

INTERNAL AUDIT ANNUAL REPORT 2021/22

Executive Summary

This report contains the Head of Internal Audit (HOIA) annual assurance opinion on the control environment of Woking Council (Council) based on internal audit work undertaken during the 2021/22 financial year.

This opinion forms one of the key sources of assurances within the Council and used to inform the compilation of the Council's Annual Governance Statement, which is included in the Financial Statements. The Internal Audit function of the Council, incorporating the HOIA, is outsourced to Mazars LLP.

During 2021/22 the Covid-19 pandemic impacted the provision of internal audit services by having to undertake reviews remotely and through the use of remote tools such as screen-sharing functionalities. Also, some service areas within the Council could not accommodate scheduled audits in the latter stages of Q3 and some in Q4 due to staff becoming unavailable at short notice.

During the year, we have consulted CLT and informed the Committee about changes to the audit plan to consider the impact of Covid-19 on the deferral of audit work.

These arrangements, including working remotely with new functionalities (such as screen-sharing), were not considered to have a material impact on our ability to provide an annual opinion.

On the basis of our audit work, our opinion on the framework of governance, risk management, and control is Moderate in its overall adequacy and effectiveness. Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

Recommendations

The Committee is requested to:

RESOLVE That

- (i) the annual assurance opinion of the Head of Internal Audit over the control environment be noted.

The Committee has the authority to determine the above recommendations.

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 Annual Report 2021/22

Prepared by: Mazars LLP

Date: June 2022



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Disclaimer

This report ("Report") was prepared by Mazars LLP at the request of Woking Borough Council (WBC) 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.

The Report was prepared solely for the use and benefit of WBC and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in this report for further information about responsibilities, limitations and confidentiality.

Appendices

A1 Outstanding High Priority Recommendations

A2 Definitions of Assurance

01 Introduction

Internal Audit services to Woking Borough Council (Council) are provided by Mazars LLP through the APEX framework with Croydon Council.

The purpose of internal audit is to provide the Council, through the Standards and Audit Committee (Committee) and the Finance Director (as the Chief Finance Officer), with an independent and objective opinion on risk management, control and governance and their effectiveness.

This Annual Report covers the internal audit work we have undertaken in respect of the 2021/22 Plan and incorporates our internal audit opinion. It forms part of the framework of assurances received by the Council. It should be used to help inform the Annual Governance Statement within the Financial Statements. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance, and control.

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

Performance against the Internal Audit Plan

Our 2021/22 Plan was considered and approved by the Committee on 4 March 2021. The Plan was for 321 days, including 30 days for IT audits and 24 days for the Head of Internal Audit role. The audits in the Plan comprised a mixture of key financial systems, service-specific (operational and financial), corporate-wide, and IT reviews.

As reported in our most recent Progress Report presented to the Committee in March 2022, there were five audits deferred from the 2021/22 Plan to the 2022/23 activity for various reasons detailed in our previous progress reports.

However, there were two instances where we replaced the days associated with the deferred audits with new work. The days allocated to the Office365 review were utilised to conduct a piece of work regarding an air conditioning incident at the Council's data centre (located in Export House, Woking) on 7 October 2021. Also, the Victoria Square audit was replaced by the HIF Project review that was reported in November 2021.

With the exception of the above, all other audits in the Plan were delivered.

A summary of the reports we have issued is included in Section 03 of this Report.

The appendix A2 describes the levels of assurance we have provided in assessing the control environment and effectiveness of controls and the classification of our recommendations.



Acknowledgements

We are grateful to the Finance Director, Council's Directors, and other staff throughout the Council as well as the Committee for the assistance provided during the year.

Sampling methodology

As part of our auditing methodology we use a range of sampling techniques to provide a robust basis for our audit opinions. Where possible we favour conducting whole data set testing using data analytics software such as IDEA. Where this is not possible or practical, we look to conduct sampling through use of random number generators, stratified or systematic sampling as appropriate to ensure that our findings are both representative and relevant. Sample sizes are driven by the level of assurance being provided and where not dictated as part of the audit scope are at the discretion of the internal auditor in conjunction with the Engagement Manager.

02 Audit Opinion

Remote Working

With the exception of the work undertaken at Export House related to the air conditioning incident, audits were completed remotely, with walkthroughs and client interviews held virtually and all evidence being requested and provided digitally. The annual internal audit opinion provided below reflects the audit plan agreed and is not limited in scope, to the extent that the assurance provided by internal audit can only ever be reasonable, not absolute.

Our opinion

On the basis of our audit work, our opinion on the framework of governance, risk management, and control is **Moderate** in its overall adequacy and effectiveness. Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

While there are some areas of activity where the expected levels of control have not been fully achieved, actions have been taken or are in progress in response to internal audit recommendations made.

Impact of Covid-19 on internal audit work during the year

During 2021/22 the Covid-19 pandemic shifted the approach to delivering internal audit services by having to undertake reviews remotely and through the use of remote tools such as screen-sharing functionalities. Also, some service areas within the Council could not accommodate scheduled audits in the latter stages of Q3 and some in Q4 due to staff becoming unavailable at short notice. Whilst we were able to complete our work, we did encounter challenges during Q4 mostly due to resources becoming unavailable at short notice due to the impact of the Omicron variant on Council and Mazars staff.

During the year, we have consulted Corporate Leadership Team (CLT) and informed the Committee about changes to the audit plan to consider the impact of Covid-19 on the deferral of audit work including the DFG and Careline reviews.

Reliance Placed on Third Parties

Internal audit has not placed any reliance on third parties in order to assess the controls operated by the Council. Our opinion solely relies on the work we have performed and the results of the controls testing we have undertaken.

Scope of Opinion

In giving our annual audit opinion, it should be noted that assurance can never be absolute. The internal audit service can provide to the Council a reasonable assurance that there are no major weaknesses in risk management, governance, and control processes.

The matters raised in this report are only those that came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that may be required. In arriving at our opinion, we have taken the following matters into account:

- The impact on the Plan as a result of Covid-19;
- The results of all internal audits undertaken as part of the Plan;
- The results of follow up action in respect of previous internal audits;
- Whether or not any High or Medium recommendations have not been accepted by management and the consequent risks;
- The effects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports to the Committee;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the entire internal audit needs of the organisation; and
- What proportion of the organisation's internal audit needs have been covered to date.

Follow Up

Internal audit recommendations are categorised according to priority (High, Medium, and Low). We request updates from management to monitor the status of implementation. This is supplemented by spot checks in the business area concerned to confirm that the recommendation is being implemented in practice. In addition, a procedure is in place to escalate recommendations that have not been implemented to the CLT and finally to this Committee where necessary. At the time of drafting this report, two high priority recommendations from prior years are outstanding. Relevant Officers assigned to implement 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 A1 of this report.

03 Internal Audit Work Undertaken in 2021/22

The audit findings in respect of each review, together with our recommendations for action and the management responses are set out in our detailed reports issued to the Service and the Summary Reports shared with Members.

We undertook ten audit reviews in which an assurance rating was provided, covering a number of important control systems, processes, and risks and a review of implementation of recommendations from prior years. We have completed an advisory review concerning the Overview and Scrutiny Committee's resources and a compliance review as part of the Key Financial Systems review. The results of this work are summarised below:

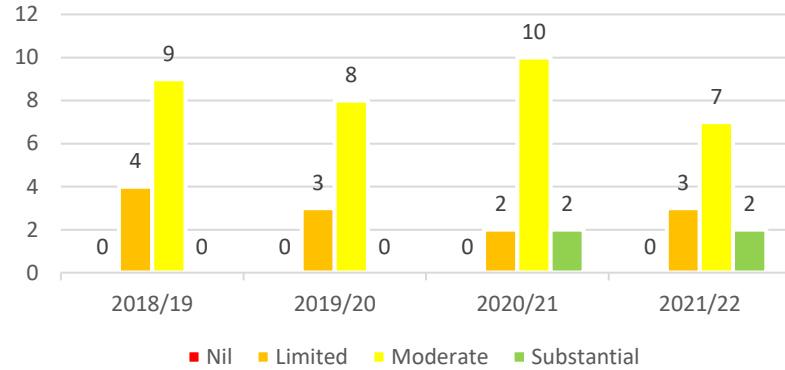
Audit area	Assurance level	Recommendations			
		High	Medium	Low	Total
Insurance	Limited	-	6	2	8
OSC Resources Review	N/A – Advisory	-	-	-	-
Homesafe Plus	Moderate	-	1	1	2
Housing Benefits	Substantial	-	-	1	1
HIF Project Assurance (Replaced Victoria Square)	Limited	2	2	-	4
Building Control	Moderate	-	2	2	4
Taxi Licensing	Moderate	-	2	1	3
Green Jump Surrey (Thamesway)	Moderate	-	2	1	3
Air Pollution	Substantial	-	1	-	1
Key Financial Systems	N/A - Advisory	-	1	5	6
Capital Programme	Moderate*	-	3	-	3
Temporary Accommodation	Moderate*	-	6	-	6
Private Water Supply	Cancelled	-	-	-	-
Careline	Deferred to 22/23	-	-	-	-
Thamesway Debt Recovery	Deferred to 22/23	-	-	-	-
Disabled Facilities Grant (DFG)	Deferred to 22/23	-	-	-	-
Business Planning	Deferred to 22/23	-	-	-	-
Corporate Debt Recovery	Deferred to 22/23	-	-	-	-
Data Centre Incident (Replaced Office 365)	Moderate	-	4	4	8
Cyber Security*	Limited	-	8	1	9
Total		2	38	18	58

*Draft Report - Further detail on the implementation of recommendations is provided at **Appendix A1**.

04 Benchmarking

This section compares the Assurance Levels (where given) and categorisation of recommendations made at WBC.

Assurance Opinions Since 2018/19

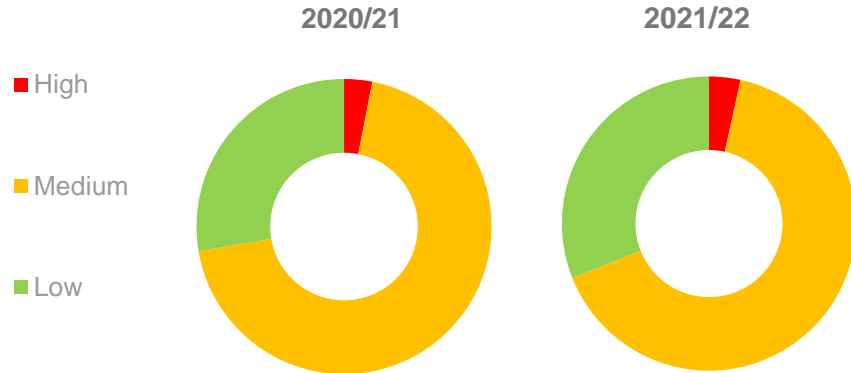


This chart below shows the distribution of assurance over the past four years. Overall, levels have largely remained consistent over this time. There is no particular link between the issues identified within the three Limited Assurance reports.

The three limited assurance reports were related to the Insurance, HIF Project and Cyber Security reviews.

The limited assurance reviews in 2020/21 were related to Empty Homes and Private Sector Leasing and are unrelated to those areas subject to this assurance in 2021/22.

Comparison of Recommendation Gradings



During 2021/22, we have made a total of 58 new recommendations. Two were High Priority, 38 Medium Priority, and 18 categorised as Low Priority. Compared to 2020/21, the total number of recommendations decreased (65 recommendations made in 2020/21). However, there were two more assurance opinions given in 2020/21.

The distribution of priorities has not varied significantly. There were no changes in the number of High and Low Priority recommendations raised in 2021/22. However, there was decrease in Medium Priority recommendations (45 raised in 2020/21).

The two High Priority recommendations relate to the HIF Project review undertaken on request of the Overview and Scrutiny Committee. The Temporary Accommodation, Cyber Security and Insurance reports represent 52% of the Medium recommendations raised in the year.

05 Performance of Internal Audit

We have provided some details below outlining our scorecard approach to our internal performance measures, which supports our overall annual opinion.

Compliance with Professional Standards

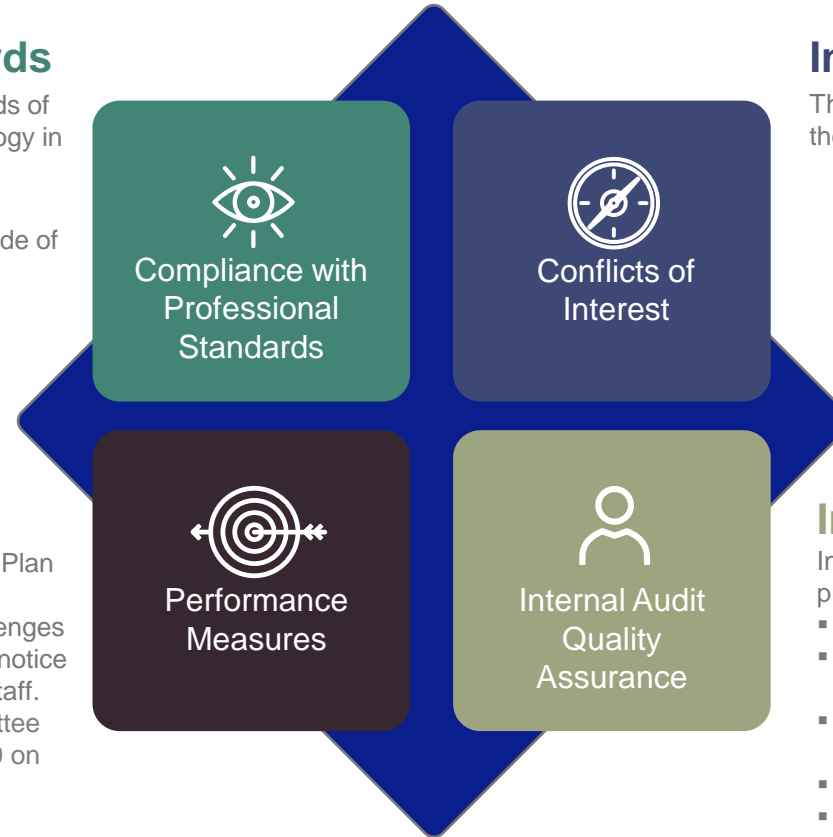
We employed a risk-based approach to determining the audit needs of the Council at the start of the year and use a risk-based methodology in planning and conducting our audit assignments.

Our work performed conforms to PSIAS which includes the Core Principles for the Professional Practice of Internal Auditing and Code of Ethics.

Performance Measures

We have completed our audit work in accordance with the agreed Plan and each of our final reports has been reported to the Committee. Whilst we were able to complete our work, we did encounter challenges during Q4 mostly due to resources becoming unavailable at short notice due to the impact of the Omicron variant on Council and Mazars staff. During the year, we have consulted CLT and informed the Committee about changes to the audit plan to consider the impact of Covid-19 on the deferral of audit work including the DFG and Careline reviews.

Regular planned discussions on progress against the Plan have taken place with the Finance Director and the Committee, from which we have received positive feedback across the year covered by this Annual Report.



Independence and Objectivity

There have been no impairments to independence and objectivity during the year covered by this Annual Report.

Internal Audit Quality Assurance

In order to ensure the quality of the work we perform; we have a programme of quality measures which includes:

- Supervision of staff conducting audit work;
- Review of files of working papers and reports by Managers and Partners;
- Annual appraisal of audit staff and the development of personal development and training plans;
- Sector specific training for staff involved in the sector;
- Issuance of technical guidance to inform staff and provide instruction regarding technical issues; and
- The maintenance of the firm's Internal Audit Manual.

Appendices

A1 Implementation of Recommendations
A2 Definitions of Assurance



A1 Outstanding High Priority Recommendations

Counter Fraud		
Recommendation	Management Response	Timescale and Responsibility
<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>	<p>Agreed. A Fraud risk assessment will be completed to inform future counter fraud work.</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> <p>June 2022: An initial meeting has been held with the housing team where initial focus will be, however the detailed work has not yet started.</p>	<p>Director of Finance</p> <p>Revised timescale: 31 December 2022</p>
<p>A Counter Fraud and Corruption Strategy should be developed to address the fraud risks identified.</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. 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>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> <p>June 2022: An initial meeting has been held with the housing team where initial focus will be, however the detailed work has not yet started</p>	<p>Director of Finance</p> <p>Revised timescale: 31 December 2022</p>

A2 Definitions of Assurance

Assurance Gradings

We use categories to classify our assurance over the processes we examine, and these are defined as follows:

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.

Recommendation Gradings

To assist management in using our reports, we categorise our recommendations according to their level of priority, as follows :

Priority	Description
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.
Low	Scope for improvement in governance, risk management and control.

Annual Opinion

For annual opinions we use the following classifications within our audit reports:

Opinion	Definition
Substantial	The framework of governance, risk management and control are 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.

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We take responsibility to WBC for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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