
INTERNAL AUDIT ANNUAL REPORT 2020/21

1 PURPOSE OF REPORT

- 1.1 To provide the Chief Audit Executive's annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control during 2020/21.

2 BACKGROUND

- 2.1 The Accounts and Audit Regulations 2015 require the Council to maintain an adequate and effective internal audit service in accordance with proper practices. For this purpose, proper practices are deemed to be the UK Public Sector Internal Audit Standards (PSIAS).
- 2.2 The UK Public Sector Internal Audit Standards require that the Chief Audit Executive must give an annual internal audit opinion and provide a report that can be used by the Council to inform its Annual Governance Statement (AGS).
- 2.3 Whilst the work of Internal Audit is a key element in informing the AGS, there are also several other sources within the Council from which the Assistant Director, Resources and Members should gain assurance, for example, service assurance statements and reviews by external bodies including external audit.

3 INTERNAL AUDIT COVERAGE AND OUTPUT

- 3.1 The Audit Committee approved the 2020/21 Annual Audit Plan in July 2020. The Audit Committee has received progress updates on the delivery of the audit plan and the results of individual audits throughout the year. Members were advised of changes to the Plan in November 2020 and March 2021, as to those audits that would not be completed in 2020/21. The revised Plan has not limited the CAE's ability to provide an opinion on the Council's arrangements for governance, risk management and internal control in operation during 2020/21; sufficient work has been completed during this time.
- 3.2 **Appendix 1** summarises the Internal Audit work completed in 2020/21 and the assurance opinions given. A further seven audit engagements, relating to 2020/21, have been completed since the Audit Committee of March 2021. Four were rated as 'Adequate', one as "Limited" and two where no formal assessment was made. Eight new recommendations have been raised. The opinion given and main points arising from these completed audit engagements is summarised at **Appendix 2**, with Light Touch audits summarised at **Appendix 3**.

- 3.3 An explanation of the meaning of, and reason for, each assessment (opinion) is provided in **Appendix 5**. This appendix should be read in conjunction with **Appendix 6** setting out the recommendation categories.
- 3.4 16 recommendations were brought forward into 2020/21 and during the year a further 18 recommendations were raised. 8 recommendations have been carried forward into 2021/22.
- 3.5 Recommendations arising from completed audit engagements are shown in **Appendix 4**. This includes the current status of all recommendations that were live at the date of the prior Audit Committee in March 2021 and recommendations raised since that date.

4 CHIEF AUDIT EXECUTIVE OPINION

- 4.1 My audit opinion is based upon, and restricted to, the work that has been performed during the year, including assessments of the:
- design and operation of the underpinning assurance framework and supporting processes, including reliance on other assurance providers where appropriate;
 - range of individual opinions arising from our risk-based audit assignments contained within the internal audit risk-based plan that has been reported throughout the year; and
 - the relative materiality of the areas reviewed and management's progress in respect of addressing control weaknesses identified.
- 4.2 The opinion does not imply that Internal Audit has reviewed and commented on all risks and assurances relating to the Council. It should be stated that it is not expected that all Council activities will be subject to Internal Audit coverage in any one year.
- 4.3 The Council has implemented a major project to migrate operational systems to a cloud-based structure. The Council's ICT contractor, Jisc, the Azure Cloud operator, Microsoft, and Capita Cloud hold appropriate data management and security accreditation.
- 4.4 Internal Audit's work in relation to ICT during 2020/21 was based on security, access, and resilience. Such work was non-technical and has relied on physical records and discussion with relevant staff. A resilience issue came to light in 2018/19 relating to the local ICT infrastructure, which impacted on business continuity arrangements. Remedial and improvement works were completed during 2020/21.
- 4.5 Two audit reviews from 2020/21 audit work received a "Limited" assurance opinion. These were Procurement and Service Area Risk Management, where

parts of the overall procedures showed significant deficiencies to warrant this assessment.

- 4.5.1 The procedures for procuring goods and services for values up to £10k did not fully comply with contract procedure rules in timeliness of placing orders and providing evidence of best value. This position was confirmed in a follow-up review during the year. Procedures for procurement above £10k appeared to comply with the rules.
- 4.5.2 Although service area risk registers show a range of risks and controls that are, in many cases, well established and relevant, the process for carrying out reviews and ensuring that the registers reflect current circumstances is not sufficiently robust.
- 4.5.3 Sundry Debt Management was reported to this Committee in March 2020 with a Limited Assurance. Discussions with the relevant service area determined that for a variety of reasons there was no improvement in the monitoring and debt collection functions, and no formal testing took place.
- 4.6 This is balanced against a further 13 audit reviews that received an adequate or good rating. There were 3 where no opinion was provided. No other significant concerns were highlighted in respect of audits of the Council's key financial systems that are fundamental to the robustness of the Council's overall control environment.
- 4.7 I am satisfied that sufficient work has been undertaken during 2020/21 to draw a reasonable conclusion on the adequacy and effectiveness of the Council's arrangements. Based on the work performed during 2020/21 and other sources of assurance I am of the opinion that **adequate assurance** can be taken that the Council's risk management, internal control and governance processes, in operation during the year to 31 March 2021, generally accord with proper practice and are fundamentally sound, although there are opportunities to improve arrangements to enhance the Council's governance framework.

5 COUNTER FRAUD ACTIVITY

- 5.1 Internal Audit work considers the risk of fraud in planning all individual audits and has supported service departments as part of a wider more strategic approach to counter fraud arrangements in risk identification and the development of controls to mitigate identified risks.
- 5.2 Work is underway on developing an up-to-date counter fraud strategy. As part of this process, a fraud risk register is being compiled. This is at an early draft stage with work also being undertaken to review the Council's anti-money laundering procedures in line with legislative changes.
- 5.3 Responsibility for investigation of non-benefit fraud; Local Council Tax Support (LCTS), Council Tax & Business Rates Discounts and Exemptions

rests with the local authority and for Rochford District Council such work is undertaken by the Compliance Officer, Revenues and Benefits and officers in Business Rates. Both the National Fraud Initiative (NFI) and Pan Essex Data Hub provide the means for the Council to identify potential fraud through data matching, followed by subsequent investigation by the Compliance Officer.

- 5.4 During 2020/21 cashable savings of approximately £106k have been achieved as a direct result of identifying unbilled properties and withdrawal of discounts or exemption that no longer apply in relation to Council Tax. Further cashable savings of £326k have been achieved as a result of identification of business properties that were previously not on the rating list or had additional space or modifications without notifying the Council or the Valuation Office Agency to seek a subsequent revaluation, and from withdrawal of small business rate relief. These are gross figures before any discount or exemptions that may be allowed.
- 5.5 Housing Benefit fraud is investigated by the Department for Work & Pensions, but leads are passed to that organisation by the Compliance Officer, although the Revenues & Benefits Team continues to identify and collect overpayments of Housing Benefit. Amounts identified for recovery by compliance work in respect of Housing Benefits was £20k for 2020/21.
- 5.6 During the year the Council processed a wide range of Covid-related business grants, with an expectation of rapid processing and payments. Service areas involved developed robust procedures for application and approvals, underpinned by an effective anti-fraud approach. Internal Audit carried out assurance work on some of the grant types with no significant issues arising.

6 EFFECTIVENESS OF INTERNAL AUDIT

- 6.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1 April 2013 (revised 2016 and 2017) and the code of ethics for internal auditors. The standards require periodic self-assessments and an assessment by an external person at least every five years.
- 6.2 An External Quality Assessment of the Council's Internal Audit function was completed in January 2018 to establish the degree of conformance with the Public Sector Internal Audit Standards (PSIAS). Internal Audit was assessed as Generally Conforms to the Standards. Since that time Internal Audit has continued to undertake annual self-assessments of its performance, revising working practices where appropriate. The CAE does not consider that there are any issues identified in the 2020/21 self-assessment that would result in non-conformance with PSIAS.

7 ISSUES FOR THE ANNUAL GOVERNANCE STATEMENT

- 7.1 No issues, other than those already disclosed, have come to the attention of the Chief Audit Executive that need to be disclosed in the Annual Governance Statement.

8 RISK IMPLICATIONS

- 8.1 Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that weaknesses in the Council's governance, risk management and internal control framework may not be promptly identified and remedied. Failure to do so may mean the Council does not achieve its vision and objectives.

9 RESOURCE IMPLICATIONS

- 9.1 The current level and make up of in-house and other available third-party internal audit resource are considered sufficient at present.

10 LEGAL IMPLICATIONS

- 10.1 The Accounts and Audit Regulations 2015 (section 5) require the Council to undertake an effective programme of internal auditing to evaluate the effectiveness of its risk management, control, and governance processes, taking into account relevant public sector internal auditing standards or guidance.

11 EQUALITY AND DIVERSITY IMPLICATIONS

- 11.1 An Equality Impact Assessment has not been completed as no decision is being made.

12 RECOMMENDATION

It is proposed that the Committee **RESOLVES**

That the Chief Audit Executive's opinion on the overall adequacy and effectiveness of the Council systems of governance, risk management and internal control be noted.



Naomi Lucas

Assistant Director, Resources

Background Papers: -

None.

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COMPLETED AUDIT ENGAGEMENTS SUMMARY – APPENDIX 1

AUDIT ENGAGEMENT	CORE ELEMENT OF PLAN	ASSURANCE RATING	REPORTED TO AUDIT COMMITTEE	RECOMMENDATION CATEGORY			
				C	S	M	L
Parameter Input, Billing and User Permissions for Academy Report 1 2020/21	Failure to ensure good governance of the Council's activities and delivery of priority outcomes	Good	28/7/2020	-	-	-	-
Safeguarding Report 2 2020/21	There is a failure of safeguarding arrangements	Good	28/7/2020	-	-	-	-
User Permissions for Dimensions Report 3 2020/21	Failure to ensure good governance of the Council's activities and delivery of priority outcomes	Good	28/7/2020	-	-	-	-
Procurement – Raising Orders Report 4 2020/21	Failure to provide consistent value for money (VFM) across all services or obtain VFM in its procurement	Limited	28/7/2020	-	-	-	-
Housing Benefit Subsidy 2019/20 Initial Testing Report 5 2020/21	Failure to ensure good governance of the Council's activities and delivery of priority outcomes	No Opinion Given	10/11/2020	-	-	-	-
Elections Financial Administration Report 6 2020/21	Failure to ensure good governance of the Council's activities and delivery of priority outcomes	Adequate	10/11/2020	-	-	2	-

AUDIT COMMITTEE – 27 JULY 2021

**Item 9
Appendix 1**

AUDIT ENGAGEMENT	CORE ELEMENT OF PLAN	ASSURANCE RATING	REPORTED TO AUDIT COMMITTEE	RECOMMENDATION CATEGORY			
				C	S	M	L
COVID-19 Grants, Small Business Grant Fund and Retail, Hospitality & Leisure Grant Fund Payments Report 7 2020/21	Failure to ensure good governance of the Council's activities and delivery of priority outcomes	Good	16/3/2021	-	-	-	-
Homelessness Reduction Report 8 2020/21	Failure to ensure good governance of the Council's activities and delivery of priority outcomes	Good	16/3/2021	-	-	-	-
Risk Management, Service Area Risk Registers Report 9 2020/21	Failure to ensure good governance of the Council's activities and delivery of priority outcomes	Limited	16/3/2021	-	-	-	-
Covid Grants – Local Discretionary Grant Fund Report 10 2020/21	Failure to ensure good governance of the Council's activities and delivery of priority outcomes	Adequate	16/3/2021	-	-	-	-
ICT Security Report 11 2020/21	Failure to ensure Rochford's ICT Estate supports achievement of Business Objectives.	Adequate	16/3/2021	-	-	-	1
Counter-fraud Awareness Report 12 2020/21	Failure to ensure good governance of the Council's activities and delivery of priority outcomes	Adequate	16/3/2021	-	-	-	-

AUDIT ENGAGEMENT	CORE ELEMENT OF PLAN	ASSURANCE RATING	REPORTED TO AUDIT COMMITTEE	RECOMMENDATION CATEGORY			
				C	S	M	L
Payroll Report 13 2020/21	Failure to ensure good governance of the Council's activities and delivery of priority outcomes	Adequate	27/7/2021	-	-	1	-
Additional Restrictions Grants Report 14 2020/21	Failure to ensure good governance of the Council's activities and delivery of priority outcomes	Adequate	27/7/2021	-	-	-	-
Creditors Report 15 2020/21	Failure to ensure good governance of the Council's activities and delivery of priority outcomes	Adequate	27/7/2021	-	-	2	4
GDPR – Data Breach & Subject Action Requests Report 16 2020/21	Failure to ensure compliance with the General Data Protection Regulations and unable to demonstrate consistent application of information standards, controls and statutory compliance	Adequate	27/7/2021	-	-	-	1
Procurement Follow-up Report 17 2020/21	The Council could fail to provide consistent value for money (VFM) across all	Limited	27/7/2021	-	-	-	-

AUDIT COMMITTEE – 27 JULY 2021

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				C	S	M	L
	services or obtain VFM in its procurement						
Business Continuity / Emergency Planning Report 18 2020/21	We fail to respond to, or provide, relevant services in the event of an incident or disaster	No Opinion Given	27/7/2021	-	-	-	-
Performance Management Report 19 2020/21	We fail to deliver the objectives of the Council's Business Plan in terms of measurable outcomes	No Opinion Given Direction of Travel Review	27/7/2021	-	-	-	-

OTHER WORK UNDERTAKEN		
AUDIT AREA	NATURE OF WORK	REPORTED TO AUDIT COMMITTEE
Local Code of Corporate Governance	Taking lead in reviewing and updating the Council's Local Code of Corporate Governance for approval by the Leadership Team.	10/11/2020
Corporate	Investigation work on behalf of Human Resources. This was not fraud related.	N/A

APPENDIX 2

2020/21 AUDIT ENGAGEMENTS COMPLETED SINCE MARCH 2021 AUDIT COMMITTEE

PAYROLL REPORT 13 2020/21

Audit objective

To assess whether the key controls in the payroll system are adequately designed and effectively applied.

Corporate links

This audit contributes to the assurance available in regard to the following Business Plan objectives and risks identified on the corporate risk register:

Business Plan objective Being Financially Sustainable

Corporate risk Failure to ensure good governance of the Council’s activities and delivery of priority outcomes

Reason for inclusion in the annual audit plan

This audit is a planned, standard assurance review identified through the annual assessment of all Council’s activities.

Audit opinion

Our opinion is expressed on the scale of assurance as set out below:



Good	Adequate ✓	Limited	None
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We have formed our audit opinion based on how well controls have been designed and effectively operated to mitigate the following risks:

Risk area	Assurance Level	No. of Recommendations
Staff records are amended incorrectly (e.g., in relation to increments awarded or change in salary etc.) or inappropriately (e.g., due to fraud) resulting in inaccurate payments	Adequate	1 moderate
Incomplete or inaccurate payments are made to staff	Adequate	None
Payments in addition to salary (e.g., overtime, meeting attendance, expense reimbursement etc.) are made incorrectly or inappropriately.	Adequate	None

Risk area	Assurance Level	No. of Recommendations
Salary deductions (e.g., income tax, national insurance, pension and other voluntary deductions etc.) are incompletely or incorrectly made or dispersed incorrectly.	Adequate	None
The relevant financial system is inappropriately accessed leading to error, fraud, or loss of misuse of data.	Adequate	None
Data is not effectively controlled	Adequate	None Minimal testing

Executive Summary

Payroll Services were not included in the original 2020/21 Audit Plan, but resignation and illness of RDC officers in the payroll team resulted in temporary payroll officers delivering these services for most of the financial year. This, coupled with revised methods of working due to extended working from home, has increased the risk factor for the function. A review was carried out on the January payroll to determine if the normal standard of processing remained in place.

A sample of 10 beneficiaries from the January payroll, covering 16 different adjustments to basic pay was tested. The majority were processed correctly, supported by relevant documentation and authority, but two cases which involved mid-month calculations were incorrect. These will be corrected retrospectively. A recommendation has been agreed to review other mid-month adjustments from the point where the temporary officers had no RDC officer support to ensure no further errors are identified.

The process from basic pay to gross pay and on to net pay is effective and system parameters have been correctly input to make all of the necessary deductions.

Revised management overview procedures were implemented and a check on transactions, where there was a 5% variation on prior month to any recipient, was carried out. The payroll system produces detailed reports to support such checks. Authorisation of the payments through BACS remains independent of payroll officers and is under the control of senior officers in Finance.

Reconciliation of payroll is carried out monthly to the general ledger and measures are in place to enable prompt disbursement of tax, National Insurance, and pension contributions to the appropriate bodies.

The ongoing delivery model for payroll was reviewed during 2020/21 and it has been agreed that the service will be delivered through a shared service arrangement with Braintree, Epping and Colchester Councils with effect from April 2021, which will provide greater resilience for the service in future.

**CREDITORS
REPORT 15 2020/21**

Audit objective

To assess whether the key controls in respect of the Creditors function are adequately designed and effectively applied. On this occasion the review does not consider in detail the process of raising orders for goods and services, via the procurement system.

Corporate links

This audit contributes to the assurance available in regard to the following Business Plan objectives and risks identified on the corporate risk register:

Business Plan objective

Maximise our assets.

Being financially sustainable

Corporate risk

Failure to ensure good governance of the Council’s activities and delivery of its priorities.

Data is lost, disclosed, or misused to the detriment of individuals or organisations.

Reason for inclusion in the annual audit plan

This audit is a planned, standard assurance review identified through the annual assessment of all Council’s activities.

Audit opinion

Our opinion is expressed on the scale of assurance as set out below:



Good	Adequate	Limited	None
	✓		

We have formed our audit opinion based on how well controls have been designed and effectively operated to mitigate the following risks:

Risk area	Assurance Level	No. of Recommendations
Suppliers’ bank account details are inappropriately amended which could fraudulently divert legitimate payments to another account.	Limited	1 Moderate (no. 1)
Payments are made for goods or services that have not been received or for which no order has been raised	Adequate	1 Moderate (no. 2) 3 Low (nos. 3 - 5)

Risk area	Assurance Level	No. of Recommendations
BACS payment files are fraudulently amended to create additional payments or divert payments.	Good	None
Data is not effectively controlled	Adequate	None
Risk Assessments are not in place, not relevant or are not up to date	Limited	1 Low (no. 6)

Executive Summary

The Payments Team is responsible for the actual payment of invoices for goods or services commissioned across the Council, the majority being raised through the FocalPoint procurement system. This review did not, on this occasion, examine the raising of orders on this system as that will be subject to a separate review.

Due to working from home (Covid restrictions) there was a weakening in the control environment to manage changes in creditors’ banking details, potential mandate fraud, in that confirmatory checks were carried out by email, rather than a telephone call. This has now been re-started. From discussions with officers, email checks were carried out but there is little held by way of evidence to confirm this. A recommendation has been made to address this.

Unfortunately, there was a mandate fraud that was successful, that was not identified from the email check. This resulted in a payment of just over £20k. Prompt action by the Finance Team in reporting the fraud when it came to light meant that our bankers were able to recover the funds via BACs before it was withdrawn by the fraudster.

The Team are aware of when to refer an invoice to the relevant service area if an order has not been raised on the system and if the goods or services covered by the invoice have not been receipted on the system. This is evident from the review.

The payment process for Payment Vouchers, for transactions outside of FocalPoint (no purchase order required), for example refunds, appears effectively managed.

The Council makes use of corporate credit cards as part of the procurement process. There was an expansion, several years ago, of credit card users to replace a large volume of expenses claims and use of petty cash for low value, high volume transactions. Users are required to complete a transactions log each month to assist in the accounting process by providing finance codes, reasons for expenditure and VAT receipts, where applicable, to enable reclaim of that tax.

Testing has identified that the accuracy of these logs requires improvement and there are many cases where there is no valid VAT receipt, ultimately costing the Council money. It is apparent from expenditure that more higher value transactions are now being carried out by credit card. This is understandable given changes in commerce with many purchases being carried out online and an expectation of electronic payment by suppliers. However, several transactions seen in testing fall under the limits within the Council’s procurement rules where there should be a

documented best value approach. There is no suggestion that such transactions are not valid or relevant.

Internal Audit is aware that a review of credit card usage is under way to ensure procedures are fit for purpose and such a review is welcome. This review should, however, ensure that purchases comply with ongoing procurement rules, meet value for money criteria and provide a means of accounting for expenditure in an efficient, controlled manner.

The controls in place to process and physically pay creditors appears effective.

There is a performance target to pay invoices to suppliers based within the Rochford district within 10 days of receipt and all others within 30 days. As at the date of testing these are at 61.24% and 87.59% compliant, respectively. On the face of it the chief reason for delays is where invoices are received that have no FocalPoint order or have not been receipted and items have to be referred to service areas for action. In addition, there are issues seen in recording invoices where the invoice date is used rather than the date of receipt which is more appropriate.

Although controls are in place there are no risk assessments documented in the Resources Service Area Register relating to payment of invoices without supporting orders or the related goods or services not being receipted.

APPENDIX 3

**2020/21 LIGHT TOUCH AUDIT ENGAGEMENTS COMPLETED SINCE MARCH
2021 AUDIT COMMITTEE**

**ADDITIONAL RESTRICTIONS GRANT (ARG)
REPORT 14 – 2020/21.**

Assessed as Adequate.

The ARG grant scheme was launched by Government in November 2020 to provide assistance to businesses impacted by Covid-19, during the second national lockdown period from November 2020.

Government mandated that eligibility for the scheme would be at the discretion of the Council which subsequently established eligibility criteria, based on the Government's Local Restrictions Support Grant (Closed) scheme which was also in operation but where the eligibility was mandated by Government.

The Council was allocated £1.747m by the Government for the ARG and at the time guidance to the Council was that this sum was expected to be used to support eligible businesses within the District for the rest of 2020/21 and into 2021/22.

The ARG is aimed at those businesses which are likely to have remained open during lockdown but have been impacted by national restrictions or those that have closed without the ability to adapt business practices to supplement income during periods of restrictions.

Eligibility includes the following.

- A business that forms part of a direct supply chain for hospitality, leisure, or accommodation businesses.
- A business that directly organises, facilitates, or performs at organised events.
- A business that does not pay business rates but has been forced to close due to temporary closure of a host business (including market traders).
- A business that privately transports people (including taxi companies and tour operators); and/or
- A business that is directly involved in a close-contact business; hairdressers, nail, or beauty salons, tanning salons, tattoo parlours, and gyms or indoor leisure facilities.

The ARG was administered by the Planning Policy & Economic Development team, with support from the Revenues & Benefits team. A detailed application form was created that includes eligibility declarations. A flow chart was developed to support the decision-making process, and robust measures that were developed at the time of processing the first iteration of discretionary grants in the Summer of 2020 for validating and fraud checking applications were used again.

A sample of 16 applications was examined to review the application / decision process and there were no matters arising to suggest that the decision to award the grants was not valid.

Grants in the region of £164,000 were paid to 114 businesses.

Early in January 2021 the Government announced additional grants were announced by the Government, including an expansion in the ARG. This permitted an extension to include business that had had little or no support in prior schemes. An additional amount of £776,000 was allocated taking the total pot available to £2.359m.

A revised policy for the ARG Round 2 has been agreed, and the amounts awarded are to be increased. The same robust process of application, verification, decision, and award will continue.

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**GDPR: DATA BREACH & SUBJECT ACCESS REQUESTS
Report 16 2020/21**

An overview review of General Data Protection Regulations (GDPR) key governance procedures was included in the 2020/21 Annual Audit Plan. This was to assess the procedures for dealing with data breaches and with subject access requests (SAR).

There are detailed procedures for dealing with data breaches. These are publicly available on the Council's Website, contained in the Information Management document (V June 2019). There is reliance on service areas advising the Data Protection Officer (DPO) when a breach occurs.

From the Data Breach Log, there have been three data breaches recorded during 2020/21, which have all been assessed by the DPO as low risk of harm and low risk of damage to the relevant data subjects' rights and freedoms. These assessments appear appropriate.

The timeline for these items is not easy to determine as the date of the actual breach and the dates of the decision and remedial action are not recorded on the Log. Inclusion of these dates would further improve transparency and provide assurance that breaches are dealt with in a timely manner.

Under the GDPR all those who have information held about them with organisations have a right to make a Subject Access Request to determine what that data is. Details of this right and how to make such an application is available in the Council's Data Protection Policy (2018), which is available on the website, along with a downloadable application form.

Procedures are in place to ensure that such requests are dealt with within one calendar month. This includes confirming the identity of the applicant as the data subject or if acting on behalf of the data subject with explicit permission.

There have been three SAR applications during 2020/21. In all cases the one calendar month compliance deadline was met.

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**PROCUREMENT FOLLOW-UP
REPORT 17 2020/21**

Early in 2020/21 a limited assessment was applied to an audit review of procurement. This was due to 1) failure in some cases to adhere to contract procedures in evidencing best value when placing orders for goods and services and 2) failure in some cases to raise orders in advance of purchases being made, thus compromising management’s ability to identify committed budget expenditure prior to actual payment for those goods or services. These deficiencies occurred at the point of raising orders and were not identified and corrected at the point of authorisation.

The issues identified related to goods or services with an order value under £10,000. Different procedures apply above this threshold and there were no issues identified in this category from the earlier testing; therefore, no further follow-up testing was deemed necessary for these higher value orders.

As a follow up to the earlier audit findings, in July 2020 the Managing Director issued an email to all staff reminding them of procurement requirements. The Procurement Team also raised the issue of orders being raised after invoice in a report to the Leadership Team as at the end of Quarter 3.

It was agreed that a follow-up review of a sample of orders under £10,000 would be undertaken later in the year to assess whether the position had improved. A sample of 20 orders between October 2020 to February 2021 was selected. This sample covered 11 services with 4 orders below £500 and 16 between that and the £10k threshold, where more than one quote should be obtained to ensure best value.

Of those 16 sampled, 9 had no recorded quote supporting the order, seven had one quote and none had more than one quote. It should be noted that that 6 of the 7 orders with one quote had a mitigation recorded such as using a framework contract or specialist supplier. All of these mitigations appeared appropriate. Allowing for this, 10 of the 16 remaining orders (62%) did not carry evidence of best value in line with the Council’s Contract Procedure Rules. Of the 20 orders sampled, 6 (30%) were not raised until after the goods or services were invoiced.

In both these matters the level of non-compliance identified is comparable to the findings in the earlier report.

Failing to evidence best value could mean, in the wider terms of procurement, that the Council is paying more than it should for goods or services, or that orders are

being placed with favoured contractors rather than seeking new suppliers who may provide better value. There is nothing to suggest in the testing that this is occurring or that goods or services purchased are not required or relevant, however contract procedure rules should still be adhered to.

Raising an order after receipt of invoice means that for a period of time the order is committed without this being reflected in the financial system. This time period could be, in most cases, between a week to a month. Given that regular budget monitoring is in place this is unlikely to pose a significant risk for lower value orders, such as those covered in this testing.

A bigger risk is fraud or error relating to invoices being paid where there is no valid order or intention to place an order. Assurance of appropriate mitigations against this risk of fraud or error has been carried out via completion of the recent Creditors Audit (*Report 15 – 2020/21*) which demonstrated that procedures are in place to reject payment of invoices received without a supporting purchase order - these are referred to the relevant service areas for rectification before payment is made.

It is incumbent on Assistant Directors and Line Management to ensure that existing procedures are adhered to, at both the ordering and authorisation stage.

It has been some time since the Contract Procedure Rules (CPR) have been significantly updated and there may be scope to address the approach to bring them more up to date, whilst retaining sufficient controls to minimise risk of fraud or error. A review of the appropriateness of the financial limits specified in the CPR is planned, alongside those set out in the Financial Regulations; these form part of the Council's overall Constitution; however, this will be a significant piece of work which will take some time to complete during 2021/22.

Internal Audit's role is to assess effectiveness of adherence to existing controls and procedures. Based on current findings there is no reason to change the "Limited" assurance given earlier in the year.

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BUSINESS CONTINUITY / EMERGENCY PLANNING REPORT 18 2020/21

Overview

Two reports setting out the impact of COVID-19 on the Council's operations, and the lessons learnt, were presented to the Council's Review Committee during 2020/21. The first was presented on the 1/9/2020 and covered the period March to July. A more detailed, structured report was provided to the Committee on 5/1/2021, which had input from relevant services, including Internal Audit.

These reports have also been summarised, along with conclusions, in the Review Committee Annual Report which was published by that Committee on 13/4/21.

This review is not seeking to cover the same ground as the original reports, but to provide an update on some of the matters raised. Accordingly, no Internal Audit assessment of assurance is being given.

Further update on matters progressed since the Review Committee Reports

The C19 Local Outbreak Response Plan was launched with the January report and has effectively been in use since the December 2020 lockdown restrictions.

One area that was highlighted in the Review Committee reports was the difficulty in communication with those residents with limited ICT access. The Emergency Planning and Business Continuity Officer (EPBCO) advised that there are some hard-to-reach residents but the messages that were issued via the website and the various social media streams were broadly a reinforcement of the messages from Central Government, PHE, NHS, Essex County, and relevant partners, which were being communicated by television, radio and the press. He also advised that the Council made use of local press and radio.

The Council, in common with others, followed the structure and procedures of the Essex Resilience Forum (ERF), which enabled a consistent and uniform methodology across the County. Like all organisations the Council was required to react to events as they occurred during the pandemic, with what worked / what didn't, being regularly reviewed. The EPBCO advised that there would be a detailed retrospective review of pandemic management by the ERF but that may not take place until the current exit process is completed. Such a review would include residents that are hard to reach.

There is now a high level of confidence that a significant part of the Council's responsibilities can be carried out remotely if necessary. The pandemic has accelerated to some extent elements of the proposed Connect Project. One development was the launch of the Agile Working Policy in February 2021, which allows for a change in the working ethos: delivering services from locations other than in a fully office-based environment for a significant part of the workforce.

The Voice Over Internet Protocol telephony system, detailed in the January Report, has now been rolled out and is fully up and running. This allows any telephone user to make and receive calls using their staff laptops or devices with the relevant app installed. This is a cloud-based service that should be significantly more resilient than the system in place at the time of the initial lockdown. The service provider operates within the ISO27001 security standard that the Council's main ICT suppliers operate.

The service agreement provides that there is an expectation that if the core call service were to cease completely then restoration of service would be in place within four hours. Whilst not ideal, the ability to move back to a mobile-phone-based call centre arrangement is still in place on a temporary basis.

The Community Hub was also a successful part of the Covid response. The Community Hub leads - MegaCentre / RRAVS / Church networks are now working with our joint Health and Wellbeing Board to build on the work of over the last 12 months and are putting together a new community hub offer, which will see the MegaCentre as a long-term community asset for a much wider range of partners.

Next Steps

The EPBCO has been tasked with further reviewing the business continuity process with an initial report to be made to the Leadership Team (LT) in June 2021, using four threads for consideration: loss of premises, loss of ICT, loss of key staff, and failure of a major contractor. LT will give due consideration to any further actions recommended in this report.

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**PERFORMANCE MANAGEMENT
REPORT 19 2020/21**

Performance Management is included in the 2020/21 Audit Plan under the objective, “To assess the arrangements for measuring and reporting performance and development of measures against which progress of the Business Plan 2020/2023 can be assessed”.

Historically performance has been measured through a narrow lens of performance indicators (based on the old Best Value Performance Indicator regime) which were previously reported to Government under a national performance regime. Several of these indicators continue to be recorded locally by service areas to monitor effectiveness and may still be reported to the relevant government departments in some form, however they are not sufficient to give a holistic view of the Council’s overall performance.

The Council’s intention is to move towards ‘outcome-based reporting’ which is designed to measure performance through broader measures of success, supported by output data where appropriate, but with a greater focus on supporting narrative to illustrate qualitative, as well as quantitative outcomes.

As part of the Council’s refreshed Business Plan agreed at Council on 11th February 2020 a series of expected outcomes against each of the Business Plan priorities was set out. These are overarching outcomes which individually do not lend themselves to precise measurements of success; however, they will be supplemented by service areas developing a series of outputs that are mapped to the overall Business Plan within their individual Service Area Plans (SAPs). Progress in completing SAPs has been slowed due to the immediate priorities of the COVID19 pandemic but are planned to be finalised in early 2021/22.

Current performance reporting across the Council is dependent on the quality of data maintained by individual service areas and is reported through a range of avenues. Corporately there is a detailed quarterly financial management report, an annual report of key contracts performance and periodic Programme Management Office reports on key projects progress to the Executive. Reporting by individual directorates varies but People and Communities produce a quarterly report in an infographic format that is fully output based, and a factual narrative report related to housing across the District. Other Assistant

Directors keep Portfolio Holders apprised of more detailed performance across the Directorates through internal reports and briefings.

For 2020/21 annual performance will be reported via the narrative statement in the Annual Report which forms part of the 2020/21 Financial Statements. This will include the reporting of legacy Performance Indicator data, supported by narrative setting out wider success measures. Going forward there will be a shift towards outcome-based reporting on a half-yearly basis including the statement in the Annual Report.

A Performance Framework was introduced in January 2019, which remains fundamentally fit for purpose, but will require elements of revision to reflect changes in underlying methodologies moving forward.

In summary, the Council is not yet in a position to fully report on performance against the refreshed Business Plan outcomes, but work is ongoing to implement this fully for 2021/22.

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APPENDIX 4

PROGRESS OF AUDIT RECOMMENDATIONS

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
17 2017/18	Procurement	3a	M	Contract Procedure Rules and Procurement Guidance will be updated (a)	Agreed Implementation Date 31/3/19 CPR review ongoing. Revised end date 31/12/19. Work in progress with many elements progressed but unable to complete, partially in respect of EU arrangements. Revised end date 31/03/20 Revised end date to bring in line with Constitution review and Financial Regulations review, 31/3/21 Constitution update to be reviewed and rescoped. Revised implementation date 31/3/22
2 2018/19	Street Cleaning Contract	1	M	For consistency and future planning, the work of the Street Scene Officers involved in monitoring the contract will be documented in a set of operational procedures.	Agreed Implementation date 1/4/19. Outcomes are being negotiated with Contractor. Revised end date 30/06/19. Monitoring sheets are being implemented. Written procedures still to be developed. Revised implementation 31/10/19. Procedures still to be developed. Revised end date 31/12/19. Current Position (15/6/21) This is now being actioned. A system is expected to be in place within 3 months Revised End Date 30/9/21

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
6 2018/19	Insurance Arrangements	1	M	<p>A project team will be established to consider an approach to produce, ideally, to produce a single asset register and to work on a solution.</p> <p>Matter raised during the audit will be reviewed and reflected in the 2018/19 balance sheet</p>	<p>Original End Date 31/12/19</p> <p>The recommendation to establish an internal project team to create a master list of assets has been completed using Land Registry information to produce a single document that all internal teams will refer to and keep updated. Due to the different requirements of the finance, legal and assets teams, each service area also retains supporting documentation to supplement this for their own records.</p> <p>The supporting documentation is currently being worked through by the legal and assets teams to verify it is fully up to date. Some additional resource may be required to complete this work and determine whether a more integrated digital database solution can be utilised going forward – this will be investigated as part of the Connect Programme which is due to report back in summer 2021. End date 31/07/2021. . Report date is now Autumn 2021.</p> <p>Revised end date 31/3/2022</p>

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
11 2018/19	Budget Setting and Monitoring	2	M	RDC Financial Regulations will be reviewed to include appropriate controls of transfers to and from Reserves as stated in the Medium-Term Financial Strategy. To be considered as part of overall review of Financial Regs during 2019/20.	<p>Agreed implementation date 31/03/20.</p> <p>Financial regulations to be reviewed as part of overall constitution. Revised end date 31/03/21.</p> <p>Constitution update to be reviewed and rescoped.</p> <p>Revised implementation date 31/3/22</p>
14 2018/19	Contracts Procurement and Purchasing	2	M	Finance resilience checks will form part of the competitive process for fully tendered purchases for high value, high risk contracts, in order for the Council to be aware of the financial health of a supplier before entering into business with them. Contract Procedure Rules will be amended to include this detail.	<p>Agreed implementation date 31/12/19</p> <p>Revised end date to bring in line with other CPR recommendations 31/3/20</p> <p>Revised end date to bring in line with Constitution review and Financial Regulations review. 31/3/21</p> <p>Constitution update to be reviewed and rescoped.</p> <p>Revised implementation date 31/3/22</p>

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
14 2018/19	Contracts Procurement and Purchasing	3	L	CPR will be amended to include safeguarding requirements and whether copies of contractor’s policy statements should be included in all appropriate contracts.	Agreed implementation date 31/12/19. Unable to progress CPR until EU arrangements are known. Revised end date 31/03/20 Revised end date to bring in line with Constitution review and Financial Regulations review. 31/3/21 Constitution update to be reviewed and rescoped. Revised implementation date 31/3/22
24 2019/20	ICT Security	2	S	The Council will commission a penetration test of the ICT environment as soon as practicable after completion of the migration of all operational systems to a cloud or managed service to determine its integrity	The internal infrastructure work was completed in March 2021 This now enables a penetration test to take place, and this has been commissioned to take place in early September 2021. Revised end date 13/9/21
11 2020/21	ICT Security	1	L	The Information Management Document, published on the Council's website, will be updated to reflect changes in listed Asset Information Owners and their deputies	Agreed end date 20/4/2021 Implemented DELETE

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
13 2020/21	Payroll	1	M	Mid-month salary adjustments, carried out from the point where RDC officers were not supporting temporary payroll officers, will be reviewed for accuracy, and corrected, if errors are identified	Agreed end date 30/4/2021 Implemented DELETE
15 2020/21	Creditors	1	M	A measure will be introduced to create visibility of the carrying out of the call-back checks on electronic records and a periodic management check will be carried out to confirm this is being done.	Immediate implementation agreed DELETE
15 2020/21	Creditors	2	M	Valid VAT receipts will be obtained, whenever possible, when carrying out purchases using corporate credit cards. Failure to obtain these receipts will not permit the Council to reclaim VAT paid and results in unnecessary expenditure	Immediate implementation agreed DELETE
15 2020/21	Creditors	3	L	Corporate credit card users and authorising officers will be reminded to provide timely, completed transaction logs relating to corporate credit card expenditure in line with required arrangements.	Immediate implementation agreed DELETE

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
16 2020/21	GDPR Procedures	1	M	The Data Breach Log will be amended to include the actual date of breach together with the dates of remedial action and conclusion of investigation	Immediate implementation agreed DELETE

APPENDIX 5

BASIS FOR AUDIT OPINION		
Assurance level	Internal Audit's opinion is based on <u>one or more of the following conclusions applying:</u> -	Basis for choosing assurance level
Good	<ul style="list-style-type: none"> The activity's key controls are comprehensive, well designed and applied consistently and effectively manage the significant risks. Management can demonstrate they understand their significant risks and they are proactively managed to an acceptable level. Past performance information shows required outcomes are clearly defined and consistently met. 	<p>Recommendations are 'low' rating.</p> <p>Any 'moderate' recommendations will need to be mitigated by consistently strong controls in other areas of the activity.</p>
Adequate	<ul style="list-style-type: none"> Most of the activity's key controls are in place, well designed and applied consistently and effectively manage the significant risks. Management can demonstrate they understand their significant risks and they are generally and proactively managed to an acceptable level. Past performance information shows required outcomes are clearly defined and generally met. 	<p>Recommendations are 'moderate' or "Low" rating.</p> <p>Any 'significant' rated recommendations will need to be mitigated by consistently strong controls in other areas of the activity.</p> <p>A 'critical' rated recommendation will prevent this level of assurance.</p>
Limited	<ul style="list-style-type: none"> The activity's key controls are absent or not well designed or inconsistently applied meaning significant risks. Management cannot demonstrate they understand and manage their significant risks to acceptable levels. Past performance information shows required outcomes are not clearly defined and or consistently not met. 	<p>Recommendations are 'significant' or a large number of 'moderate' recommendations.</p> <p>Any 'critical' recommendations need to be mitigated by consistently strong controls in other areas of the activity.</p>
None	<ul style="list-style-type: none"> The activity's key controls are absent or not well designed or inconsistently applied in all key areas. Management cannot demonstrate they have identified or manage their significant risks Required outcomes are not clearly defined and or consistently not met. 	<p>Recommendations are 'critical' without any mitigating strong controls in other areas of the activity.</p>

APPENDIX 6

RECOMMENDATION CATEGORIES		
C	CRITICAL	<p>The identified control weakness could lead to a critical impact on the activity’s ability to manage the risks to achieving its key objectives. The control weakness means the associated risk highly likely to occur or have occurred.</p> <p>There are no compensating controls to possibly mitigate the level of risk.</p>
S	SIGNIFICANT	<p>The identified control weakness could have a significant impact on the activity’s ability to manage the risks to achieve its key objectives. The control weakness means the associated risk is likely to occur or have occurred.</p> <p>There are few effective compensating controls. Where there are compensating controls, these are more likely to be detective (after the event) controls which may be insufficient to manage the impact. The difference between ‘critical’ and ‘significant’ is a lower impact and or lower probability of occurrence and or that there are some compensating controls in place.</p>
M	MODERATE	<p>The identified control weakness could have a moderate impact on the activity’s ability to manage the risk to achieving its key objectives. The control weakness does not undermine the activity’s overall ability to manage the associated risk (as there may be compensating controls) but could reduce the quality or effectiveness of some processes and or outcomes.</p>
L	LOW	<p>The identified control weakness is not significant, and recommendations are made in general to improve current arrangements.</p> <p>Note – these recommendations will not be followed up.</p>