

AUDIT AND STANDARDS COMMITTEE

27 July 2020

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| Title: Internal Audit Response to the Covid-19 Pandemic | |
| Report of the Acting Chief Executive and Director of Law, Governance and HR | |
| Open Report | For Information |
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| Accountable Strategic Leadership Director: Fiona Taylor, Acting Chief Executive and Director of Law, Governance and HR | |
| Summary This report provides a summary of the Internal Audit response to the risks that the Council faces as a result of the Covid-19 pandemic. The report includes the impact that the pandemic has had on planned Internal Audit work as well as the additional value that the team have added to the Council's overall response. | |
| Recommendation(s) The Committee is recommended to note the additional work that is being carried out by the Internal Audit team and the likely impact on the agreed Internal Audit plan for 2020/21. | |
| Reason(s) To provide assurance to the Committee over independent review of changing systems of governance, risk management and control in the face of the Covid-19 pandemic. | |

1 Introduction

- 1.1 The Internal Audit Charter, Strategy and Plan were agreed at the last meeting of the Audit and Standards Committee in April 2020. At that stage the Head of Assurance explained that whilst the plan was being put in front of the Committee in good faith, changes were to be expected as a result of the Covid-19 pandemic, both in terms of the impact on the planned work of Internal Audit and the diversion of Internal Audit resources elsewhere. This report explains the phased approach taken by the Head of Assurance and progress made to date.
- 1.2 Internal Audit constantly assesses the operational impacts that the Council is facing and the new control environments we are operating under (mostly working from home and electronic based), adjusting the audit plan accordingly. This allows Internal Audit to provide targeted and valuable contributions to the Council across our immediate priority areas over the coming months.

- 1.3 The Internal Audit approach since the pandemic hit in March 2020 has been split into three phases:

Phase 1 – two elements:

- Covid-19 pandemic: response to immediate risks;
- Completion of 2019/20 Internal Audit plan (addressed in a separate report).

Phase 2 – Priority Audits from 2020/21 Internal Audit plan

Phase 3 – Determination of audits provisionally deferred to 2021/22

The timings of the phases are flexible and aligned to Council recovery arrangements. During the year, the plan will be revisited regularly to ensure that any audits or ongoing work is still appropriate as the situation evolves and reports made to the Corporate Assurance Group. Updates against the evolving plan and its delivery will be given to the Audit and Standards Committee at each meeting as usual. We are currently in phase 2 of the approach whilst continuing some of the work that was started in phase 1.

2 Phase 1 - Internal Audit Response to Pandemic risks

- 2.1 **Advice** - the Pandemic has meant that the Council is faced with unprecedented challenges to delivering business as usual. In order to safeguard the public purse and prevent fraud, it is important that the Council's control environment is maintained. Failure to do this could compromise vulnerable residents of Barking & Dagenham and have a lasting impact on the delivery of services both now and when the situation improves. Sadly, history has shown that fraudsters will be viewing this current period of uncertainty and the Council's rapidly evolving response as an opportunity. Service Managers always need to be mindful of the possibility of fraud.
- 2.2 The Head of Assurance has therefore produced and issued a guidance document for managers on the importance of maintaining effective internal control during these unusual times including the expected controls which must be adhered to. Where appropriate, an alternative action which could be implemented during the pandemic was stated to compensate for the inability to enact business as usual. There has also been guidance produced for Budget Holders specifically around making payments to suppliers and how to interpret government guidance on early payment etc.
- 2.3 **Counter Fraud Verification checks** - since April 2020 Barking and Dagenham Council has given out about £25m in grants to almost 2,000 local businesses through the Small Business Grant Fund and Retail, Hospitality and Leisure Grant. Businesses that are currently in receipt of small business rates relief (those with a rateable below £15k) were eligible to receive a grant payment of £10k and businesses with rateable values above £15k but below £51k and are classified as retail, leisure or hospitality received a grant of £25k. Businesses with a rateable value above £51k were not eligible for these schemes.
- 2.4 The Counter Fraud team have been working with the Revenues Team at Elevate East London to ensure that the grants reach the right businesses and ensure maximum benefit for the eligible residents. The team has undertaken a sample check of 20% of all grants paid to verify that they match the details held at Companies House and all of these checks returned as good matches, demonstrating that strong assurance could be placed on the application checks made by the Revenues Team.

- 2.5 The National Fraud Initiative recently launched the Bank Account Verification and Active Company Check in collaboration with Experian. This allows organisations to verify the bank accounts of limited companies, sole traders and charities electronically using data from nine major UK banks and can also be used to help determine if a company is actively trading. This will allow a 100% check of grant payments to be made and will highlight any potential anomalies for further investigation by the Counter Fraud team. This work is ongoing and being co-ordinated by the Counter Fraud Manager.
- 2.6 **Continuous auditing** – this is an audit process whereby technology is used to gather and analyse data quickly, so that audit activities can happen efficiently and more frequently. This provides timely assurance over heightened risk areas arising from Covid-19 and delivers remote Council-wide support by ensuring that a strong control environment is maintained, whilst requiring minimal input from supporting stakeholders. This allows Internal Audit to identify control weaknesses, as well as opportunities for cost recovery and potential fraud.
- 2.7 Real-time checking of transactions to confirm legitimacy is ongoing in the following areas:
- Procurement Card Spend - analysis of purchase cards use including volume and value of transactions use split by month, service, vendor and individual to identify:
 - Purchases made over the monthly spending limits
 - Potentially non compliant transactions using the purchase cards (i.e. purchases made against approved card use policy)
 - Named card holders who have left/are on long term leave, but with transactions against their card.
 - Unusual card use including weekend purchases, overseas transactions and/or cash withdrawals.
 - Identify opportunities to seek out deals with potential suppliers from regular purchase cards merchants.
 - Emergency Payment Procedures - emergency processes profiling:
 - Volume and value of emergency processes split by:-
 - Month
 - Service
 - Value range
 - Contractors
 - Unusual spend pattern analysis
 - Identification of noncompliant procured services.
 - Contractor Spend - supplier spend profiling analysis through the year and pre and during the pandemic, including:
 - Duplicate payments
 - Consistent low spend
 - Unusual spikes in spend
 - Employee/Vendors sharing bank accounts
 - Staff Expenditure, e.g. Agency Time Sheets, Expenses

2.8 **Specialist Internal Audit projects** – the changes to the way that Council services are being delivered, i.e. mostly remotely and electronically, means that the Council is facing some different risks that warrant a more in depth control review than continuous auditing can offer. There have been three additional reviews that have been commissioned as a result of the pandemic and these are as follows:

- IT Resilience - an independent high-level IT resilience and IT disaster recovery review of the Council's response to COVID-19, focusing on:
 - IT lessons learned - what went well and what not so well, providing context and a steer to the other stages of the review;
 - IT Resilience – Appropriate IT resilience can prevent or delay the need to invoke disaster recovery plans in the first place;
 - IT Disaster Recovery (ITDR);
 - Business Continuity Plan (BCP) alignment – a high level of review of the alignment of the ITDR arrangements with the current BCP.
- Privacy and Data Protection - an independent data privacy review of your compliance with the requirements of the GDPR focusing on:
 - The adequacy and effectiveness of the controls to support compliance;
 - The specific risks and controls around data privacy for those working from home;
 - Identifying gaps and weaknesses in the control environment;
 - Providing advice in relation to the prioritisation of actions;
- Ethical Hacking – focusing on:
 - Remote working security hardening (including end user computers, remote access solution and mobile devices);
 - External infrastructure penetration testing;
 - Phishing exercise reflecting actual ongoing Covid-19 response.

2.9 The results of the continuous auditing and specialist project reviews will be reported to the Audit and Standards Committee as normal.

3 Phases 2 & 3 - Planned Internal Audit work 2020/21

3.1 Progress in delivering the agreed 2020/21 Internal Audit Plan has been impacted by the COVID-19 outbreak as a result of three main factors:

- Some service areas have not been able to accommodate Internal Audit work as a result of their operational response to COVID-19;
- Some service areas are not fully operational and are unable to accommodate Internal Audit work in a remote capacity;
- The imposition of lockdown as the last 2019/20 audits were being completed and the desire to see this work to a satisfactory conclusion led to an increase in elapsed time to complete fieldwork and a subsequent delay to starting 2020/21 work; and
- Additional work undertaken as a result of the Council's response to the pandemic (above).

- 3.2 While departmental engagement with planned Audit work is improving, it is anticipated that disruption will continue throughout the second quarter of the year. There have not yet been any explicit deletions from the Internal Audit programme as a result of Covid-19 but it was noted in the Internal Audit Strategy for 2020/21 that it is likely to have an impact on Internal Audit staff and management resources for at least Quarter 1, for example some internal staff were redeployed to Registrars and our external providers have also furloughed some staff. The Internal Audit Strategy does however express a commitment to deliver the plan as far as pragmatically possible and work has started to that effect. Internal Audit are using some of our contingency days to resource the additional work identified in Section 2, although this may not be sufficient and a fuller review as to the impact on the 2020/21 Internal Audit plan will be provided to the November Audit and Standards Committee with the interim 6 month update as normal.

4 Financial Implications

Implications completed by Katherine Heffernan – Group Manager, Service Finance

- 4.1 This report has no specific finance implications.

5 Legal Implications

Implications completed by Dr Paul Feild, Senior Governance Solicitor

- 5.1 This report has no specific legal implications.

6 Other Implications

- 6.1 **Risk Management** – The internal audit plan is risk-based and therefore supports effective risk management across the Council.

- 6.2 **Staffing issues** – There is no impact on current staff.

- 6.3 **Corporate policy and customer impact** – The internal audit service is aligned to corporate objectives. No impact on race, gender, disability, sexuality, faith, age or community cohesion.

Public Background Papers Used in the Preparation of the Report: None.

List of appendices: None.