

INTERNAL AUDIT PROGRESS REPORT

Executive Summary

The Woking Borough Council Financial Regulation 2.8 requires that the Chief Finance Officer (Finance Director) shall regularly report to the Standards and Audit Committee (Committee) on the work undertaken by Internal Audit. Similarly, under the Internal Audit Charter approved by the Committee, it is a requirement that Internal Audit provides a quarterly report on internal audit progress and key findings to the Committee.

This report covers audit activity and performance from 4 September to 5 November 2021.

Recommendations

The Committee is requested to:

RESOLVE That the report be received and progress against the 2021-22 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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Implications

Financial and Risk

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.

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

Human Resources and Equalities

Some audit recommendations need officer resources to put in place. There is minimal impact on equalities issues.

Legal

The professional responsibilities of internal auditors are set out within UK Public Sector Internal Audit Standards (PSIAS).



Woking Borough Council - Internal Audit Progress Report
For the September to November 2021 Period
November 2021

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Disclaimer

This report (“Report”) was prepared by Mazars LLP at the request of Woking Borough Council (Council), and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently, no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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01 Introduction

The Woking Borough Council (Council) Financial Regulation 2.8 requires that the Chief Finance Officer (Finance Director) 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.

The Committee approved the 2021/22 Internal Audit Plan (Plan) on 4 March 2021. 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 2021/22 internal audit plan;
- A summary of any Limited/Unsatisfactory Assurance reports issued and high priority recommendations raised; and
- An update on follow up activity and any recommendations outstanding for implementation.

This report covers internal audit activity and performance from 4 September 2021 to 5 November 2021.

02 Internal Audit Progress

Since the last Committee, progress against the Plan remains on track. All audits planned for Q2 and Q3 are either finalised, at draft report stage or in progress in line with the expectations from Council Leadership Team (CLT).

As previously reported in September to the Committee, the Victoria Square audit was replaced by the HIF Project review. Also, as previously reported, there were two audits from the plan (allocated in Q2) that did not start as initially planned. These are:

- *Careline*: The Health & Wellbeing Manager and Housing Director requested the audit be deferred to Q2 in 2022 due to the Operational Manager being off-sick and also, the service changing their contracted provider in April 2022. We discussed and agreed with the Finance Director

that this audit will be re-scheduled to start in Q2 next year to ensure the audit provides the most value.

- *ThamesWey Corporate Debt Management*: Following discussions with ThamesWey's Chief Financial Officer, this audit will be included in next year's IA Plan. The scope was not considered a priority and concerns initially raised during January 2021 were now addressed. We discussed and agreed with the Finance Director that this audit will be re-scheduled for next year.

The table below provides a summary of progress relevant to the 2021/22 Plan:

Audit Status	Number of reviews	Percentage %
Finalised	3	18%
Draft	2	12%
Fieldwork in progress	4	23%
Not yet started	8	47%
Total	17	100%

As of 5 November 2021, 53% of the Plan was delivered to at least draft report stage or being delivered with work in progress. Further detail of the audits, progress and timing, is included in **Appendix A1** of this report.

03 Audit Reports Issued

We have four categories by which we classify internal audit assurance over the processes we examine: Substantial, Moderate, Limited or Unsatisfactory reviews. Further details on these categories is included at **Appendix A3**.

In our previous Progress Report for (September 2021) we highlighted five reports at draft stage. Three of these had now been finalised (Capita Open Housing, OSC Effectiveness Review and Insurance). However, a further two reports remain at draft (Covid-19 Lessons Learned and Risk Management).

Council Officers had been reminded of the outstanding reports and this has also been escalated with the Finance Director.

Three further reports were issued in the period since the last Committee, two of which had been finalised (Homesafe Plus and Housing Benefits). The remaining report draft relates to the HIF Project.

The table below shows the reports outstanding and also those issued in the period:

Audit Title	Assurance Opinion	Recommendations by Priority		
		High	Medium	Low
2020/2021 Internal Audit Plan				
Covid-19 Lessons Learned*	N/A - Advisory	-	-	-
Risk Management*	Satisfactory	-	4	1
Capita Open Housing (IT)	Satisfactory	-	7	-
2021/2022 Internal Audit Plan				
Insurance	Limited	-	6	2
OSC Effectiveness Review	N/A - Advisory	-	-	-
Homesafe Plus	Moderate	-	1	1
Housing Benefits	Substantial	-	-	1
HIF Project*	Limited	3	3	-
Total		3	21	5

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

Internal Audit categorises recommendations as High, Medium or Low priority to differentiate between the types of recommendation made. These

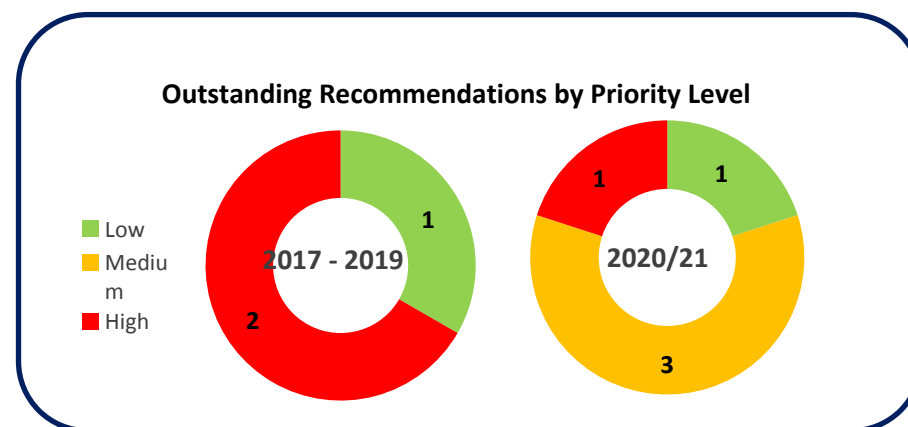
categories give management an indication of the importance and urgency of implementing the recommendations.

As shown in the table above, three High Priority recommendations were raised in the draft report which has been shared with the Overview and Scrutiny Committee for their meeting on 22 November. Further details of recommendations raised can be found in the summary reports for each audit provided separately to Members.

04 Follow-Ups

Since the last Committee meeting, the Council's Action Management system has continued to be populated with new recommendations from finalised internal audit reports.

As of 8 November 2021, there are eight outstanding recommendations in Action Management (i.e. recommendations that are past their initially agreed implementation dates). Priorities are as follows:



The three high priority relate to Counter-Fraud and PCI Security Standards and were not implemented within the initially agreed dates. However, discussions with the responsible officers indicated various circumstances delaying their implementation. The revised dates for implementing these remain the same as those reported to the Committee in September.

We presented a report listing all outstanding recommendations to the Council's CLT on 15 November 2021 ahead of this Committee Meeting. Relevant Officers assigned to implement all outstanding recommendations were reminded to update the Action Management System with progress on implementing these.

In addition to monitoring management updates on progress within Action Management, Internal Audit can undertake 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 CLT and finally to this Committee where necessary.

Further detail of outstanding high-priority recommendations is included in **Appendix A2** of this report.

05 Other Matters

This section is used to set out other matters which may be of interest to the Committee and in **Appendix A4** we have provided details on a recent report produced by Mazars on social value and the issues faced by public and social sector organisations.

Social value has always been at the heart of the public and social sector, it defines its meaning and purpose. ESG (referring to environmental, social and governance matters) is an increasingly common term and is quickly penetrating the public and social sector. ESG is a huge opportunity for sector transformation to reposition environmental and social value at the forefront of decision making across an entire organisation.

Failure to identify and effectively manage ESG-related risks poses serious threats to an organisation's ability to achieve its strategic objectives. In addition, there are wide-ranging opportunities to be seized in the ESG space such as talent attraction and retention, access to funding and increased sustainability and resilience.

Sustainability and ESG encompass a much wider remit than social value. This may be causing confusion as leadership teams struggle to articulate this remit, how best to manage its implementation, and in many cases how to get started. This is particularly true of achieving net zero, which we address in our report.

A1 Current Progress – 2021/22 Plan

Audit area	Progress	Assurance Opinion	Recommendations		
			High	Medium	Low
Insurance	Final	Limited	-	6	2
OSC Effectiveness Review	Final	N/A - Advisory	-	-	-
Private Water Supply	Cancelled (Reported to Committee 08/09/2021)	-	-	-	-
Homesafe Plus	Final	Moderate	-	1	1
Careline	Deferred to 22-23	-	-	-	-
Housing Benefits	Final	Substantial	-	-	1
Green Jump Surrey	Starts 29/11/2021		-	-	-
HIF Project Assurance (Replaced Victoria Square review in Plan)	Draft*	Limited	2	2	-
Building Control	In progress		-	-	-
Taxi Licensing	In progress		-	-	-
Air Pollution	In progress		-	-	-
Key Financial Systems	In progress		-	-	-
Thameswey Debt Management	Deferred to 22-23	-	-	-	-
Disabled Facilities Grant (DFG)	Starts 24/01/2022		-	-	-
Temporary Accommodation	Starts 24/01/2022		-	-	-
Capital Programme	Starts 07/02/2022		-	-	-
Business Planning	Starts 14/02/2022		-	-	-
Corporate Debt Management	Starts 21/02/2022		-	-	-

Audit area	Progress	Assurance Opinion	Recommendations		
			High	Medium	Low
IT					
Office 365	Starts in December 2021		-	-	-
Cyber Security	Starts in January 2022		-	-	-
Total			2	9	4

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

A2 Outstanding High Priority Recommendations (Past Implementation Date)

Counter Fraud					
Ref	Observation/Risk	Recommendation	Priority	Management Response	Timescale and 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. 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>June 2021: An approach has been agreed with the Reigate & Banstead/Oxford City Council Counter Fraud & Investigations Partnership. The initial work will cover the Fraud Risk Assessment, Framework for the Counter Fraud Strategy, staff training and assessment of</p>	<p>31 March 2020</p> <p>Director of Finance</p> <p>Revised timescale:</p> <p>31 December 2021</p>

Counter Fraud					
Ref	Observation/Risk	Recommendation	Priority	Management Response	Timescale and Responsibility
				processes in identified high risk areas and will be completed over a 3 month period.	
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 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>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. 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</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: 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: 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>June 2021: An approach has been agreed with the Reigate & Banstead/Oxford City Council Counter Fraud & Investigations Partnership. The</p>	<p>30 June 2020</p> <p>Director of Finance</p> <p>Revised timescale:</p> <p>31 December 2021</p>

Counter Fraud					
Ref	Observation/Risk	Recommendation	Priority	Management Response	Timescale and Responsibility
		2015 requirement to publish data relating to the Council's counter fraud work.		initial work will cover the Fraud Risk Assessment, Framework for the Counter Fraud Strategy, staff training and assessment of processes in identified high risk areas and will be completed over a 3 month period.	

Cash Collection and Receipting Systems					
Ref	Observation/Risk	Recommendation	Priority	Management Response	Timescale and Responsibility
1	<p>The PCI DSS consist of twelve significant requirements including multiple sub-requirements which contain numerous directives against which businesses may measure their own payment card security policies, procedures and guidelines.</p> <p>As an Authority, the Council take payments over the phone. As a result, the Council should complete and submit their Self-Assessment Questionnaire type C (SAQ-C). However, the IT Consultant</p>	In line with the PCI Security Standards Council, the Council should undertake a self-validation exercise through the completion of a SAQ-C questionnaire to assess titts security for cardholder data and submit this results together with any issues/non-compliance identified and remedial actions.	High	<p>The principles for PCI DSS cover more than the ICT aspects of payment processing, specifically:</p> <ul style="list-style-type: none"> • Data security user training • Up to date data protection, cyber security and incident management plans • Business area procedural manuals <p>Following a workshop in 2018, work was started to complete the PCI DSS SAQ. Without the above areas</p>	<p>31 December 2020</p> <p>ICT Business Manager</p> <p>Revised timescale:</p> <p>31 March 2022</p>

Cash Collection and Receipting Systems

Ref	Observation/Risk	Recommendation	Priority	Management Response	Timescale and Responsibility
	<p>Application Support advised there are currently no arrangements in place to submit the SAQ-C.</p> <p>Failure to monitor and address compliance issues could result in the loss of PCI accreditation which could mean that the Council may not be able to promote its accredited service and therefore customers may lose confidence on the Council's payment processing service leading to financial loss and reputational damage.</p>			<p>being addressed, the form was not submitted.</p> <p>If the Council prioritises and allocates resources to progress the above areas then ICT can facilitate completion of the SAQ's.</p> <p>December 2020:</p> <p>The services of a PCI DSS Qualified Security Assessor have been procured from Sysnet to work with the Council to complete the SAQ and assist with identifying areas where further work is needed to mitigate any identified risks. The work will be undertaken from January 2021 with an estimated completion date of 31st March 2021.</p> <p>March 2021:</p> <p>The assessor was unable to start work until February so the report was delayed and has not yet been received. Meetings have been held with business areas and work already identified as required has been agreed by CMG. An new revised due date of 31/07/21 is proposed</p>	

Cash Collection and Receipting Systems

Ref	Observation/Risk	Recommendation	Priority	Management Response	Timescale and Responsibility
				<p>September 2021:</p> <p>The company Sysnet, that was providing the consultancy and report for PCI Compliance has been bought out and staff dealing with WBC have all left. I have been unable to get a response since June and have given notice that failure to produce the full report by the 31/08/21 will be considered breach of contract. We will need to start again with another supplier.</p>	

A3 Definitions of Assurance

Definitions of Assurance Levels	
Level	Description
Substantial	The framework of governance, risk management and control is adequate and effective.
Moderate	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Definitions of Recommendations		
Priority	Definition	Action required
High (Fundamental)	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium (Significant)	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low (Housekeeping)	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.

A4 Demystifying ESG – A pathway to enhance social value in the public and social sector

Our latest research, based on a survey of 57 public and social sector leaders, highlights the challenges and progress being made with ESG. The report is available to download via the link below and focusses on the issues specifically faced by public and social sector organisations.



Demystifying ESG

Download here

Demystifying ESG:
A pathway to enhance social value
in the public and social sector

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