

## INTERNAL AUDIT PROGRESS REPORT

### Executive Summary

Financial Regulation 2.8 requires that the Chief Finance Officer shall regularly report to the Standards and Audit Committee on the work undertaken by Internal Audit. This report is accordingly submitted to the Committee for consideration.

This report covers audit activity and performance from 23 July to 04 September 2020.

### Recommendations

The Committee is requested to:

**RESOLVE That** the report be received and progress against the 2020-21 Internal Audit Plan and implementation of Internal Audit recommendations be noted.

The Committee has the authority to determine the recommendation(s) set out above.

**Background Papers:** None.

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## Internal Audit Progress Report

### 1.0 Introduction

- 1.1 Financial Regulation 2.8 requires that the Chief Finance Officer shall regularly report to the Standards and Audit Committee on the work undertaken by Internal Audit. This report covers audit activity and performance from 23 July 2020.
- 1.2 The Standards and Audit Committee approved the 2020/21 Internal Audit Plan (Plan) on 5 March 2020.
- 1.3 The purpose of this report is to outline the following in respect of Internal Audit Activity during the period:
  - An update on progress in delivering the 2020/21 internal audit plan;
  - A summary of any Limited/Nil Assurance reports issued, and high priority recommendations raised; and
  - An update on follow up activity and any recommendations outstanding for implementation.

### 2.0 Internal Audit Progress

- 2.1 Due to the impact of the Covid-19 pandemic, the Council's Corporate Management Group (CMG) assisted Internal Audit in re-visiting the 2020/21 Plan, confirming all audits in the Plan remained relevant. CMG also assisted in identifying areas that would have availability to be audited from July 2020 considering the increased pressures and workload that the Council Areas had. An additional advisory review not included in the Plan initially, will be undertaken from 28 September onward. This advisory review is related to the Council's Covid-19 response.
- 2.2 From the 21 internal audits included in the 2020/21 Plan, six were scheduled in Q2 and five in Q3. The remaining are expected to be delivered in Q4. Further detail of the audits, progress and timing, is included in Appendix 1 of this report.
- 2.3 As at 1 September 2020, approximately 20% of the Plan was delivered to at least draft report stage or being delivered with work in progress. This is in line with revised timings/prioritisation following discussions with CMG. The first audit of the Plan started in July 2020. Also, three reports from the 2019/20 Plan had been finalised in the interim.
- 2.4 The table below provides a summary of progress relevant to the 2020/21 Plan:

Audit Status	Number of reviews	Percentage %
Finalised	0	0
Draft	2	9.5%
Fieldwork in progress	2	9.5%
Not yet started	17	81%
<b>Total</b>	<b>21</b>	<b>100%</b>

- 2.5 At present, we are expecting to be able to complete all Q2 audits by October 2020, in line with the expectations from CMG and timeliness of audits identified in the Plan detailed in Appendix 1.

### 3.0 Audit Reports Issued

- 3.1 We have four categories by which we classify internal audit assurance over the processes we examine: Substantial, Satisfactory, Limited or Nil.

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- 3.2 Three final and two draft reports were issued in the period. Three received a Satisfactory Assurance opinion, and two received a Limited Assurance opinion.
- 3.3 There is one report outstanding from the 2019/20 Plan which is currently at a draft stage. This audit has a satisfactory assurance opinion (FlexiRoute IT Application). The draft report was issued at the start of the Covid-19 pandemic. The draft report is currently under discussion with the Council, and auditees have asked for additional time to respond to the queries raised by Internal Audit. This is given the workload and additional pressures the area is facing. The table below shows the drafts and final audit reports issued in the period.

Audit Title	Assurance Opinion	Date Issued	Recommendations by Priority		
			High	Medium	Low
<b>2019/2020 Internal Audit Plan</b>					
Managing Agents (H&S Compliance)	Limited	25/08/2020	3	5	4
Asset Management – Regulatory Compliance	Satisfactory	24/08/2020	-	2	2
Off-Payroll Engagements	Limited	04/09/2020	4	1	1
<b>2020/2021 Internal Audit Plan</b>					
Planning Enforcement*	Satisfactory	18/08/2020	-	2	2
Complaints*	Satisfactory	04/09/2020	-	2	1
<b>Total</b>			<b>7</b>	<b>12</b>	<b>10</b>

\*Draft reports

- 3.4 Internal Audit categorises recommendations as High, Medium or Low priority to differentiate between the types of recommendation made. These categories give management an indication of the importance and urgency of implementing the recommendations.
- 3.5 Seven 'High Priority' recommendations were raised in the reports finalised in the period. Details of all recommendations raised can be found in the summary reports for each audit provided separately to Members.

### 4.0 Follow-Ups

- 4.1 A new Action Management system to track recommendations has now been implemented. This system replaces the Shikari system, which was used previously. In the interim period, the implementation of high priority recommendations has been followed up manually.
- 4.2 The new Action Management system has been populated with 2018/19 and 2019/20 recommendations. It will also include recommendations raised in the 2020/21 financial year moving forward.
- 4.3 A report will be extracted from the Action Management System and will be included in the upcoming Internal Audit progress reports.
- 4.4 In addition to management updates on progress, spot checks are undertaken to confirm that recommendations are being implemented in practice. A procedure is in place to escalate recommendations that have not been implemented as agreed to CMG and finally to this Committee where necessary.

- 4.5 As of 04 September 2020, there are two outstanding high priority recommendations (i.e. recommendations that are past their agreed implementation dates) that have been confirmed as not yet implemented. These two are related to Counter-Fraud. Further detail of these recommendations is included in Appendix 2 of this report.

**5.0 Implications**

Financial

- 5.1 There are minimal financial implications regarding the implementation of internal audit recommendations. Some audit recommendations are designed to improve value for money and financial control.

Human Resource/Training and Development

- 5.2 Some audit recommendations need officer resource to put in place.

Community Safety

- 5.3 There is a minimal impact on Community Safety.

Risk Management

- 5.4 Internal Audit identifies weaknesses in the control environment. Implementation of recommendations, therefore, improves the control environment and hence the management of risk.

Sustainability

- 5.5 There is minimal impact on sustainability issues.

Equalities

- 5.6 There is minimal impact on equalities issues.

Safeguarding

- 5.7 There is minimal impact on safeguarding issues.

REPORT ENDS

## APPENDIX 1

## CURRENT PROGRESS - 2020/21 PLAN

Audit	Progress	Assurance Opinion	Recommendations		
			High	Medium	Low
<b>Quarter Two</b>					
Safeguarding Children and Adults	Fieldwork in Progress	N/A	-	-	-
Freedom Leisure – Contract Management	Starts 21/09/2020	N/A	-	-	-
Planning Enforcement	Draft Issued	Satisfactory	0	2	2
Complaints	Draft Issued	Satisfactory	0	2	1
Procurement	Fieldwork in Progress	N/A	-	-	-
Covid-19 Response	Starts 28/09/2020	N/A	-	-	-
<b>Quarter Three</b>					
Private Sector Leasing	Starts 19/11/2020	N/A	-	-	-
Key Financial Systems (Phase I)	December 2020	N/A	-	-	-
Treasury Management	Starts 07/09/2020	N/A	-	-	-
Victoria Square – Change Control	-	N/A	-	-	-
Payroll	Starts 19/10/2020	N/A	-	-	-
<b>Quarter Four</b>					
Bringing Empty Homes Back into Use	-	N/A	-	-	-
Affordable Housing Delivery	-	N/A	-	-	-
Community Infrastructure Levy	-	N/A	-	-	-
Capital Programme	-	N/A	-	-	-
Utilities and Energy Management	-	N/A	-	-	-
On-Street Parking	-	N/A	-	-	-
Key Financial Systems (Phase II)	-	N/A	-	-	-
Budgetary Control	-	N/A	-	-	-
Risk Management	-	N/A	-	-	-
Business Planning	-	N/A	-	-	-
Economic Development	-	N/A	-	-	-
<b>IT</b>					
Capita Open Housing	-	N/A	-	-	-
Office 365	-	N/A	-	-	-
<b>Total</b>			<b>0</b>	<b>4</b>	<b>3</b>

## APPENDIX 2

### OUTSTANDING HIGH PRIORITY RECOMMENDATIONS

Counter Fraud					
	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
1	<p>Fraud risk identification is essential in order to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the Council and its service users.</p> <p>Although it was apparent that staff involved in counter fraud work are aware of fraud risks facing the Council, how they may occur and how they should be managed, the Council has not undertaken a formal fraud risk assessment.</p> <p>Where a fraud risk assessment is not undertaken, the Council may not be directing its counter fraud activity at the areas of greatest risk. Without a risk assessment and also a low number of reported cases of fraud, this may provide a false impression on the prevalence of fraud.</p>	<p>A fraud risk assessment should be undertaken so as to provide a basis for prioritising counter fraud activity.</p> <p>The Council should use published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposure. This information should be used to evaluate the harm to the aims and objectives of the Council that different fraud risks may cause.</p> <p>The risk assessment should be reviewed periodically (at least annually) and reported to CMG.</p>	High	Agreed. A Fraud risk assessment will be completed to inform future counter fraud work.	<p>31 March 2020</p> <p>Director of Finance</p>
2	<p>Organisations require a counter fraud strategy to set out their approach to managing fraud risks and defining responsibilities for action.</p> <p>Although the Council has an Anti-Fraud and Corruption Policy, a</p>	<p>A Counter Fraud and Corruption Strategy should be developed to address the fraud risks identified (see recommendation 1).</p> <p>The strategy should include a mixture of both proactive and reactive approaches that are best suited to addressing the Council's fraud and corruption risks.</p>	High	Agreed, once the risk assessment (recommendation 1) has been completed, a Counter Fraud and Corruption Strategy will be prepared.	<p>30 June 2020</p> <p>Director of Finance</p>

Counter Fraud					
	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p>Counter Fraud and Corruption Strategy has not been developed setting out the Council's approach to managing the risk of fraud.</p> <p>The Local Government Transparency Code 2015 requires the annual publication of data relating to the Council's counter fraud work; however, we were unable to locate any transparency data related to fraud.</p> <p>Where the Council does not have a Counter Fraud and Corruption Strategy, actions, responsibilities and accountability may be unclear.</p> <p>As a result, the fraud risks the Council is exposed to may not be managed effectively.</p>	<p>Proactive and reactive components of a good practice response to fraud risk can be found in CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption.</p> <p>The strategy should include clear identification of responsibility and accountability for delivery of tasks within the strategy, and also for providing oversight.</p> <p>A report should be prepared for CMG and the Standards and Audit Committee (or another suitable committee) at least annually on performance against the counter fraud strategy.</p> <p>The Council should also comply with the Local Government Transparency Code 2015 requirement to publish data relating to the Council's counter fraud work.</p>			