

## INTERNAL AUDIT ANNUAL REPORT 2020/21

### 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 2020/21 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 the 2020/21 financial year, with the Coronavirus pandemic (Covid-19), government advice, and lockdown restrictions, some service areas within the Council could not accommodate scheduled audits in Q1.

The Council's Corporate Leadership Team (formerly known as CMG) assisted Internal Audit in re-visiting the 2020/21 Plan, confirming that all audits in the Plan remained relevant. CLT also assisted in identifying areas that would have availability to be audited from July 2020, considering the increased pressures and workload that the Council Services had.

These initial arrangements, including the introduction of exclusively 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.

Overall controls are deemed to be adequate and effective within the Council. Where weaknesses have been identified, management has either implemented or agreed timescales for implementing Internal Audit recommendations to improve the control environment.

### Recommendations

The Committee is requested to:

**RESOLVE That** the annual assurance opinion of the Head of Internal Audit over the control environment be noted.

<b>The Committee has the authority to determine the above recommendations.</b>
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**Background Papers:** None.

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## **Implications**

### Financial and Risk

There are minimal financial implications around the implementation of internal audit recommendations. However, 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

### Equalities and Human Resources

Some audit recommendations need a resource to put in place. There is minimal impact of equalities issues.

### Legal

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



Internal Audit Annual Report  
For the year ended 31 March 2021  
June 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

## Background

This Annual Report covers the internal audit work we have undertaken for the year ended 31 March 2021 and incorporates our internal audit opinion.

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 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).

## Acknowledgements

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

# 02 Internal Audit Work Undertaken in 2020/21

Our Internal Audit Plan for 2020/21 was considered and approved by the Committee at its meeting on 5 March 2020. The Plan was for 313 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.

In March 2020, Covid-19 and government restrictions took effect. Early on in the year, this did mean some service areas within the Council could not accommodate scheduled audits in Q1, but these were rescheduled for later in the year.

There were some changes to the agreed areas in the Plan during the year which were reported to the Finance Director and Committee. These were:

- Capital Programme – due to current year uncertainty and the suspension of the Programme in 2020-21 it was considered this review would not add value at this stage;
- Business Planning – There was no Business Planning in the current year;
- Victoria Square Development – The audit could not be accommodated in Q3 as planned due to lack of capacity from the Contractor. Discussions will continue with the Contractor and Chief Executive to agree on a specific scope; and
- The Office 365 audit was deferred and replaced with a Remote Working Security audit.

Each of the above deferred audits have been incorporated into the 2021/22 Plan.

In addition to the above assurance based reviews carried out from the Plan, an additional advisory review was also conducted related to the Council's Covid-19 response and lessons learnt.

All reviews undertaken in the period were carried out remotely. Whilst there were some practical implications around approach to testing and evidence, overall, there was minimal impact on the scope and ability to conduct the work.

At the time of drafting this report, from the 20 reviews remaining within the 2020/21 Plan, 15 are finalised and five are at draft report stage awaiting management comments.

From the 15 finalised reviews, 14 were on an assurance basis where we provide an opinion based on our assessment of the control environment. Of these 14 finalised reports, two received a Substantial assurance, ten received a Satisfactory assurance opinion, and two received a Limited assurance opinion. The remaining final review is related to the continuous monitoring of key financial systems where no opinion is given due to the

nature of the work.

Details of the issues raised are included in summary reports that have been made available to the Committee.

A summary of the reports we have issued is included in Appendix A1. The appendix also describes the levels of assurance we have provided in assessing the control environment and effectiveness of controls and the classification of our recommendations.

## 03 Annual Opinion

### Scope of the Internal Audit 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 internal audit plan as a result of Covid-19;
- The results of all internal audits undertaken during the year ended 31 March 2021;
- 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.

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

As detailed in 02, during 2020/21 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 Q1 but these took place at later dates.

During the year, we have consulted CLT and informed the Standards & Audit Committee about changes to the audit plan to consider the impact of Covid-19 on the organisation and the changing risk landscape. The Council's CLT confirmed that all audits in the Plan remained relevant except for the three areas (Capital Programme, Business Planning and Victoria Square Development) which had been impacted by Covid-19 and as such it was considered internal audit would be best to revisit these areas in 2021/22. An additional review related to the Council's Covid-19 response was included in the 2020/21 Plan as agreed with CLT.

### Internal Audit Opinion

Based on the audit work performed, overall, we consider the control framework operated within the Council to be generally adequate and effective. 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.

## 04 Follow Up

Internal audit recommendations are categorised according to priority (High, Medium, and Low). This gives management an indication of the urgency of implementing the suggested control.



The Shikari system was decommissioned in 2018, and a spreadsheet tracking system had been adopted until the new SharePoint based system went live at the end of June 2020.

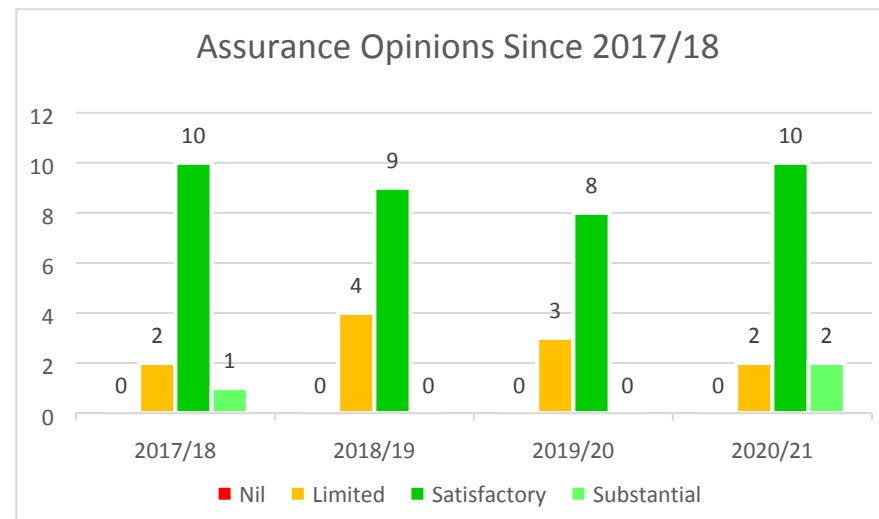
Internal Audit request updates from management to monitor the status of implementation. This is supplemented by spot checks in the business area concerned to confirm that the recommendation is being implemented in practice. In addition, a procedure is in place to escalate recommendations that have not been implemented to CLT and finally to this Committee where necessary.

As of June 2021, five high priority recommendations are outstanding. Two of which are past implementation date and were followed up. Relevant Officers assigned to implement all 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 2 of this report.

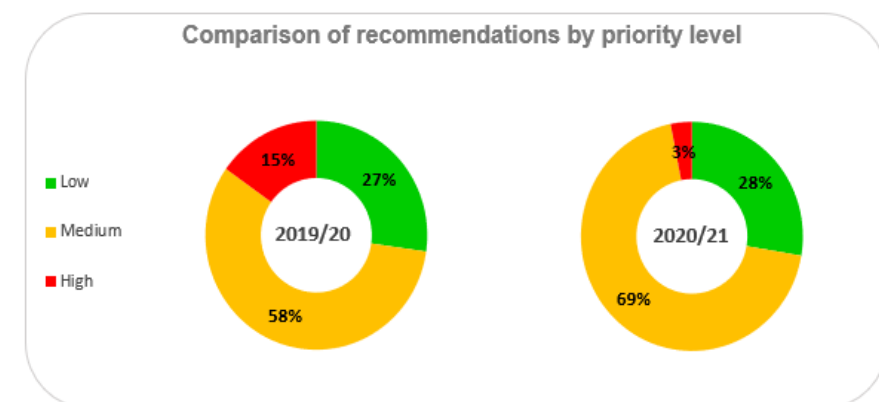
## 05 Benchmarking

### Assurance Levels

The chart below shows the distribution of assurance over the past four years. Overall, levels have largely remained consistent over this time. The two Limited assurance reports issued in 2020/21 fall under the same Team (Private Sector Housing). Issues identified within these two reports were linked to the Housing Strategy (currently at draft stage) and the increased work pressures in the team due to its redeployment during the pandemic.



### Recommendations



During 2020/21, we have made a total of 65 new recommendations. Two of these recommendations were High Priority, 45 were Medium Priority, and 18 categorised as Low Priority. Compared to 2019/20, the total number of recommendations remained similar (66 recommendations made in 2019/20). However, the distribution of priorities has varied:

- There was a reduction of High Priority recommendations (ten raised in 19/20).
- An increase in Medium Priority recommendations (38 raised in 19/20); and
- No changes in Low Priority recommendations.

Details are shown in Appendix 1 below.



## A1 Internal Audit Work Undertaken in 2020/21

Audit area	Progress	Assurance Opinion	Recommendations		
			High	Medium	Low
People					
Safeguarding Children and Adults	Final	Satisfactory	-	2	1
Bringing Empty Homes Back into Use	Final	Limited	2	6	1
Affordable Housing Delivery	Final	Satisfactory	-	1	1
Private Sector Leasing	Final	Limited	-	8	3
Place					
Freedom Leisure – Contract Management	Final	Satisfactory	-	3	-
Capital Programme	Deferred	N/A	-	-	-
Planning Enforcement	Final	Satisfactory	-	2	2
Utilities and Energy Management	Final	Satisfactory	-	1	-
On-Street Parking	Final	Satisfactory	-	2	-
Victoria Square – Change Control	Deferred	N/A	-	-	-
Us					
Complaints	Final	Satisfactory	-	2	1
Covid-19 Response	Draft*	N/A - Advisory	-	-	-
Corporate					
Key Financial Systems	Final	N/A - Compliance	-	-	5
Treasury Management	Final	Satisfactory	-	1	-
Budgetary Control	Draft*	Satisfactory	-	1	3
Procurement Compliance	Final	Satisfactory	-	3	-
Payroll	Final	Substantial	-	-	-

Audit area	Progress	Assurance Opinion	Recommendations		
			High	Medium	Low
Business Planning	Deferred	N/A	-	-	-
Economic Development	Final	Substantial	-	-	-
Risk Management	Draft*	Satisfactory	-	4	1
Community Infrastructure Levy	Final	Satisfactory	-	2	-
IT					
Capita Open Housing (Application Audit)	Draft*	Satisfactory	-	6	-
Remote Working	Draft*	Satisfactory	-	1	-
Total			2	45	18

\*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					
	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. 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 &amp; Banstead/Oxford City Council Counter Fraud &amp; Investigations Partnership. The initial work will cover the Fraud Risk Assessment, Framework for the Counter Fraud Strategy, staff training and assessment of processes in</p>	<p>31 March 2020</p> <p>Director of Finance</p> <p><b>Revised timescale:</b></p> <p>30 June 2021</p>

Counter Fraud					
	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
				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.</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>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 2015 requirement to publish data relating to the Council's counter fraud work.</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:</p> <p>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>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:</p> <p>An approach has been agreed with the Reigate &amp; Banstead/Oxford City Council Counter Fraud &amp; Investigations Partnership. The initial work will cover the Fraud Risk Assessment, Framework</p>	<p>30 June 2020</p> <p>Director of Finance</p> <p><b>Revised timescale:</b></p> <p>30 June 2021</p>

Counter Fraud					
	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
				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.	

## A3 Statement of Responsibility

We take responsibility to Woking Borough Council 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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