

# INTERNAL AUDIT PROGRESS REPORT 2021/22

Date: 26 January 2022

Annex 1



## BACKGROUND

- 1 Internal audit provides independent and objective assurance and advice about the Council's operations. It helps the organisation to achieve its overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.
- 2 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.
- 3 In accordance with the PSIAS, the Head of Internal Audit is required to report progress against the internal audit plan (the work programme) agreed by the Audit, Governance and Standards Committee, and to identify any emerging issues which need to be brought to the attention of the committee.
- 4 The internal audit work programme was agreed by this committee in April 2021. The number of agreed days is 375 (including time for risk management facilitation) and the plan is flexible in nature.
- 5 In 2021/22 Veritau introduced a new, flexible approach to work programme development and delivery to keep pace with developments in the internal audit profession and ensure that we can continue to deliver a responsive service. Work is being kept under review to ensure that audit resources are deployed to the areas of greatest risk and importance to the Council.
- 6 The purpose of this report is to update the committee on internal activity between 1 April 2021 and 7 January 2022.



## INTERNAL AUDIT PROGRESS

- 7 As noted in previous reports to this committee, the Covid-19 pandemic meant there was 2020/21 work outstanding at the start of the year and much of the work in the first part of the year was finalising that work.
- 8 Work is ongoing on a number of 2021/22 audits. The payroll and pooling of housing capital receipts audit work are in the latter stages of fieldwork and we expect to be able to report on findings for these to the next committee.
- 9 Planning is underway on a number of other audits, including two audits identified in discussion with senior officers, covering areas where risks and controls have changed due to the impact of Covid pandemic (health and safety homeworking and information security at home).
- 10 A summary of internal audit work currently underway, as well as work finalised in the year to date, is included in appendix A.
- 11 The work programme showing current priorities for internal audit work is included at appendix B.

- 12 Audits are shown in the 'do next' category where we anticipate beginning work during the final quarter of 2021/22 but have not yet agreed a start date with the responsible officers. These include a number of fundamental systems, which will be prioritised for completion in this audit year.
- 13 The programme also includes some audits in the 'do later' category. The internal audit work programme is designed to include all potential areas that should be considered for audit in the short to medium term, recognising that not all of these will be carried out during the current year (work is deliberately over-programmed as previously discussed at committee).
- 14 In determining which audits will actually be undertaken, the priority and relative risk of each area will continue to be considered throughout the remainder of the year, and as part of audit planning for 2022/23. It is not currently anticipated that we will undertake any audits in the do later category during the remainder of 2021/22.
- 15 Two audits have been completed since the last report to this committee in September 2021. Appendix C summarises the key findings from these audits as well as details of actions agreed.
- 16 Appendix D lists our current definitions for action priorities and overall assurance levels.



## FOLLOW UP

- 17 All actions agreed with services as a result of internal audit work are followed up to ensure that underlying control weaknesses are addressed. During the Covid-19 pandemic it was agreed with management to concentrate resources on following up higher priority actions. Normal follow up work has now recommenced.
- 18 A summary of the current status of follow up activity is at appendix E. The proportion of actions implemented is lower than might normally be expected. This is likely due to the impact of the Covid pandemic but now that normal follow up activity has been resumed actions that remain outstanding will be escalated as appropriate.
- 19 Actions agreed as part of the creditors limited assurance audit, that was presented to the September meeting of this committee, have been followed up where they had become due and we are satisfied that appropriate action has been taken to address the weaknesses identified.

## APPENDIX A: 2021/22 INTERNAL AUDIT WORK

### Audits in progress

| Audit                               | Status      |
|-------------------------------------|-------------|
| Payroll                             | In progress |
| Pooling of housing capital receipts | In progress |
| Council Tax & NNDR                  | In progress |
| Health and safety – homeworking     | Planning    |
| Information security at home        | Planning    |
| General ledger                      | Planning    |
| ICT asset management                | Planning    |
| Council House Repairs               | Planning    |
| Debtors                             | Planning    |

### Final reports issued

| Audit                                  | Reported to Committee | Opinion               |
|--|-----------------------|-----------------------|
| Creditors                              | September 2021        | Limited Assurance     |
| Debtors                                | September 2021        | Substantial Assurance |
| Housing Rents                          | September 2021        | Substantial Assurance |
| Community Infrastructure Levy          | September 2021        | Reasonable Assurance  |
| Housing Benefits & Council Tax Support | January 2022          | Substantial Assurance |
| Council Tax & NNDR                     | January 2022          | Substantial Assurance |

### Other work completed in 2021/22

Internal audit work is undertaken in other areas during the year, including:

- Certification of the Local Authority Covid Compliance and Enforcement Grant

## APPENDIX B: CURRENT PRIORITIES FOR INTERNAL AUDIT WORK

| Audit / Activity  | Rationale   |
|---|---|
| <p><b>Strategic risks / Corporate &amp; cross cutting</b></p> <p><b>Category 1 (do now)</b><br/>           Health and safety – homeworking<br/>           Information security at home</p> <p><b>Category 2 (do next)</b><br/>           LGR preparations (inc. project management, contract management, financial procedure rules and decision making)</p> <p><b>Category 3 (do later)</b><br/>           Medium term financial planning<br/>           Programme for Growth and additional government funding</p> | <p>Key assurance area and changes to controls / risks<br/>           Key assurance area and changes to controls / risks</p> <p>Significant area for the council</p> |
| <p><b>Fundamental / material systems</b></p> <p><b>Category 1 (do now)</b><br/>           Payroll<br/>           Council Tax / NNDR<br/>           General ledger<br/>           Debtors</p>  | <p>Key assurance area<br/>           Key assurance area<br/>           Key assurance area<br/>           Key assurance area</p>                                     |

| Audit / Activity   | Rationale   |
|--|---|
| <p><b>Category 2 (do next)</b><br/>           Creditors<br/>           Housing rents<br/>           CTS and benefits</p> <p><b>Category 3 (do later)</b></p>   | <p>Key assurance area<br/>           Key assurance area<br/>           Key assurance area</p>   |
| <p><b>Operational / regularity</b></p> <p><b>Category 1 (do now)</b><br/>           Council house repairs<br/>           Pooling of housing capitals receipts</p> <p><b>Category 2 (do next)</b><br/>           Environmental health<br/>           Planning</p> <p><b>Category 3 (do later)</b><br/>           Homelessness / housing options<br/>           Community engagement</p> | <p>Provides broader assurance. Areas of risk identified.<br/>           Annual audit requirement</p> <p>Provides broader assurance.<br/>           Provides broader assurance</p> |
| <p><b>Technical / projects</b></p>   |   |

| Audit / Activity   | Rationale   |
|--|---|
| <p><b>Category 1 (do now)</b><br/>IT asset management</p> <p><b>Category 2 (do next)</b></p> <p><b>Category 3 (do later)</b><br/>Cybersecurity<br/>IT technical infrastructure</p> | <p>IT is key assurance area. IT asset management not recently reviewed.</p> |

## APPENDIX C: SUMMARY OF KEY ISSUES FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

| System/area<br>(month issued)                                      | Area reviewed   | Assurance<br>rating   | Agreed<br>actions |   |   | Comments   | Management<br>actions agreed  |
|--|---|-----------------------|-------------------|---|---|--|---|
|  |   |                       | 1                 | 2 | 3 |  |   |
| Housing Benefits and<br>Council Tax Support<br><br>(November 2021) | This audit reviewed benefits assessments, quality assurance processes, prevention and recovery of overpayments, as well as the administration of the Covid-19 hardship grant. | Substantial Assurance | 0                 | 1 | 0 | <p><b>Strengths</b><br/>Procedures for calculating claims and obtaining the required evidence were sound. Quality assurance procedures are in place and are appropriate. Overpayments of benefits are identified and appropriate recovery action is taken. Write offs of unrecoverable debt had been appropriately authorised, in accordance with the financial regulations. The Covid hardship grant has been administered appropriately.</p> <p><b>Weaknesses</b><br/>Quality checks did not always take place with the frequency and volume defined in the council's procedures. It could not be confirmed that management reports that identify claims that may be subject to change are acted upon.</p> | The impact of Covid-19 on resources was acknowledged to have impacted the ability to conduct the usual level of check in some circumstances. Nevertheless, it was agreed that arrangements will be made to ensure there is sufficient cover to carry out quality assurance checks during the absence of key members of staff. |
| Council Tax & NNDR<br><br>(November 2021)                          | This audit reviewed the accuracy and timeliness of bills and demand notices, the monitoring and pursuit of arrears and the processing of refunds and write offs.              | Substantial Assurance | 0                 | 1 | 0 | <p><b>Strengths</b><br/>Procedures for annual billing are sound, with extensive tests being undertaken to ensure accuracy. Appropriate segregation of duties are in place. Customer declarations are provided and appropriate to support discounts and reliefs. Thorough procedures are in place for monitoring and recovering arrears. Refunds were authorised by a suitably senior officer and</p>   | Officers will work with legal services to develop a procedure note guiding Assessors use of social media during debt recovery. This procedure note will confirm whether Assessors are required  |



| System/area<br>(month issued) | Area reviewed | Assurance<br>rating | Agreed<br>actions |   |   | Comments  | Management<br>actions agreed                         |
|-------------------------------|---------------|---------------------|-------------------|---|---|---|--|
|                               |               |                     | 1                 | 2 | 3 |   |  |
|                               |               |                     |                   |   |   | <p>with sufficient evidence to support the issuing of the refund.</p> <p>Management information is produced and used to manage the service and to forecast the council tax base and expected NNDR income.</p> <p><b>Weaknesses</b><br/>Officers may legitimately use social media to try to trace debtors but if they repeatedly visit an individual's material they should ensure they follow the council's RIPA Guidance and contact the Senior Responsible Officer for advice to ensure they remain legally compliant. At present, a procedure to record and monitor the use of social media by Assessors is not in place, which makes it challenging to evaluate and prove that the use of social media by Assessors remains in compliance with Council policy and legislation.</p> | to document any social media reviews they undertake. |

## APPENDIX D: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

| <b>Audit opinions</b>  |  |
|--|--|
| Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit. |  |
| <b>Opinion</b>   | <b>Assessment of internal control</b>  |
| Substantial assurance  | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.  |
| Reasonable assurance   | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.                     |
| Limited assurance  | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.                       |
| No assurance   | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |

| <b>Priorities for actions</b> |  |
|-------------------------------|--|
| Priority 1                    | A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management         |
| Priority 2                    | A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management. |
| Priority 3                    | The system objectives are not exposed to significant risk, but the issue merits attention by management.                                     |

## APPENDIX E: FOLLOW UP OF AGREED AUDIT ACTIONS

Where weaknesses in systems are found by internal audit, the auditors agree actions with the responsible manager to address the issues. Agreed actions include target dates and internal audit carry out follow up work to check that the issue has been resolved once these target dates are reached. Where managers have not taken the action they agreed to, issues may be escalated to more senior managers, and ultimately may be referred to the Audit and Governance Committee.

### Actions followed up

A total of 49 agreed actions have been agreed as a result of internal audit work completed up to December 2021. Of these, 45 were due for implementation before 31 December 2021. Of these, it has been confirmed that 18 have been satisfactorily implemented; Revised dates have been agreed for 11 actions; this is done where the delay in addressing an issue will not lead to unacceptable exposure to risk and where, for example, delays are unavoidable. A small number of actions are now considered redundant, for example, where systems or processes have changed so that they are no longer exposed to risks. Follow up work is still in progress for the remaining actions.

Summary of actions status and priorities:

| Actions agreed          |              | Action Priority |           |           |
|-------------------------|--------------|-----------------|-----------|-----------|
| Action status           | Total Number | 1               | 2         | 3         |
| Actions now implemented | 18           | 0               | 11        | 7         |
| Revised date agreed     | 11           | 1               | 6         | 4         |
| Redundant / superseded  | 3            | 0               | 3         | 0         |
| Follow up in progress   | 13           | 0               | 8         | 5         |
| Actions not yet due     | 4            | 0               | 2         | 2         |
| <b>Total</b>            | <b>49</b>    | <b>1</b>        | <b>30</b> | <b>18</b> |

## HIGHER PRIORITY ACTIONS WITH REVISED DATES OF MORE THAN 12 MONTHS FROM ORIGINALLY AGREED DATE

| Audit  | Agreed Action   | Priority Rating | Responsible Officer                          | Due  | Notes / Update   |
|--|---|-----------------|--|--|--|
| Payment Card Industry Data Security Standard (PCI DSS) | New software purchased as old system ceased to be supported. Implementation of new software should resolve PCI DSS issues Management responsibility has been defined. Responsibility for completing annual PCI DSS assessment to be assigned. | 1               | Head of Business Development and Improvement | Revised date:<br>February 2022<br>(previously December 2020 and July 2021) | A new income management system has been procured from Civica that will enable PCI DSS compliance. Implementation has been delayed for a number of reasons – the latest due to issues with Civica/Mastercard. Go-live is now on-track to meet the revised date of 17 January 2022.  |
| Performance Management                                 | HR to undertake QA review of sample of PDRs<br><br>Return rate of PDRs to be monitored & all PDRs reviewed and returned to manager if not complete.<br><br>Training plan to be completed promptly following PDR process.                      | 2               | Head of Business Development and Improvement | Revised date:<br>February 2022<br>(previously December 2020 and June 2021) | Decision taken to de-prioritise changes to PDR process due to LGR.<br><br>Managers were reminded to prioritise PDRs in September/October 2021.<br><br>HR had received around 50% of completed PDRs by Christmas 2021.<br><br>Final reminder sent to Managers on 7 January with deadline of 24 January. Initial draft Training Plan produced. Discussions held with NYCC on best options for delivery to maximise the benefits for staff.<br><br>In the meantime, significant corporate learning and development activity delivered in 2021 including: managers skills training programme; management development |

| Audit | Agreed Action | Priority Rating | Responsible Officer | Due | Notes / Update   |
|-------|---------------|-----------------|---------------------|-----|--|
|       |               |                 |                     |     | programme; aspiring managers programme; widened access to adult skills courses; Microsoft Teams/SharePoint training. |