

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 with 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 04 September to 11 November 2020.

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 with 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 2020/21 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 04 September 2020 to 11 November 2020.

2.0 Internal Audit Progress

- 2.1 Since the last Committee despite the continued Covid-19 pandemic and second lockdown, 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 Corporate Management Group (CMG). For example, due to a delayed start in commencing the reviews due to Covid-19, the two phases of the Key Financials Testing audit were merged into one after discussions with the Finance Director and relevant area managers.
- 2.2 The table below provides a summary of progress relevant to the 2020/21 Plan:

Audit Status	Number of reviews	Percentage %
Finalised	4	19%
Draft	2	9.5%
Fieldwork in progress	3	14.5%
Not yet started	12	57%
Total	21	100%

- 2.3 As at 11 November 2020, this equates to approximately 43% 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
- 2.4 In the period, using contingency days in the Plan, it was agreed with CMG that an advisory review related to the Council's Covid-19 response and lessons learnt be undertaken. A draft report relating to this was issued to the Council in October 2020.

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. One of these related to the final report concluding the 2019/20 Plan. 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:

Internal Audit Progress Report

Audit Title	Assurance Opinion	Date Issued	Recommendations by Priority		
			High	Medium	Low
2019/2020 Internal Audit Plan					
Flexi-Route – IT Application Audit	Satisfactory	28/09/2020	-	1	3
2020/2021 Internal Audit Plan					
Complaints	Satisfactory	23/10/2020	-	2	1
Covid-19 Response (*Draft)	N/A – Advisory	28/10/2020	-	-	-
Payroll (*Draft)	Substantial	28/10/2020	-	-	-
Planning Enforcement	Satisfactory	18/09/2020	-	2	2
Safeguarding	Satisfactory	22/10/2020	-	2	1
Treasury Management	Satisfactory	07/10/2020	-	2	0
Total			-	9	7

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

3.3 As can be seen 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, the new Action Management system has been populated with 2018/19, 2019/20 and current 2020/21 recommendations from finalised reports. All recommendations raised have been assigned to relevant Officers.

4.2 Reporting tools are not yet implemented within the Action Management System. It is expected that this tool will be implemented in Q4 and this requirement has been escalated with the Democratic Services and ICT Teams. A report will, in turn, be extracted from the Action Management System and will be included in the upcoming Internal Audit progress reports.

4.3 In addition to the monitoring of management updates on progress within Action Management, spot checks are undertaken by Internal Audit 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.

4.4 As of 04 September 2020, there are two outstanding high priority recommendations within Action Management (i.e. recommendations that are past their agreed implementation dates) that have been confirmed as not yet implemented. These two are related to Counter-Fraud. Further detail of these recommendations is included in Appendix 2 of this report.

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	0	2	1
Freedom Leisure – Contract Management	Fieldwork Complete	N/A	-	-	-
Planning Enforcement	Final	Satisfactory	0	2	2
Complaints	Final	Satisfactory	0	2	1
Procurement	Fieldwork Complete	N/A	-	-	-
Covid-19 Response	Draft	N/A - Advisory	-	-	-
Quarter Three					
Private Sector Leasing	Starts 19/11/2020	N/A	-	-	-
Key Financial Systems	In Progress	N/A	-	-	-
Treasury Management	Final	Satisfactory	0	2	0
Victoria Square – Change Control	-	N/A	-	-	-
Payroll	Draft	Substantial	-	-	-
Quarter Four					
Bringing Empty Homes Back into Use	Starts in January 2021	N/A	-	-	-
Affordable Housing Delivery	Starts in February 2021	N/A	-	-	-
Community Infrastructure Levy	Resource available	N/A	-	-	-
Capital Programme	Resource available	N/A	-	-	-
Utilities and Energy Management	Starts in January 2021	N/A	-	-	-
On-Street Parking	Starts in February 2021	N/A	-	-	-
Budgetary Control	Starts 22/02/2021	N/A	-	-	-
Risk Management	Starts 08/03/2021	N/A	-	-	-
Business Planning	Resource available	N/A	-	-	-
Economic Development	Resource available	N/A	-	-	-
IT					
Capita Open Housing	-	N/A	-	-	-
Office 365	-	N/A	-	-	-
Total			0	8	4

APPENDIX 2

OUTSTANDING HIGH PRIORITY RECOMMENDATIONS

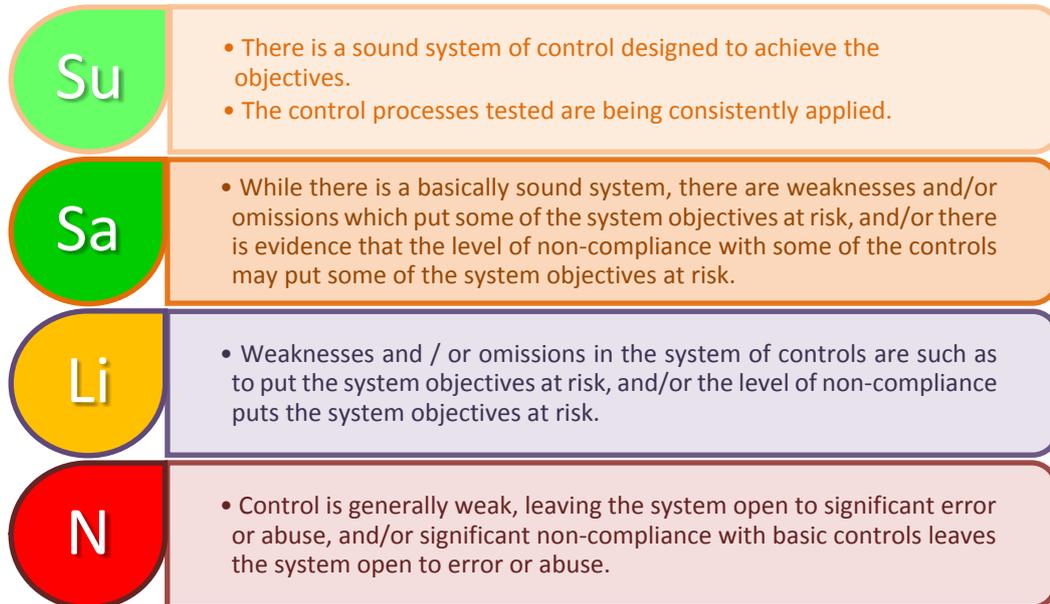
Counter Fraud					
	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
1	<p>Fraud risk identification is essential in order to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the Council and its service users.</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.</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>	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>31 March 2020</p> <p>Director of Finance</p> <p>Revised timescale: 31 December 2020</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</p>	<p>A Counter Fraud and Corruption Strategy should be developed to address the fraud risks identified (see recommendation 1).</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.</p>	High	<p>Agreed, once the risk assessment (recommendation 1) has been completed, a Counter Fraud and Corruption Strategy will be prepared.</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>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>Revised timescale: 31 March 2021</p>

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:

