

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 (Committee) on the work undertaken by Internal Audit. Similarly, it is a requirement under the Internal Audit Charter approved by the Committee that Internal Audit provides a quarterly report on internal audit progress and key findings to the Committee.

This report covers internal audit activity and performance from 11 November to 22 February 2021.

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 (Committee) on the work undertaken by Internal Audit. Similarly, the Internal Audit Charter approved by the Committee requires that Internal Audit provide a quarterly report on internal audit progress and key findings to the Committee.
- 1.2 The 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 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.
- 1.4 This report covers internal audit activity and performance from 11 November 2020 to 22 February 2021.

2.0 Internal Audit Progress

- 2.1 Since the last Committee despite the continued Covid-19 pandemic and strict lockdown measures, progress against the Plan remains on track. All audits planned for Q2 and Q3 are either finalised or at draft report stage in line with the expectations from Corporate Management Group (CMG). Also, of the ten audits planned for Q4, three are at draft report stage, and three are in progress.
- 2.2 This is considered to be a good position considering the last 12 months have been particularly challenging with the impact of Covid-19, the need to complete 2019/20 Plan work post the first lockdown and associated measures whilst also only commencing the new Plan in July 2020.
- 2.3 The remaining four reviews in the Plan are confirmed, two of which are scheduled to start before April 2021. The two remaining are related to IT audits beginning in May 2021. Although this is after the March deadline, they will be delivered in time to be considered for the Internal Audit Annual Opinion for the year.
- 2.4 Following discussions with the Finance Director and the ICT Manager, the Office 365 audit will be included in the 2021/22 Plan and will be replaced with a Remote Working Security/Resilience audit to be delivered in May 2021.
- 2.5 Monthly meetings are held with the Finance Director to consider progress on the Plan, escalate any issues as well as keep abreast of developments at the Council. Following further discussion with the Finance Director there are three non-IT audits to be deferred to the 2021/22 Plan which the Committee is asked to note:
 - Capital Programme – due to current year uncertainty and the suspension of the Programme in 2020-21 it was considered this review would not add value at this stage;
 - Business Planning – as above. There was no Business Planning in the current year; and
 - Victoria Square Development – The audit could not be accommodated in Q3 as planned due to lack of capacity from the Contractor. Discussions will continue with the Contractor and Chief Executive to agree on a specific scope.
- 2.6 The table below provides a summary of progress relevant to the 2020/21 Plan:

Internal Audit Progress Report

Audit Status	Number of reviews	Percentage %
Finalised	7	35%
Draft	6	30%
Fieldwork in progress	3	15%
Not yet started	4	20%
Total	20	100%

2.7 As of 22 February 2021, this equates to 80% of the Plan being delivered to, at least, draft report stage and/or as work in progress. Further detail on the Plan and status is included in Appendix 1.

2.8 In January 2021, work started to develop a proposed Plan for the 2021/22 financial year. This has included a review of latest risks, meetings held with CMG Members and the Finance Director, consideration of results of previous work and a presentation to CMG for discussion. More details regarding the 2021/22 Plan development are included as separate paper.

3.0 Audit Reports Issued

3.1 From the seven reviews for which draft and final reports have been issued at the time of drafting this report, six are on an assurance basis, where we provide an opinion based on our assessment of the control environment. Definitions of the assurance levels and recommendations gradings we use in our reports are included in Appendix 3.

3.2 Details of the reports issued in the period of this report are as follows:

Audit Title	Assurance Opinion	Date Issued	Recommendations by Priority		
			High	Medium	Low
2020/2021 Internal Audit Plan					
Freedom Leisure	Satisfactory	08/12/2020	-	3	-
Procurement	Satisfactory	25/01/2021	-	3	-
Private Sector Leasing (*Draft)	Limited	10/02/2021	-	9	4
Key Financial Systems	N/A – Compliance	15/02/2021	-	-	5
Affordable Housing Delivery (*Draft)	Satisfactory	16/02/2021	-	1	1
Utilities and Energy Management (*Draft)	Satisfactory	18/02/2021	-	1	1
Economic Development (*Draft)	Substantial	18/02/2021	-	-	-
Total			-	17	11

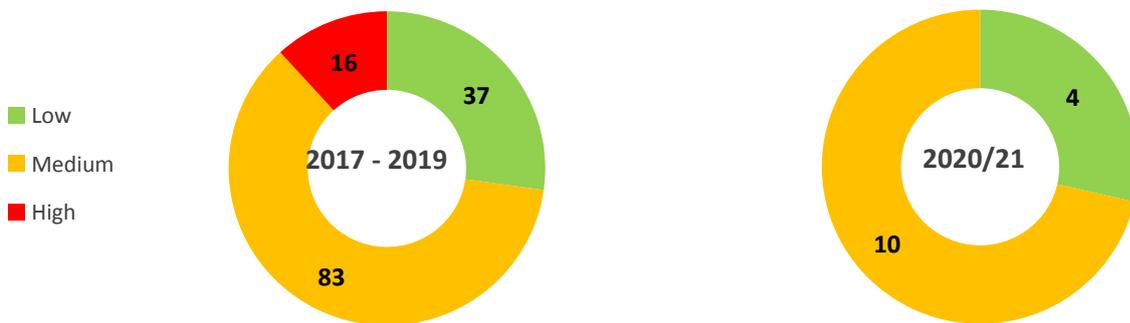
*Draft reports currently awaiting management responses, which may lead to changes in content including assurance levels and/or recommendations.

3.3 As shown in the table above, no 'High Priority' recommendations were raised in the reports finalised in the period. Further details of recommendations raised can be found in the summary reports for each audit provided separately to Members.

4.0 Follow-Ups

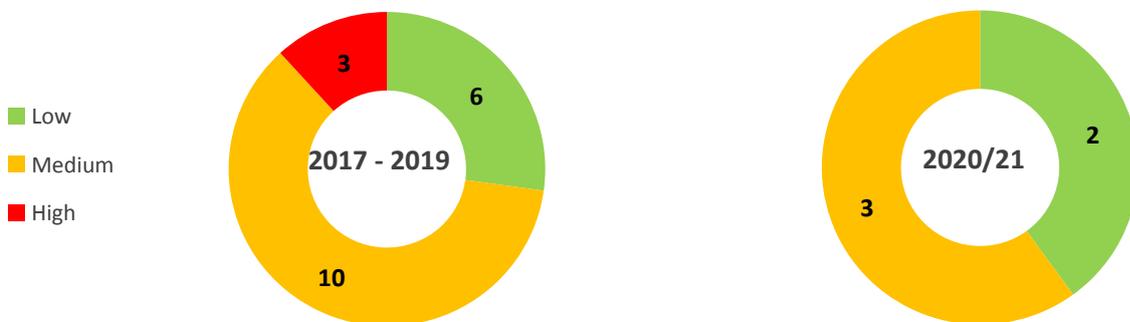
- 4.1 Since the last Committee meeting, Action Management has been populated with any new recommendations from finalised reports. All recommendations raised have been assigned to relevant Officers.
- 4.2 Reporting tools were implemented within the Action Management System. Since the implementation of the System, 150 recommendations spanning multiple years were uploaded. The Committee should note that these were deemed 'non-implemented' at the time of uploading.

Number of Recommendations Uploaded by Priority Level



- 4.3 As of 22 February 2021, there are 24 outstanding recommendations in Action Management (i.e. recommendations that are past their agreed implementation dates). Priorities are as follows:
- Three high priority (Two related to Counter-Fraud and one related to Managing Agents)
 - Thirteen medium priority; and
 - Eight low priority.

Outstanding Recommendations by Priority Level



- 4.4 All the relevant Officers assigned to implement the above outstanding recommendations were reminded to update the Action Management System with progress on implementing these.

Further detail of outstanding high-priority recommendations is included in Appendix 2 of this report.

- 4.5 In addition to monitoring management updates on progress within Action Management, Internal Audit undertakes spot checks 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.

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
Quarter Two					
Safeguarding Children and Adults	Final	Satisfactory	-	2	1
Freedom Leisure – Contract Management	Final	Satisfactory	-	3	-
Planning Enforcement	Final	Satisfactory	-	2	2
Complaints	Final	Satisfactory	-	2	1
Procurement	Draft*	Satisfactory	-	3	-
Covid-19 Response	Draft*	N/A - Advisory	-	-	-
Quarter Three					
Private Sector Leasing	Draft*	Limited	-	9	4
Key Financial Systems	Final	N/A - Compliance	-	-	5
Treasury Management	Final	Satisfactory	-	1	-
Victoria Square – Change Control	Deferred	N/A	-	-	-
Payroll	Final	Substantial	-	-	-
Quarter Four					
Bringing Empty Homes Back into Use	In Progress		-	-	-
Affordable Housing Delivery	Draft*	Satisfactory	-	1	1
Community Infrastructure Levy	In Progress		-	-	-
Capital Programme	Deferred	N/A	-	-	-
Utilities and Energy Management	Draft*	Satisfactory	-	1	1
On-Street Parking	In Progress		-	-	-
Budgetary Control	Starts 22/02/2021		-	-	-
Risk Management	Starts 08/03/2021		-	-	-
Business Planning	Deferred	N/A	-	-	-
Economic Development	Draft*	Substantial	-	-	-
IT					
Capita Open Housing	Proposed May 2021		-	-	-
Remote Working Resilience/Security	Proposed May 2021		-	-	-
Total			0	24	15

* Draft reports currently awaiting management responses, which may lead to changes in content including assurance levels and/or recommendations

APPENDIX 2

OUTSTANDING HIGH PRIORITY RECOMMENDATIONS (PAST IMPLEMENTATION DATE)

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. 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. 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	<p>Agreed. A Fraud risk assessment will be completed to inform future counter fraud work.</p> <p>November 2020: This has been delayed by the focus on responding to the Covid-19 pandemic. The Fraud team from Reigate and Banstead Borough Council are being engaged to assist the Council in undertaking this risk assessment.</p> <p>February 2021: It has not been possible to progress this work in the previously agreed revised timescale, however this will be made a priority over the next month.</p>	<p>31 March 2020</p> <p>Director of Finance</p> <p>Revised timescale: 30 June 2021</p>
2	<p>Organisations require a counter fraud strategy to set out their approach to managing fraud risks and defining responsibilities for action. 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). 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	<p>Agreed, once the risk assessment (recommendation 1) has been completed, a Counter Fraud and Corruption Strategy will be prepared.</p> <p>November 2020:</p>	<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. 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>		<p>This has been delayed by the focus on responding to the Covid-19 pandemic. The Fraud team from Reigate and Banstead Borough Council are being engaged to assist the Council in developing an appropriate Strategy following completion of the risk assessment.</p> <p>February 2021:</p> <p>It has not been possible to progress this work in the previously agreed revised timescale, however this will be made a priority over the next month.</p>	<p>Revised timescale:</p> <p>30 June 2021</p>
Managing Agents					
3	<p>The Senior Estates Officer advised that currently there was one contract in place with Vail Williams (VW) out of the three managing agents audited, with two further contracts being updated but delayed due to Covid-19 for Property Initiatives and Churchod and Co.</p>	<p>The Council should ensure that contracts are in place for all of the managing agents. Contracts should include, amongst others, the following information:</p> <ul style="list-style-type: none"> • Which aspects of Health and Safety will be undertaken by the parties; • The level of reporting and monitoring expected to take place across the compliance programme; and, 	High	<p>In addition to the Vail Williams contract, which was completed during this audit, existing contracts are in place for other agents - Property Initiatives for Duke's Court and Curchod & Co for Morris House.</p> <p>These existing contracts do however need to be updated to include additional properties which have been taken on by</p>	<p>Senior Estates Officer</p> <p>31 December 2020</p>

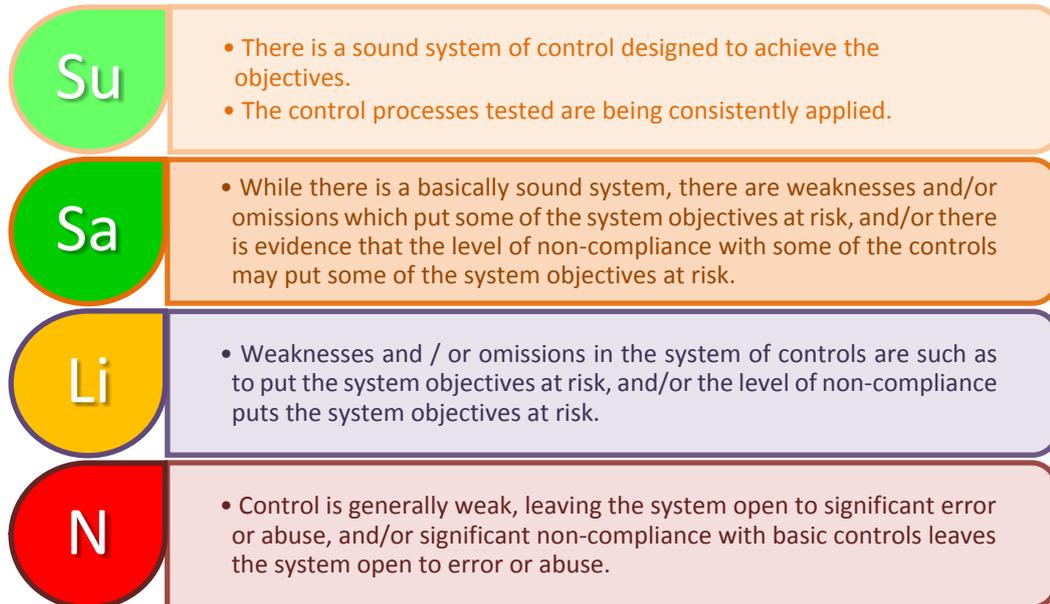
Counter Fraud					
	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p>Due to delays imposed by the Covid-19 pandemic and new remote working arrangements, the Vail Williams contract was signed during the audit fieldwork and a similar version will be used for the remaining agents.</p> <p>Due to the absence of a contract, the Council is reliant on the discretion of the managing agents to ensure that health and safety compliance is achieved.</p> <p>There is a risk that the contracting authority may be deemed not to have entered into a contract or that the exact terms and conditions of the contract are not known. Should things go wrong, it would not, therefore, be able to seek specific performance, damages, or other suitable remedies at the discretion of the Courts. In addition, there is no formal document which stipulates the roles and responsibilities of the managing agents concerning health & safety issues.</p> <p>Where roles and responsibilities are not adequately defined and communicated to the relevant officers and there is no means of confirming overall compliance, there</p>	<ul style="list-style-type: none"> Frequency of meetings, reports, and other contacts between the parties. <p>As well as the Contract, the Council should also develop a formal document outlining the roles and responsibilities relating to health and safety compliance and translate the points above into easily understood language.</p>		<p>these agents since their original appointment. New contracts for each agent are therefore being drafted to include all additional properties. These new contracts will be in the same form as the approved Vail Williams contract which contains the required information contained in this recommendation.</p> <p>December 2020:</p> <p>Amended contracts are in draft format for each managing agent. The original contracts have been updated to ensure that all new properties are included, and clear roles and responsibilities relating to health and safety and compliance (including deadlines for actions) are included.</p>	

Counter Fraud					
	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	is an increased risk that regulatory compliance is not adequately managed, and this may lead to the health and safety of staff and others being put at risk.				

APPENDIX 3

DEFINITIONS OF ASSURANCE

We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:



Recommendation Gradings

In order to assist management in using our internal audit reports, we categorise our recommendations according to their level of priority as follows:

