/23 internal audit plan

Quarter 3 October – November 2022



Internal Audit Service - Progress Report 2022/23 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 2022/23 audit plan, agreed at the March 2022 Committee meeting.

2. Summary of progress against the 2022/23 audit plan

- 2.1. Of 19 full audits we have completed seven, issued one as draft and are progressing eight including two IT audits being undertaken by Mersey Internal Audit Agency (MIIA). These figures include a number of unplanned grant certifications which arose in-year. While we are not yet at the stage where we can report assurances from the audits in progress, initial findings give us some cause for concern about the adequacy of the resources available to carry out key tasks, such as financial reconciliations, and the impact of the council's ongoing difficulties in recruiting and retaining staff in key areas such as Finance and Planning. The table below shows the current status of all audits.

Audit Title	Status	Audit Type	Assurance Opinion
Governance and democratic oversight			
Delegated decision making by officers	Not started	1+2	Set at Final Report
Leisure Trust	Not started	1+2	
Performance management	Not started	F	
GDPR/ information security policies	Not started	F	
Business effectiveness			
Financial sustainability	Not started	1+2	Set at Final Report
IT threat and vulnerability management (MIIA)	Progressing	1+2	
IT critical application review of payroll (MIIA)	Progressing	1+2	
Procurement	Not started	F	
IT Critical application review of Civica (MIAA)	Not started	F	
IT Homeworking arrangements (MIIA)	Not started	F	
IT Service Continuity (MIAA)	Not started	F	

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Audit Title	Status	Audit Type	Assurance Opinion
Service delivery			
Corporate project delivery	Progressing	1+2	Set at Final Report
Planning controls	Not started	F	
Commercial rents	Not started	F	
Service support			
Health and safety (deferred from 2021/22)	Draft	1+2	Set at Final Report
Sickness absence	Progressing	1+2	
Business processes (follow up and compliance)			
Accounts payable	Progressing	2	Set at Final Report
Accounts receivable	Progressing	2	
General ledger, budget setting and monitoring	Progressing	2	
Income collection/ banking	Progressing	2	
Payroll	Final	2	Substantial
Council tax	Final	2	Moderate
Business rates/ NNDR	Final	2	Moderate
Housing benefits	Final	2	Substantial
COMF grant certification (unplanned work)	Completed	2	Compliance with grant conditions
Protect and Vaccinate Grant certification (unplanned work)	Completed	2	Compliance with grant conditions
Test and Trace Grant certification (unplanned work)	Completed	2	Compliance with grant conditions

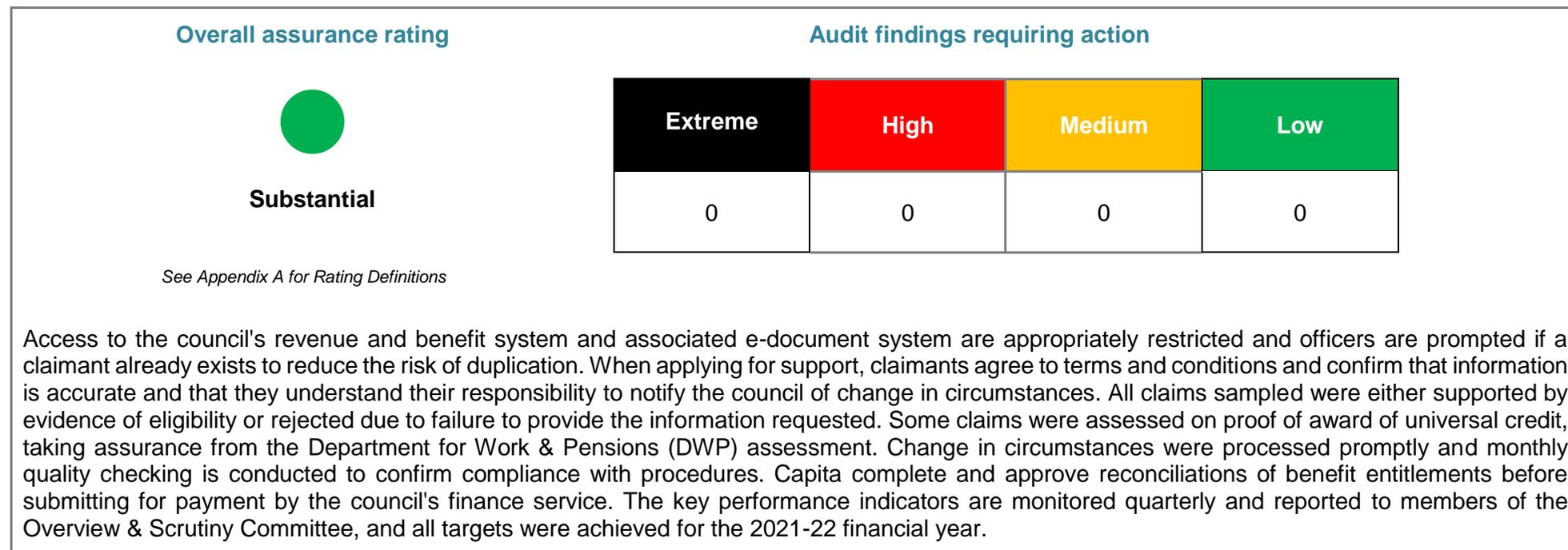
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Stage of audit process	Number of audits
Completed (no report necessary)/ Final Report delivered	7
Draft report	1
Progressing	8
Not started (including follow up of 8 audits from 2021/22)	11
Deferred/ cancelled	0
Total number of audits	27

3. Extracts from Audit Reports

3.1. Extracts of assurance summaries, findings and agreed actions are shown below.

Housing Benefit



Background

This audit has been undertaken in accordance with the 2022/23 Internal Audit Plan as approved by the Audit & Governance Committee. The audit covers the period April 2021 to March 2022 and was conducted in conformance with Public Sector Internal Audit Standards.

Context

The council outsources housing benefit and council tax support claims to Capita PLC. The council's Service Assurance team monitor performance against this contract through key performance indicators and report quarterly to Members for oversight. The Northgate system is used to input and manage claims and evidence of eligibility is stored on Info@Work, an electronic document management system. There were 256 housing benefit and 1448 council tax support claims during April 2021 to March 2022

Previous audit

An internal audit was last carried out in November 2021. This resulted in a substantial assurance opinion being issued.

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Scope of Audit

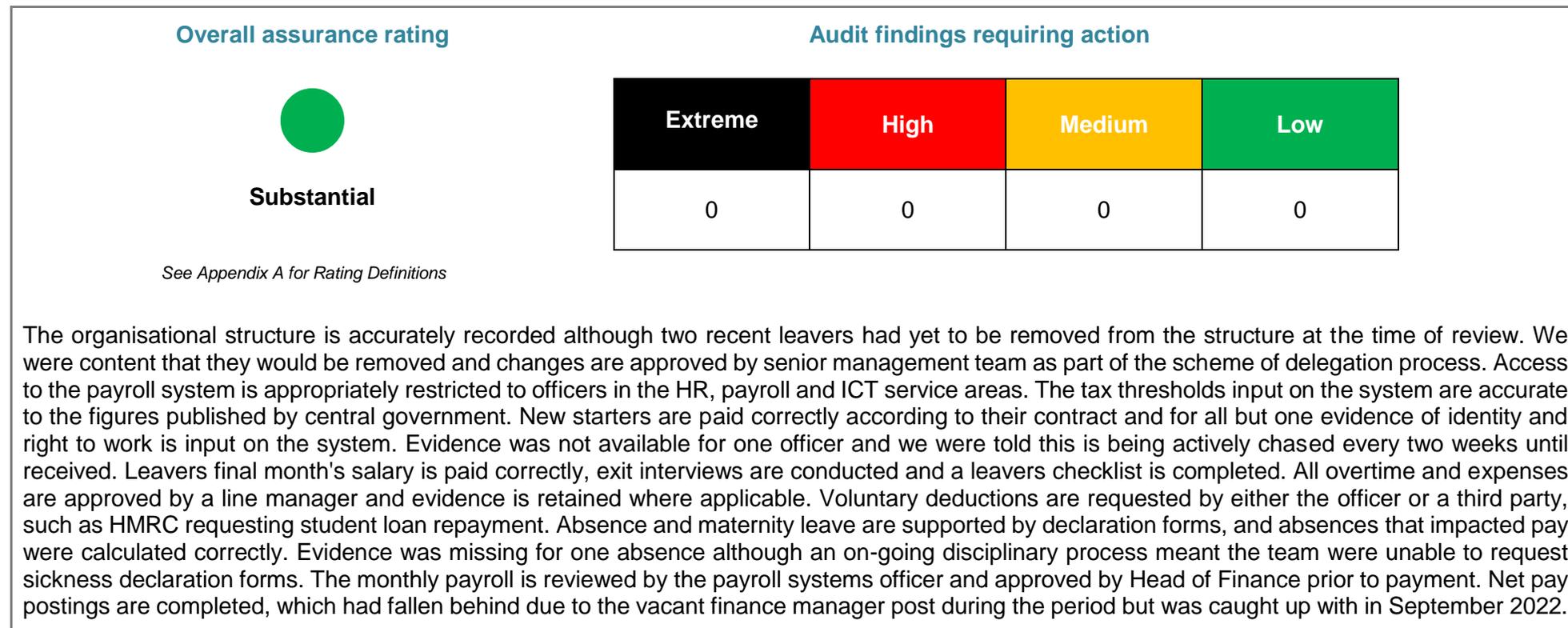
In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Failure to maintain an accurate housing benefit and council tax support database, potentially resulting in fraudulent payments;
- Benefits claims are not processed promptly resulting in poor value for money and reputational loss for the council;
- Incorrect or fraudulent claims are accepted, including voids and claims on multiple properties, resulting in financial loss;
- Failure to identify changes in circumstances could result in overpayments and/or fraudulent payments.

Key Findings

Area of Coverage	Commentary	Action ref	Assessment
System access	53 unique user accounts had access to Northgate benefits and revenue modules. All officers were employed by either Capita or the council and access was appropriate to their role. We confirmed one officer who changed role no longer had access the system.		●
New Claim Eligibility and Processing	For new claims, users receive an error message if the name or national insurance number already exists, to reduce duplication. Claimants were required to declare other income, capital and properties. Before submission the claimant must agree to terms and conditions, including notification of changes in circumstances. Eligibility was confirmed in line with policy or rejected, usually where supporting evidence was not provided. Evidence of approved claims was retained, with assurance taken from DWP assessment.		●
Change in Circumstance (CIC) and Quality Checking	Claims amendments were actioned correctly. Notifications from ATLAS and housing benefit matching service were processed promptly. New claims and changes in circumstances were quality checked monthly by a single officer and action was taken to address issues. These were checked by the line manager but as the officer had processed some claims they were checking their own work. However, thematic tests were carried out to provide assurance that Capita delivered on their contract and will include whether this arrangement is appropriate.		●
Reconciliation and Separation of Duties	Payments were reconciled and matched between the Northgate and Civica systems. The process involved both Capita officers confirming the accuracy of payment and approving the payment total and two Rossendale officers who process and approve the payments, ensuring sufficient separation of duties.		●
Performance and oversight	Rossendale and Capita senior management meet quarterly to agree targets for the financial year and monitor performance and issues arising. Key performance indicators are reported quarterly to members of the Overview & Scrutiny committee and all targets were achieved during the 2021-22 financial year.		●

Payroll



Background

This audit has been undertaken in accordance with the 2022/23 Internal Audit Plan as approved by the Audit & Accounts Committee. The audit covers the period April to August 2022 and has been conducted in conformance with the Public Sector Internal Audit Standards.

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 170 officers at the time of our review, with an approximate monthly net pay of £310k.

Previous audit

The previous audit was carried out in December 2021 giving substantial assurance with no improvement action required.

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Scope of 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:

- 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.

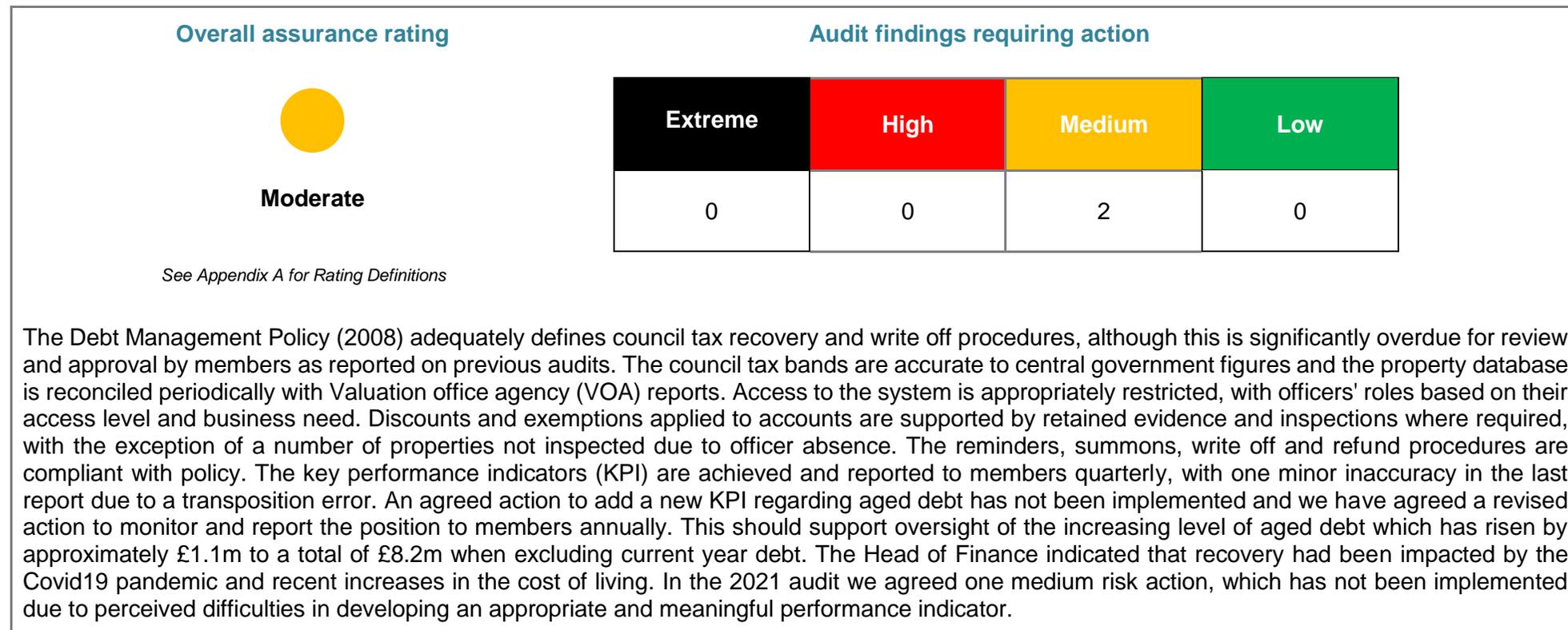
Key Findings

Area of Coverage	Commentary	Action ref	Assessment
Organisational Structure	The structure chart and CHRIS21 system matched with minor differences relating to how the role was recorded on the system and one officer was excluded as they were on a temporary contract which were not typically included on the formal structure.		●
System parameters and access	The government tax thresholds were correctly input on CHRIS21. All system user accounts had access appropriate to role and were officers in People & Policy and IT. High level access was appropriately restricted.		●
Overtime, Expenses and Voluntary deductions	Overtime, mileage and expenses claims were supported by evidence and an approved claim form and were paid promptly and correctly and there was evidence of management review. Voluntary deductions were supported by formal requests.		●
Reconciliation	Exception reports were produced to support monthly review of the accuracy of payroll prior to approval by the Head of Finance, and payment. The net pay postings and BACs submission forms matched the total net amount of the payroll files reviewed. The vacant finance manager post had resulted in additional work to address control account reconciliations, as raised in our 2021-22 general ledger report. We have therefore not raised a further action in this report.		●

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Absence and Maternity	Sick absence was supported by declaration forms. For employees on long term absence and maternity leave, sickness declaration forms and MATB1 were completed and retained. We confirmed pay was correctly adjusted according to the employee's contract and statutory pay.		●
New starters and leavers	New starters were paid correctly and most had completed a personal file checklist, and appointment forms, statement of particulars and proof of identity and right to work in the UK were retained. For two employees no proof of identity and right to work was held on file but we accepted explanations given as reasonable as there is a control to gather the outstanding evidence and a national insurance number recorded on the system. Evidence of exit interviews, resignations and completed leavers checklists were retained for leavers. One officer did not have a resignation letter on the system as this was a temporary contract. Final pay was calculated and paid correctly and the system end date matched the resignation or temporary contract. Two officers still on the structure had left only recently.		●

Council Tax



Agreed actions from the audit	Action ref	Priority
The Debt Management Policy (2008) should be reviewed and revised to ensure it is up to date, to correct any inaccuracies and to ensure policy reflects relationship between the council and the service provider Capita. The revised policy should be submitted to Members for consideration and approval.	4.1	
The Service Assurance Team should monitor the level of aged council tax debt annually and report the overall level of aged debt with supporting narrative to members.	4.2	

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Background

This audit has been undertaken in accordance with the 2022/23 Internal Audit Plan as approved by the Audit & Accounts Committee. The audit covers the period March 2021 to April 2022 and has been conducted in conformance with the Public Sector Internal Audit Standards.

Context

Council tax administration and recovery is outsourced to Capita PLC. The council's Service Assurance (SA) team monitor contract performance against a service level agreement. The systems referred to in this report are Northgate, for managing property database and recovery action, and the Info@Work electronic document management system (EDMS) for storing supporting evidence.

Approximately £43m total council tax bills were raised during 2021-22, with 95.6% collected by year end.

Previous audit

An internal audit of Council Tax was last carried out in November 2021. This resulted in moderate assurance with one medium risk action regarding the reporting of the aged debt level.

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:

- The council tax database is not accurately maintained resulting in failure to raise invoices or incorrect invoice values;
- Discounts and exemptions are incorrectly awarded resulting in a loss of income for the council;
- Refunds are made when there is no credit on the account resulting in a loss of funds;
- Outstanding amounts are not recovered promptly or written off inappropriately.

Follow up of 2021-22 audit

Action reference and description	Status
Action 1 - The council should consider undertaking an annual review of aged debt in revenues (Council tax and NNDR) with the aim of reducing the overall debt position. To inform this review, a key performance indicator should be developed. KPI performance against target should be reported in quarterly performance reports, to support Member oversight. Risk rating: Medium	Not implemented. We have again raised an action regarding monitoring and reporting of aged debt to members. The level of aged debt has been increasing by approximately £1m each year.

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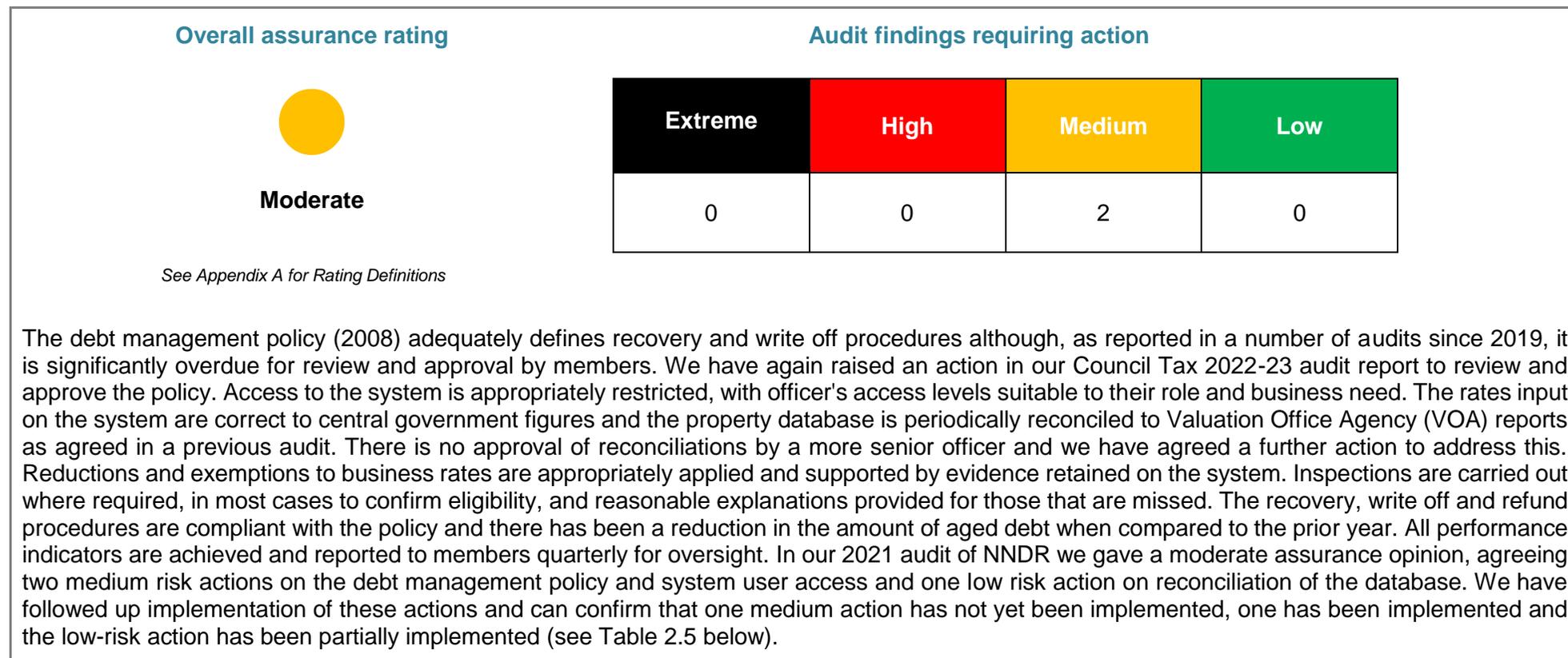
Key Findings

Area of Coverage	Commentary	Action ref	Assessment
Debt Management Policy	The Debt Management Policy had not been reviewed and revised since 2008 and while it adequately defined recovery and write off procedures it was out of date in some areas. We agreed an action to address this in 2018-19 and subsequent audit reports but this has not yet been implemented. We were told an updated version was being drafted.	4.1	
System accuracy and access	Access to systems was appropriately restricted for the council tax (revenue) module. Precepts matched those approved by full Council in February 2021 as part of the 2021/22 council budget and were reported on the council website. The Valuation Office Agency to Northgate reconciliation was completed promptly and all totals matched. Two reconciliations were completed and checked by the same officer due to lack of resources to undertake checks.		
Discount and exemptions	Discounts and exemptions were correctly assessed as eligible. For exemptions applicable for a limited period, such as student status, end dates were input. Where required, property inspections generally took place in a timely way although three properties on the inspection timetable had not been inspected due to extended staff absence. We accepted that this will be monitored more closely to ensure sufficient resilience to cover absence.		
Recovery action and aged debt	Accounts were supported by evidence of recovery action which complied with the Debt Management Policy, resulting in either agreement of instalment plans or summons to arrange liability orders and bailiff action. For aged debt, there was evidence of active recovery action although overall aged debt had increased by £1.1m to £8.2m, excluding 2022/23 following a trend of annual increases. The SA team leader had full access to the Northgate system and ran aged debt reports for review. We agreed an action in our 2021-22 report to define a key performance indicator (KPI) to support monitoring activity but this was not implemented due to perceived difficulties in defining an acceptable level of debt. We have therefore agreed an action to ensure reports to Members provide sufficient oversight.	4.2	
Refund and Write Offs	Write-offs in 2021-22 were compliant with Debt Management Policy and appropriately approved based on their value, including approval by Cabinet prior to write-offs exceeding £5k. Refunds had accounts in credit at the time of refund and were processed and approved by two different officers with the reason supported by evidence.		

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Performance and oversight	The council, Capita officers and the portfolio holder met quarterly to agree performance targets for the 2021-22 financial year, monitor performance and address issues. The annual performance report for 2020-21 provided a contextual narrative and a new collection target of 94.7% for 2021/22. This was a reduction from 96.7% in 2020/21 due to suspended recovery action during Covid19. The rate was included in quarterly performance reports to Overview & Scrutiny Committee, though in quarters 2 and 4 the targets were incorrectly quoted due to a transposition error. Overall, the targets were achieved for 2021/22.		
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Business Rates



Agreed actions from the audit	Action ref	Priority
The VOA and Northgate reconciliation should be checked by a manager or other officer that was not involved in the reconciliation to confirm accuracy.	4.1	

Background

This audit has been undertaken in accordance with the 2022/23 Internal Audit Plan as approved by the Audit & Accounts Committee. The audit covers the period April 2021 to March 2022 and has been conducted in conformance with the Public Sector Internal Audit Standards.

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Context

The council outsource the NNDR service to Capita PLC. The council's service assurance (SA) team monitor contract performance through key performance indicators which are reported to members quarterly. The systems referred to in this report are Northgate, for managing accounts, properties and recovery action, and the Info@Work electronic document management system (EDMS) for retaining supporting evidence. Approximately £13m of NNDR bills were raised during 2021-22, with 98.1% collected by year end. There is evidence of recovery action on all prior years with the level of aged debt decreasing by approximately £250k to £1.6m.

Previous audit

An internal audit of NNDR was last carried out in November 2021.

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:

- The NNDR database is not accurately maintained resulting in failure to raise invoices or incorrect invoice values;
- Bill reductions are incorrectly awarded resulting in fraud and a loss of income for the council;
- Refunds are incorrectly made resulting in a loss of income;
- Outstanding amounts are not recovered promptly or written off inappropriately.

Follow up of 2021-22 agreed actions

Action reference and description	Status
<p>Action 1 - The debt management policy (2008) should be reviewed and revised to ensure it is up-to-date, to correct inaccuracies and to ensure policy reflects the relationship between the council and Capita. The revised policy should be considered and approved by Members.</p> <p>Risk rating: Medium</p>	<p>Not Implemented –The Service Assurance Team confirmed that the policy had not yet been updated and approved by members, although the policy is being re-drafted. This action has been raised again in the council tax 2022-23 audit report.</p>
<p>Action 2 - The Valuation Office Agency reconciliation process should be modified to support completion when working from home, including recording and retaining evidence of manager review and approval in email chains.</p> <p>Risk rating: Low</p>	<p>Partially Implemented – The VOA reconciliation is now undertaken weekly and the process is sufficiently robust to account for officers working from home. However, there was no evidence of approval by a senior officer and this action has been raised again in the current NNDR report.</p>
<p>Action 3 - User access accounts should be reviewed to ensure officers are still employed and have appropriate access. This review should be repeated periodically.</p> <p>Risk rating: Medium</p>	<p>Implemented – We confirmed user access rights have been reviewed and amended. All user accounts reviewed had levels of access appropriate to the role and all officers were still employed by the council.</p>

Key Findings

Area of Coverage	Commentary	Action ref	Assessment
Debt management policy	The policy was last updated and approved by members in 2008. We agreed an action to address this in our 2018-19 NNDR audit report (January 2019) and raised this in audit reports since, but the policy had not been updated. The current policy defined recovery and write off procedures but was out of date and included minor errors, such as summons costs.	4.1	
System accuracy and access	Access to the council tax (revenue) module was appropriately restricted and a previous action raised was implemented. Bills were correctly calculated based on rates updated annually. Valuation Office Agency reports were reconciled to Northgate promptly but the May 2021 reconciliation was delayed due to absence and limited resources meant reconciliations were not checked by a manager or senior officer once completed.		
Reductions and exemptions	Discounts and exemptions were supported by evidence held on the system, local knowledge such as an area known to be designated a rural village, or were based on the low rateable value of the property (less than £15k). Inspections took place where required though there were some delays in establishing the liable party.		
Recovery action and aged debt	Recovery action was compliant with the debt management policy. Most accounts followed the standard recovery route. Reminders were issued in a timely way. Most cases resulted in an instalment plan. Aged debt had generally reduced across all years. The overall level of debt, excluding the current year, had decreased by approximately £250k to £1.6m mostly from recent years, indicating that recovery procedures operated effectively.		
Performance and oversight	Rossendale and Capita senior managers met quarterly to agree targets, monitor performance and address any issues. The annual report confirmed a new target of 94.2% for 2021/22 collection rate reduced from 98.2% in 2020-21 due to the suspended recovery action due to Covid19. The NNDR collection rate was reported quarterly to Overview & Scrutiny Committee in performance reports though in quarters 1 and 2 the annual target was misquoted as 83.8% and there were other minor discrepancies regarding the quarterly target due to a transposition error. The annual target was achieved and the collection rate had recovered well.		

4. Update on the National Fraud Initiative (NFI)

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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 were uploaded to the NFI website. The 2020/21 exercise is now closed and 2021/22 data sets are in the process of being uploaded.

2021/22 biennial exercise	Number					Savings
	Reports	Matches	Processed	Frauds	Errors	£
Housing benefit	7	25	25	0	1	2,210
Waiting Lists	8	108	108	1	0	0
Payroll to payroll/ creditors	2	8	8	0	0	0
Council tax reduction scheme	14	206	193	0	7	23,292
Creditors - duplicates	6	266	239	0	0	0
SBGF/ RHLG - Duplicates	4	38	38	0	9	90,815
Discretionary/ Other Grants	1	8	8	0	0	0
Value Added Tax	1	23	23	0	0	0
Procurement – payroll	2	13	13	0	0	0
Unknown grant types (between)	1	1	1	0	0	0
Individuals - more than one report	1	19	0	0	0	0
Total	47	715	656	1	17	116,317

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. 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 and the table below shows statistics as at July 2022. 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	1	333	333	1	12	8,889
Council Tax to HMRC household composition	1	1028	1028	0	93	18,250

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Data categories	Number					Savings
	Reports	Matches	Processed	Frauds	Errors	£
Premium council tax – SPD electoral register	1	178	178	0	36	6,511
Council Tax rising 18s	1	25	25	0	22	0
Council Tax – Other datasets	2	2787	2787	0	28	7,089
Council Tax – All datasets	1	1780	124	0	0	0
Total	7	6131	4475	1	191	40,739

Audit assurance levels and classification of residual risk

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 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.*

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