

## Report to Audit and Governance Committee



Date of Meeting	28 June 2021
Portfolio	Cabinet Member for Resources
Report Author	Shaun Knowles
Public/Private Document	Public

### Internal Audit Quarter Q4 Report 2020/21

#### Executive Summary

- 1.1 This report summarises the work of the Internal Audit team during the Q4 quarter of 2020/21. Internal Audit was able to provide either substantial or adequate assurance for all audits completed during the period.
- 1.2 Internal Audit has completed 80% of the agreed Audit Plan which is below target.
- 1.3 A significant amount of unplanned time was taken up early in the financial year by Internal Audit's response to issues arising from the pandemic and, given the circumstances, this was considered the most appropriate and effective use of resource. Although support for Covid-19 initiatives has significantly reduced, a small amount of Internal Audit time is still being utilised.
- 1.4 The impact of the pandemic has meant that amendments had to be made to the Audit Plan, with some audits deferred until 2021/22 and other audits being introduced. Details of these were given in the Q3 Internal Audit Report
- 1.6 One 'limited assurance' audit was issued in Q4. This was due to the large number of recommendations rather than one specific incident.

The Industrial Estates (Rochdale Development Agency (RDA)) Audit scope was to review commercial and industrial estates and assets to ensure that they are well managed, free from material risk and that income to the Council is maximised. The report highlighted a total of 20 recommendations (High (10) and Medium (10)). This included, but is not limited to

- Asset Management Policies not defined
- Budgets not reflecting some rents achievable and service charges
- Budgets for RDA managed industrial estates not identified
- Savings reports not providing sufficient detail
- A Service Support Agreement not defined

The report was discussed at a Joint Leadership team meeting and all recommendations, along with required implementation dates, have been agreed. Internal Audit will monitor to ensure that target dates are achieved

- 1.5 Throughout the fourth quarter The Counter Fraud Team have continued to deal with fraud work related to COVID-19, including allegations of fraud arising from the Pandemic. The Counter Fraud Team have now received over 90

allegations of COVID-19 business grant fraud, all of which are being investigated.

The Counter Fraud Team have started to receive allegations of Test and Trace Support Payment Fraud and are currently investigating over 60 allegations.

In April, The Counter Fraud Team embarked on a media campaign, to raise awareness of fraud and to ensure RBC staff and the general public were aware of where to report allegations of fraud. Fraud advice and support has also been provided to those services dealing with the business grants and Test and Trace Support payments.

In addition to this, The Counter Fraud Team have been conducting data matching exercises to check the information provided by business grant recipients. This has included using a Cabinet Office tool: Spotlight and has involved checking over 4,000 businesses.

<b>Recommendation</b>
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2. That the report be reviewed and noted

<b>Reason for Recommendation</b>
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3. This report is to enable the Audit and Governance Committee to scrutinise Internal Audit coverage during the fourth quarter of 2020/21.

<b>Key Points for Consideration</b>
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4. **Risk Based Audit Approach**

- 4.1 Internal Audit is responsible for providing an annual opinion on the internal control environment, risk management and governance processes for the Council as a whole.

A risk based approach is taken during each audit, embracing operational and management controls and the wider business risks. This allows an opinion to be expressed both on risk identification and level of exposure, as well as the adequacy of systems in place to manage those risks

- 4.2 Each Internal Audit report gives a clear audit assurance opinion on the effectiveness of risk management in the area under review:

Assurance Opinion	Explanation
Limited	A number of key risks are not managed effectively. The control systems in operation are in need of significant improvement.
Adequate	The control systems in operation are generally sound. However, opportunities exist to improve the management of some risks.
Substantial	There is a sound system of control in operation to manage risks effectively.

- 4.3 Audit Recommendations

Audit recommendations are followed up in line with an agreed process.

‘Limited Assurance’ reports are highlighted and are open to specific discussion and challenge by Members with senior officers from the relevant Service. Internal Audit will perform a formal follow up audit within an agreed timescale,

with outcomes of these reviews reported back to the Audit and Governance Committee.

4.4 In terms of any 'Adequate' or 'Substantial' assurance opinions, all high and medium priority actions are scheduled to be followed up by Internal Audit to confirm completion to the agreed due dates.

4.5 Appendix B indicates the current status of the implementation of audit recommendations.

Any delays in implementation, along with reported reasons, are reported to the Committee for further consideration. A revised completion date for each of these outstanding actions is agreed and monitored.

#### 4.6 Draft Reports

Draft reports are issued to management with the requirement that formal responses to recommendations are received, normally, within 28 days of the issue date.

Internal Audit follows an agreed escalation process with management so as to ensure that the reports and actions are agreed in a timely manner.

No draft reports had responses outstanding beyond the agreed period.

#### 4.7 Senior Management Oversight

Internal Audit now report to the Joint Leadership team on a quarterly basis. This report highlights any 'Limited' assurance audits and key recommendations.

### 5 **Planned Work Completed During Quarter Four**

5.1 Appendix A contains the details of planned audit reviews completed during quarter four which had an 'adequate' or 'substantial' assurance opinion. Key areas for improvement are summarised for each audit with a specific focus on any agreed actions designated as high priority.

### 6 **Audit Reviews with 'Limited' assurance opinions and Follow-Up Audits**

6.1 One audit had a 'Limited' assurance opinion

#### 6.2 Rochdale Development Agency – Industrial Estates

The 2020-21 Q4 audit on industrial Estates in relation to the Council's relationship with Rochdale Development Agency highlighted a number of 'high' priority actions.

Policies:

- Policies governing the key aspects of the asset management of the industrial estate are not in place.

Budget:

- Budget to reflect actual rents achievable
- Budget to reflect actual service charges notified to tenants
- Relevant budgets to be transferred to RDA
- Management budget for RDA to be agreed

Service Agreement:

- Service agreement to be established

Rent Reviews:

- A planned programme of estate rent reviews and lease renewals should be in place.

#### Tenancy at Will

- Circumstances/criteria in which Tenancy at Will agreements are to be used should be clearly stated
- Implementation of a rent review programme will also require the issue of lease agreements and revised Tenancy at Will where appropriate.

#### Maintenance:

- A programme of condition surveys should be in place in order to fully understand liabilities for major/priority works.
- Inspections to be carried out on all units as part of management inspection process.

6.3 Internal Audit will continue to monitor and challenge progress and will ensure that members are updated accordingly

## 7 **Unplanned work**

### 7.1 COVID-19 Payments to Support Families on Free School Meals

Internal audit resource continues to be given to support the supply of food vouchers during school holidays to families with children who were entitled to free school meals.

### 7.2 Fraud

No fraud investigations were carried out during quarter four.

## 8 **Counter Fraud Team**

8.1 A summary of the work completed by the Counter Fraud Team for Quarter four is set out below.

### 8.2 Performance

A total of 210 fraud referrals were received in the fourth quarter of this financial year, compared to 147 from the same period in 2019/20. The main sources of these referrals came from the National Fraud Initiative (NFI), the Partnership Enforcement Team, anonymous information and RBC employees. A significant number of these do not progress to formal investigation by the team as they are either passed to the DWP or closed due to apparent malicious intent or the fact that there is not enough information to progress the matter.

The Counter Fraud Team achieved £51,544 in overpayments and savings throughout quarter four, compared to £47,709 the previous year.

Interviews under caution recommenced during quarter four.

### 8.3 COVID-19 Fraud

Throughout the fourth quarter The Counter Fraud Team have continued to deal with fraud work related to COVID-19, including allegations of fraud arising from the Pandemic. The Counter Fraud Team have now received over 90 allegations of COVID-19 business grant fraud, all of which are being investigated.

8.4 The Counter Fraud Team have started to receive allegations of Test and Trace Support Payment Fraud and are currently investigating over 60 allegations.

8.5 In April, The Counter Fraud Team embarked on a media campaign, to raise awareness of fraud and to ensure RBC staff and the general public were aware

of where to report allegations of fraud. Fraud advice and support has also been provided to those services dealing with the business grants and Test and Trace Support payments.

8.6 In addition to this, The Counter Fraud Team have been conducting data matching exercises to check the information provided by business grant recipients. This has included using a Cabinet Office tool: Spotlight and has involved checking over 4,000 businesses.

#### 8.7 National Fraud Initiative (NFI)

8.8 The Counter Fraud Team is one of several sections within the Council that have an important role to play in checking data matches that are received from the NFI.

8.9 The Team have received the 2020 NFI Single Person Discount, Council Tax matches. Checks will commence in quarter one of 2021/2022.

8.10 The NFI Housing Benefit and Council Tax Support work from 2018/2019 is ongoing. The high risk matches have been checked and we currently have 4 open investigations. To date, the Counter Fraud Team have found over £20,000 in overpayments from these NFI matches.

8.11 We have now received the Housing Benefit and Council Tax Support matches for 20/21 and checks on the various reports have commenced.

8.12 New HMRC data has been provided by NFI. A sample of the Council Tax, Housing Benefit and Council Tax Support matches have been checked but the data was found to be dated and therefore not relevant to the live benefit and Council Tax accounts. Feedback has been sent to NFI.

#### 8.13 Partnership Enforcement Team (PET)

The Counter Fraud Team not only investigates cases of fraud, but also provides a wealth of advice across the Council to services and to external bodies including immigration and the police. Replies have been made to over 100 Data Protection Requests from January 2021 to March 2021, not including the work that is completed in the PET.

8.14 Referrals from different teams are brought to the PET weekly meeting each Monday to discuss and work on together. A combination of intelligence, skills and powers from the different enforcement agencies are used to prevent and detect fraud within the Borough. Currently the following cross-agency teams attend the weekly meeting: GMP – Organised Crime Team; Divisional Tasking Team, Rochdale BC – Children’s Services; Community Cohesion & Equality; Community Safety; Fraud; Public Protection; Strategic Housing, DWP – Fraud, RBH – Enforcement, Fire Service officials.

8.15 The Counter Fraud Team also dealt with over 20 ‘police checks’ on Rochdale BC systems, to help the police trace alleged offenders and absconders. 20 cases are currently under investigation including tenancy fraud cases under the Controlling Migration Funding.

8.16 The Counter Fraud Team continue to participate in days of action and proactive visits resulting in savings being generated in respect of Council Tax, Business Rates, Housing Benefit and Council Tax Support.

### 9 **Internal Audit Performance Measures**

9.1 The table below shows actual performance as at 31 December 20 against Internal Audit targets for the fourth quarter, including the actuals for 2019/20.

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Performance Indicator	Actual 19/20	Target 20/21	Actual 20/21
Economy			
1. Cost per Audit Day (excluding overheads)	£237	£260	£223
Efficiency			
2. Chargeable days per auditor (days)	208	192	195
3. Percentage of audit plan completed (96% for full year)	96%	96%	80%
4. Percentage of draft audit reports issued within 14 days of completion of the audit	100%	98%	100%
Effectiveness			
5. Percentage of recommendations accepted	100%	98%	100%
6. Results of client surveys - % of marks in the top two categories (i.e. very good & good)	100%	98%	100%

9.2 All performance indicators were either achieved or were ahead of target for the period with the exception of the percentage of audit plan completed.

As at 31 March 2021 80% of the Plan had been completed which is below the usual target at this stage of 96%.

This is due to the significant amount of unplanned time absorbed as a result of Internal Audit's response to issues arising from the pandemic, as well as carrying out investigations in relation to potential fraudulent activity by two employees of the Council.

Amendments were made to the audit plan, primarily as some of the original planned audits were dependant on activities that were delayed due to Covid-19.

### 9.3 Client Surveys

All returned responses were recorded as very good.

## 10 **Traded Services Provided by Internal Audit**

10.1 Where Covid restrictions allowed, Internal Audit continued to undertake audit work for a number of organisations in accordance with Traded Services agreements, thereby generating external income for the Authority. In Quarter Four, this has generated income of £2100 and has included:

- 7 audits of School Fund Accounts for schools under Local Authority control

10.2 Within the limitations of existing resources, Internal Audit continues to pursue opportunities to generate external income.

## 11 **Internal Audit Response to challenges arising from COVID-19**

11.1 In response to the challenges the Council continued to face in respect to Covid-19, Internal Audit (audit, risk, insurance and counter fraud) has both supported the Council, wherever needed, and adapted their working practices to include a mixture of both working in the office and at home.

11.2 Support given includes:

- Supporting the supply of Aldi supermarket vouchers for the most financially challenged families in the Borough

- Supporting efforts to contact businesses who had not applied for the small business and retail grants made available by the government;
- Provision of real-time assurance over the integrity of payments to adult social care providers who have incurred additional costs as a result of the Covid-19 situation
- Verification of returns being made to Central Government
- The Counter Fraud Team have continued to evaluate and investigate the risk of fraud arising from the payment of small business and retail grants and the discretionary top-up grants to ensure protection of the public purse

11.3 The use of Internal Audit time continues to be drawn from unplanned time included within the agreed Audit Plan for 2020/21. Unplanned time is continually reviewed and should it adversely impact the completion of the 2020/21 plan, then the Head of Internal Audit will review the impact with both the Audit and Governance Committee and the Chief Finance Officer.

11.4 The Head of Internal Audit will continue to ensure that any involvement in operational procedures will not impair Internal Audit's professional independence in relation to any subsequent audit work focused on those processes or related controls.

<b>Costs and Budget Summary</b>
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13	Not applicable.
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<b>Risk and Policy Implications</b>
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14	If Internal Audit recommendations are not implemented, the Council will be exposed to the risks identified in each Internal Audit reports. Internal Audit recommendations are raised to help improve weaknesses identified during reviews and these risks will be mitigated by completion of the actions agreed with management and summarised within this report.
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<b>Consultation</b>
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15	The recommendations and actions arising from audit reviews are agreed in consultation with relevant senior management and relevant officers area.
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<b>Background Papers</b>	<b>Place of Inspection</b>
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None	
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For Further Information Contact:	Shaun Knowles
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	<a href="mailto:shaun.knowles@rochdale.gov.uk">shaun.knowles@rochdale.gov.uk</a>
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## Appendix A

### Planned audits completed in quarter four

Date of Audit	Service	Audit Area	Scope of Audit	Key Areas for Improvement	Assurance Opinion	Recommendation priorities		
						H	M	L
12 Feb 21	Economy	Commercial and Investment Properties (RDA)	Evaluate the processes and controls over the management of commercial and investment properties to ensure an appropriate return is being generated from the assets and properly accounted for.	<ol style="list-style-type: none"> <li>1. Asset Management Policies not defined</li> <li>2. Budgets not reflecting some rents achievable and service charges</li> <li>3. Budgets for RDA managed industrial estates not identified</li> <li>4. Savings reports not providing sufficient detail</li> <li>5. A Service Support Agreement not defined</li> </ol>		10	1-	2
15 Mar 21	Resources	Spend Monitoring in Rochdale	Ensure RBC and STAR have agreed and documented a clear scope/terms of reference (TOR) regarding the reasons for doing spend analysis	<ol style="list-style-type: none"> <li>1. Formally document key aspects of the spend analysis process</li> </ol>		0	1	0
23 Mar 21	Resources	Pensions	Evaluate the application of policies relating to the granting of pensions for early retirement and for reasons of ill health and ensure they are compliant and any discretions are being applied on a reasonable and consistent basis.	<ol style="list-style-type: none"> <li>1. SMT to receive quarterly reports</li> <li>2. Correspondence to colleagues should be accurate</li> <li>3. Correct taxing code to be applied when retiring through ill health</li> <li>4. Colleagues to be notified of relevant guidance</li> </ol>		1	4	1

Date of Audit	Service	Audit Area	Scope of Audit	Key Areas for Improvement	Assurance Opinion	Recommendation priorities		
						H	M	L
23 Mar 21	Resources	Agency Staff	Review the use of agency staff across the Authority with a particular focus on longer term arrangements to ensure value for money is being achieved. Ensure compliance with agreed policies, Financial Regulations and HMRC regulations.	<ol style="list-style-type: none"> <li>1. Review of need for permanent post where applicable</li> <li>2. Review factors leading to inability to recruit full time staff</li> <li>3. Relevant MI to be reviewed by leadership</li> <li>4. Recruitment Policy to be drafted</li> <li>5. Central record to be maintained</li> </ol>		3	2	0
31 Mar 21	Children's Services: Children's Social Care	Fostering	Evaluate the end to end recruitment process for foster carers to ensure it is efficient and effective towards recruiting more carers within the established guidelines.	<ol style="list-style-type: none"> <li>1. Resolve issues with fostering website</li> <li>2. Review of starter payments to foster parents</li> </ol>		1	1	0
31 Mar 21	Children's Services: Schools	All Souls	Review of key controls within school financial systems.	<ol style="list-style-type: none"> <li>1. N/A</li> </ol>		0	0	2
12 Feb 21	Children's Services: Schools	Brimrod	Review of key controls within school financial systems.	<ol style="list-style-type: none"> <li>1. Review of meeting minutes</li> <li>2. Retention of completed disclosure of interest forms</li> <li>3. Purchase orders to be dated and properly authorised</li> <li>4. VAT accounting</li> <li>5. Review of entitlement to free school meals</li> </ol>		0	5	5
29 Mar 21	Children's Services: Schools	St John's	Review of key controls within school financial systems.	<ol style="list-style-type: none"> <li>1. Completion of disclosure of interest forms</li> <li>2. Security of safe keys</li> </ol>		0	2	3
25 Feb 21	Children's Services: Schools	St Peter's RC (Middleton)	Review of key controls within school financial systems.	<ol style="list-style-type: none"> <li>1. N/A</li> </ol>		0	0	5
31 Mar 21	Children's Services: Schools	Springside	Review of key controls within school financial systems.	<ol style="list-style-type: none"> <li>1. N/A</li> </ol>		0	0	7

## Appendix B

### Follow up of outstanding internal audit recommendations –

Report	Assurance Level	Service	Actions		Due Date	Follow up date	Complete Actions		Outst. Actions		Notes on Follow Up Audit
			H	M			H	M	H	M	
New Vendor Additions/ Reinstatements within STaR Authorities	Adequate	Resources	0	6	31/03/20		0	5	0	1	To be followed up in 21/22
Pooled Budgets	Adequate	Integrated Health	0	4	31/03/20		0	0	0	4	To be followed up in 21/22 by the MIAA
Rochdale Town Centre Public Space Protection Order	Adequate	Neighbourhoods	0	3	31/07/20		0	0	0	3	To be followed up in 21/22
ControCC	Adequate	Adult Care	0	2	30/09/20		0	1	0	1	To be followed up in 21/22
IT Change Management	Adequate	Neighbourhoods	0	7	31/10/20		0	0	0	7	To be followed up in 21/22
Purchase Cards	Adequate	Resources	1	4	31/10/20		0	0	1	4	To be followed up in 21/22
Assistive Technology	Adequate	Adult Care	0	4	31/10/20		0	3	0	1	To be followed up in 21/22
Public Protection: Contaminated Land Environmental Permits Private Water Supplies	Adequate	Neighbourhoods	1	4	31/12/20		0	0	1	4	To be followed up in 21/22

Report	Assurance Level	Service	Actions		Due Date	Follow up date	Complete Actions		Outst. Actions		Notes on Follow Up Audit
			H	M			H	M	H	M	
ICT Strategy	Substantial	Neighbourhoods	0	1	31/10/20		0	0	0	1	Implementation has rescheduled due to Covid-19
Modern Slavery	Substantial	Neighbourhoods	0	1	30/11/20		0	0	0	1	To be followed up in 20/21
Traffic Regulation Orders	Substantial	Neighbourhoods	0	2	31/03/21						Consolidating all existing TROs