

Woking Borough Council

Internal Audit Annual Report 2022/23

Prepared by: Mazars LLP

Date: June 2023



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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 ('the Council' or 'WBC') 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 and s151 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 2022/23 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 2022/23 Plan was considered and approved by the Committee on 3 March 2022. The Plan was for 305 days, including 30 days for IT audits and 24 days for the Head of Internal Audit role. The audits in the Plan comprised a combination of key financial systems, service-specific (operational and financial), corporate-wide, and IT reviews.

As reported in our Progress Report presented to the Committee in March 2023, there were six audits deferred from the 2022/23 Plan to the 2023/24 activity. These reviews related to: Thamesway Group Companies, Health and Safety, Business Planning, Community Safety, Victoria Square Development and IT Office365.

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

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

Appendix A2 describes the levels of assurance we have provided in assessing the control environment and effectiveness of controls, whilst defining 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 integrity analysis. 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

Scope of Opinion

In the capacity of the Head of Internal Audit, we provide an objective and independent assessment of the Council's governance, risk management, and control processes.

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 whether there are 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 or from the Council's current environment 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 results of all internal audits undertaken as part of the Plan;
- The DLUHC "Governance, Financial and Commercial Review" and the Section 114 Notice issued by the Section 151 Officer;
- The results of follow up action in respect of previous internal audits;
- Whether or not any High or Medium Priority 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.

Our Opinion

Based on the findings from the Department for Levelling Up, Housing and Communities (DLUHC) "Governance, Financial and Commercial Review of Woking Borough Council, May 2023" and the "Section 114 (3) of the Local Government Finance Act 1988, June 2023", it is evident that the Council is facing significant financial challenges.

The DLUHC report highlights that "despite the new leadership team's ambitions for redevelopment and innovation, the Council's financial predicament is concerning, characterised by a significant debt portfolio, decreased asset values, and a considerable financial deficit".

The report also identified challenges in the Council's internal control framework, governance arrangements, and risk management processes. For example, the report state that "as a result of past investment decisions, the Council has failed its best value duty leaving an unprecedented legacy for the current Leadership Team, which they have not been able to address to prevent financial failure". Similarly, "the historic governance processes may not have provided the necessary oversight for decision making related to Victoria Square and the Sheerwater Regeneration Project".

Risk management processes were also mentioned as "the arrangements put in place for Victoria Square and Sheerwater were taken without an adequate assessment of the risks to the Council or a full assessment of the legal considerations, including state aid/subsidy, best value consideration and the structure of the financing arrangements".

This report highlight that the Council needs to enhance its internal control framework, governance arrangements, and risk management processes.

The above taken alongside the findings of the audit work conducted in the Plan, lead us to an **Unsatisfactory** opinion on the framework of governance, risk management, and control is in its overall adequacy and effectiveness. 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.

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. 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 2022/23

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.

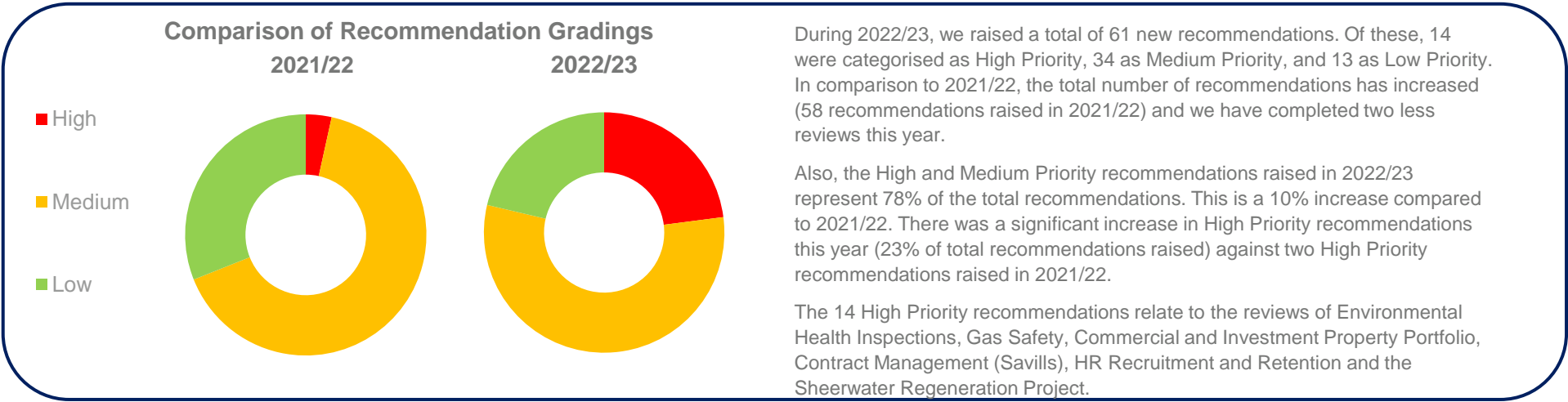
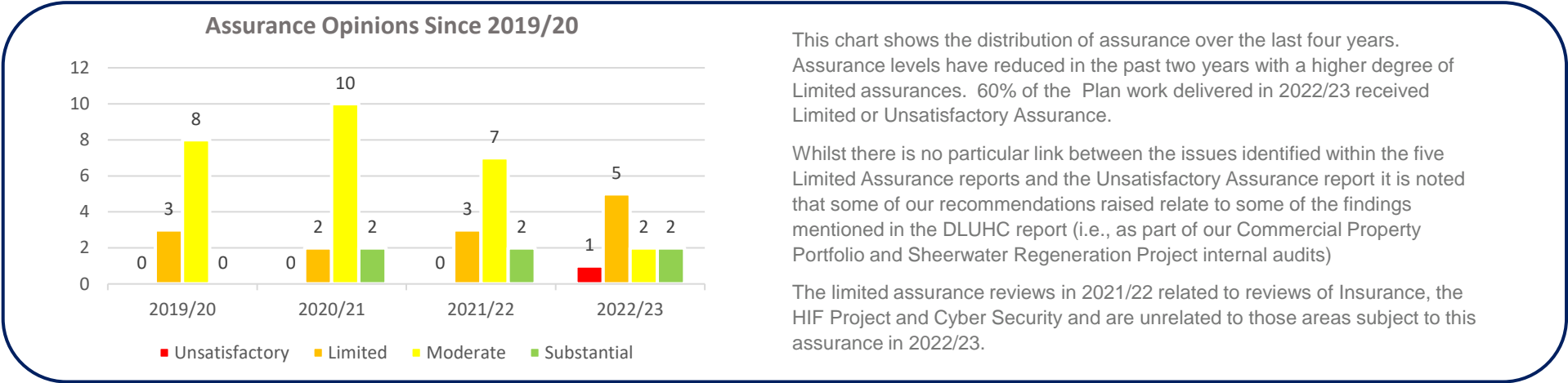
At the time of writing this report, we undertook ten audit reviews in which an assurance rating was provided, covering a number of important control systems, processes, and risks and a review of implementation of recommendations from prior years. The results of this work are summarised below:

Audit area	Assurance level	Recommendations			
		High	Medium	Low	Total
Corporate Debt Recovery	Moderate	-	2	-	2
Corporate Governance Arrangements	Substantial	-	1	-	1
Disabled Facilities Grant (DFG)	Moderate	-	2	1	3
Environmental Health Inspections	Limited*	1	2	2	5
Waste Management	Substantial*	-	-	1	1
Housing Stock – Gas Safety	Unsatisfactory	3	8	-	11
Commercial and Investment Property Portfolio	Limited*	3	4	2	9
Contract Management – Savills	Limited*	3	2	-	5
HR – Recruitment and Retention	Limited	1	4	3	8
Key Financial Systems	N/A – Advisory	-	9	4	13
Sheerwater Regeneration (Project Management Arrangements)	Limited*	3	-	-	3
IT Disaster Recovery Arrangements	Fieldwork Complete	-	-	-	-
Total		14	34	13	61

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

04 Benchmarking

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



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

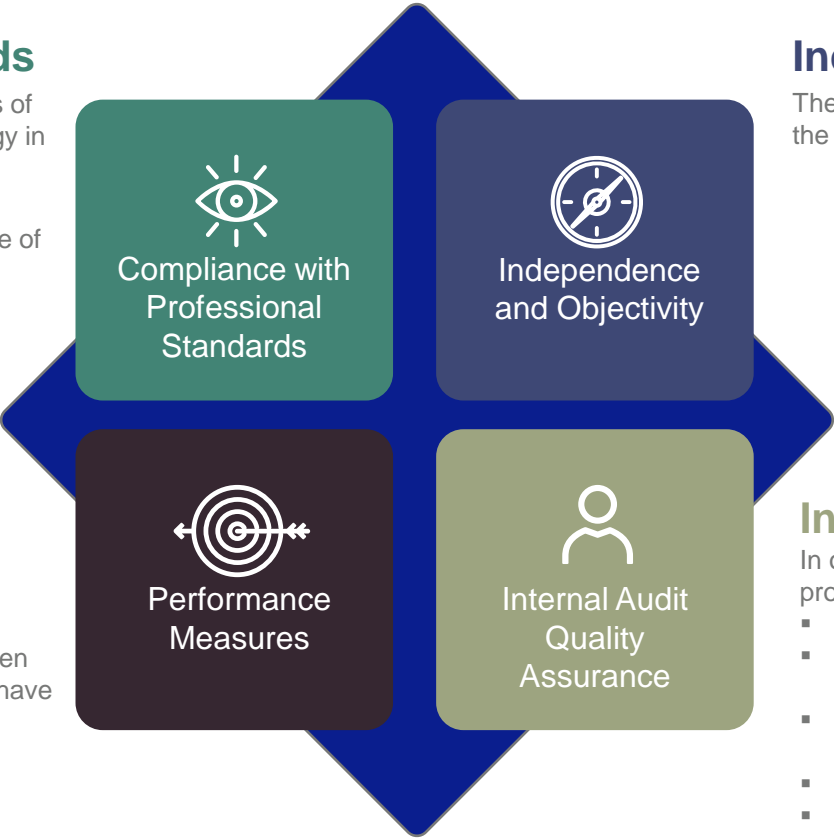
We employed a risk-based approach to determining the audit needs of the Council at the start of the year and use a risk-based methodology in planning and conducting our audit assignments.

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

Performance Measures

Further to section 02, six reviews were deferred in year. All other reviews in the Plan have been completed..

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><i>February 2023:</i> The work previously being discussed with Reigate/Oxford has stalled. Contact has recently been made to re-engage the team to progress this work. It is envisaged that this can be included within the Fit for the Future programme to be funded by Flexible Use of Capital receipts which will be reported to the Executive in March.</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>Agreed, once the risk assessment (recommendation 1) has been completed, a Counter Fraud and Corruption Strategy will be prepared.</p> <p><i>February 2023:</i> The work previously being discussed with Reigate/Oxford has stalled. Contact has recently been made to re-engage the team to progress this work. It is envisaged that this can be included within the Fit for the Future programme to be funded by Flexible Use of Capital receipts which will be reported to the Executive in March.</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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