

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 5 November to 14 February 2022.

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 may be minimal financial implications regarding implementing internal audit recommendations depending on the nature of the area and recommendations made. However, any such implications are considered by Management as part of the consideration of the recommendations raised. Some audit recommendations are also designed to improve value for money and financial control.

Internal Audit identifies weaknesses in the control environment. Therefore, the implementation of recommendations 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 November to February 2022 Period
March 2022

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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 5 November 2021 to 14 February 2022.

02 Internal Audit Progress

Since the last Committee, progress against the Plan has remained on track. All audits planned for Q3 and Q4 are either finalised, at draft report stage or in progress in line with the expectations from Council Leadership Team (CLT).

Since our last progress report, four audits from the plan (allocated in Q4) did not start as initially planned. These are:

- *Disabled Facilities Grant*: The Housing Director indicated that a new DFG Policy had been developed and approved in January 2022. This introduced changes to some of the processes for application processing and approving funding. We agreed with the Finance Director and Director

of Housing that this audit will be re-scheduled to start in Q3 next year to ensure the audit provides the most value assessing compliance against the new policy.

- *Debt Recovery*: Covid presented challenges with staff becoming unavailable at very short notice during this reporting period. Reallocating this audit to a later date created a clash with other audits being performed in the same area, increasing the already high workload and pressures. We discussed and agreed with the Finance Director that this audit will be re-scheduled to the 2022/23 plan and for fieldwork to take place in Q1.
- *Business Planning*: A new Corporate Strategy will be approved in March 2022. There is currently an increased focus on finalising and approving the Strategy. As Business Planning will be linked to the Strategy, it was suggested that this audit was deferred to add the most value to the Council. This was discussed with the Finance Director and proposed to postpone this audit to the 2022/23 plan to start in Q1.
- *Office365 – IT Audit*: Following discussions with the ICT Manager, the Office365 migration project will now conclude in July 2022. It was felt an audit would be best timed to provide assurance following this, and so this has been deferred to the 2022.23 plan.

However, the days associated with the Office365 review were utilised to conduct a piece of work commissioned regarding an air conditioning incident at the Council's data centre (located in Export House, Woking) on 7 October 2021. The agreed scope for the audit was a lessons learnt exercise to report on the incident and assess relevant key controls in place to manage, monitor and report on incidents relating to the data centre cooling equipment. Two days from contingency days included in the 2021/22 Plan were also used to support this review.

The changes above do not affect the ability provide the HoIA annual opinion for 2021/22. In the context of the above changes, and those previously reported to the Committee, the table below provides a summary of progress for the remaining audits in the 2021/22 Plan:

Audit Status	Number of reviews	Percentage %
Finalised	6	43%
Draft	5	36%
Fieldwork in progress	2	14%
Not yet started	1	7%
Total	14	100%

As of 14 February 2022, 93% of the Plan was delivered to at least draft report stage or being delivered with work in progress. The remaining audit is due to start on 22 March 2022. 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 are included in **Appendix A3**.

Our previous Progress Report for November 2021 highlighted three reports at the draft stage. One of these had now been finalised (HIF Project). However, two further reports from the 2020/21 IA Plan remain in draft (Covid-19 Lessons Learned and Risk Management). Council Officers have been reminded of the outstanding reports, and this has also been escalated with the Finance Director.

Since the last Committee, seven reports were issued in the period, two of which had been finalised (including the HIF Project and Capita Open Housing from 2020/21). The remaining reports are at draft stage.

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* (Issued November 2020)	N/A - Advisory	-	-	-
Risk Management* (Issued August 2021)	Satisfactory	-	4	1
Capita Open Housing (IT)	Satisfactory	-	7	-
2021/2022 Internal Audit Plan				
Building Control	Moderate	-	2	2
HIF Project	Limited	3	3	-
Taxi Licensing*	Limited	1	1	2
Air Pollution*	Substantial	-	1	-
Thameswey – Green Jump Surrey*	Moderate	-	1	1
Key Financial Systems*	N/A - Advisory	-	2	4
Total		4	21	10

* 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.

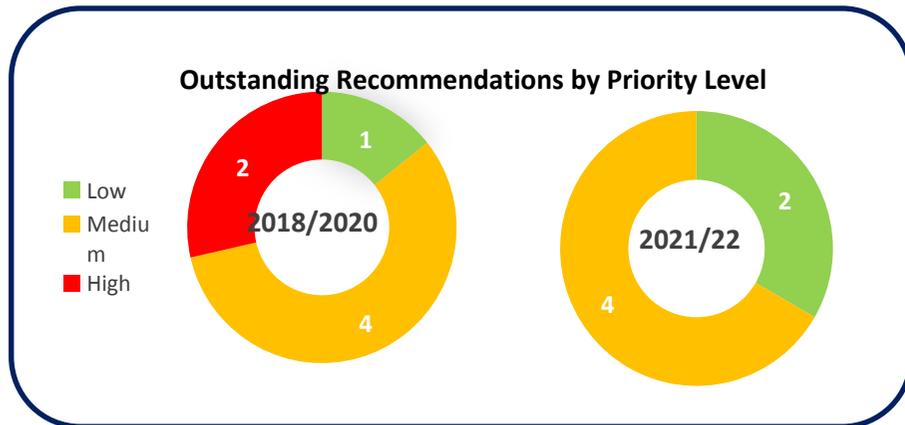
As shown in the table above, three High Priority recommendations were raised in the HIF Project report, shared with the Overview and Scrutiny Committee for their meeting on 22 November 2021. An additional High

Priority recommendation has been raised during the Taxi Licensing audit, with the draft report being reviewed by Management. 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 14 February 2022, there are 13 outstanding recommendations in Action Management (i.e., recommendations that are past their initially agreed implementation dates). Priorities are as follows:



The two high priority recommendations related to Counter-Fraud were not implemented within the initially agreed dates. Discussions with the responsible officers indicated various circumstances delaying their implementation. The revised dates for implementing both Counter Fraud recommendations have been updated with work due to commence in the new financial year.

We presented a report listing all outstanding recommendations to the Council's CLT on 21 February 2022 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 undertook spot checks to confirm that recommendations are being implemented in practice, including high priority recommendations raised as part of the HIF Project report. 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.

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	-	-	-
Homesafe Plus	Final	Moderate	-	1	1
Housing Benefits	Final	Substantial	-	-	1
HIF Project Assurance (Replaced Victoria Square review in Plan)	Final	Limited	2	2	-
Building Control	Final	Moderate	-	2	2
Taxi Licensing	Draft *	Limited	1	1	2
Green Jump Surrey	Draft *	Moderate	-	1	1
Air Pollution	Draft *	Substantial	-	1	-
Key Financial Systems	Draft *	N/A - Advisory	-	2	4
Capital Programme	In Progress	-	-	-	-
Temporary Accommodation	Starts 22/03/2022	-	-	-	-
Private Water Supply	Cancelled (Reported to Committee 08/09/2021)	-	-	-	-
Careline	Deferred to 22-23 (Reported to Committee 25/11/2021)	-	-	-	-
Thameswey Debt Recovery	Deferred to 22-23 (Reported to Committee 25/11/2021)	-	-	-	-
Disabled Facilities Grant (DFG)	Deferred to 22-23	-	-	-	-
Business Planning	Deferred to 22-23	-	-	-	-

Audit area	Progress	Assurance Opinion	Recommendations		
			High	Medium	Low
Corporate Debt Recovery	Deferred to 22-23	-	-	-	-
IT					
Data Centre Incident	Draft *	Moderate	-	4	4
Cyber Security	In progress	-	-	-	-
Office 365	Deferred to 22-23	-	-	-	-
Total			3	20	17

*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> <p>30 June 2022</p>

Counter Fraud					
Ref	Observation/Risk	Recommendation	Priority	Management Response	Timescale and Responsibility
				<p>processes in identified high risk areas and will be completed over a 3 month period.</p> <p>February 2022</p> <p>The Reigate/Oxford Counter Fraud team are due to start working with the Council in the new financial year. There will be an initial focus on analysis of data within Housing alongside the risk assessment, strategy, and training.</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 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>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>	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:</p>	<p>30 June 2020</p> <p>Director of Finance</p> <p>Revised timescale:</p> <p>31 December 2021</p> <p>30 September 2022</p>

Counter Fraud					
Ref	Observation/Risk	Recommendation	Priority	Management Response	Timescale and Responsibility
	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>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>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 processes in identified high risk areas and will be completed over a 3 month period.</p> <p>February 2022 The Reigate/Oxford Counter Fraud team are due to start working with the Council in the new financial year. There will be an initial focus on analysis of data within Housing alongside the risk assessment, strategy and training.</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.

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