

Audit Committee

23 July 2020



Title	Annual Internal Audit Report 2019/20		
Purpose of the report	To note		
Report Author	Punita Talwar, Internal Audit Manager		
Cabinet Member	Councillor Sati Buttar	Confidential	No
Corporate Priority	Financial Sustainability		
Recommendations	The Audit Committee notes the Annual Internal Audit Report for 2019/20.		
Reason for Recommendation	Not Applicable		

1. Key issues

- 1.1 Internal Audit is defined as “An *independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*” (Public Sector Internal Audit Standards)
- 1.2 Internal Audit findings form the basis of the annual audit opinion on the adequacy of the authority’s internal control environment, risk management and governance arrangements. The opinion supports the Annual Governance Statement, considered by External Audit and others. This report therefore summarises Internal Audit findings and sets out the independent audit opinion of the Internal Audit Manager for the 2019/20 period, who under Public Sector Internal Audit Standards (PSIAS) represents the Chief Audit Executive at Spelthorne.
- 1.3 Appendix 1 summarises Internal Audit reviews carried out in 2019/20, highlighting assurance opinions where appropriate. Due to the additional pressures arising from the COVID-19 pandemic across the authority, finalisation of some reports remains ongoing. Audit reports include recommendations aimed at reducing risks and strengthening internal controls. Progress on implementation of audit recommendations together with the direction of travel is provided where appropriate and in other areas confirmation of recommendations agreed for implementation by Management has been recorded. Further monitoring of status will be undertaken in

October to coincide with issue of the next progress report (Interim Audit report) to Management Team and Audit Committee.

- 1.4 In addition to planned assurance reviews, details of other work undertaken (including corporate tasks) is outlined at Appendix 1. Some examples of how Internal Audit supports the organisation in achieving its objectives and adds value are set out below:
- (a) Reactive and pro-active advice provided to services, corporate groups and Management Team on various risk and control issues. This includes during the COVID-19 Emergency response effort and as the authority continues to move into the recovery phase
 - (b) Coordination and reporting of counter fraud outcomes/initiatives
 - (c) Investigating suspected fraud and irregularities or providing support to these processes, highlighting any lessons learnt
 - (d) Supporting corporate governance arrangements
 - (e) Corporate Risk Management – Audit provides advice to Management Team, Corporate Risk Management Group (CRMG) and co-ordinates the Council's Corporate Risk Register representing the Council's most significant risks
- 1.5 The Internal Audit function has operated at 1.75 FTE during 2019/20. In addition the ongoing requirement for some Contractor Audit resource to support delivery of planned assignments and specialist areas prevails and Spelthorne procure Auditor days as required within budget.

Annual Audit Opinion

- 1.6 The Internal Audit Managers opinion on the Council's control environment for 2019/20 (prepared June 2020) is as follows:

The Internal Audit Managers opinion for 2019/20 is that the Council's Internal control environment and systems of internal control in the areas audited were generally adequate, with the exception of the areas where improvements were recommended to address medium to high risks. The following is considered to represent the key themes and issues arising from Internal Audit's work and any planned action to address has been included for completeness (planned actions updated at June 2020):

(In the majority of cases Management have agreed to address the improvement actions to strengthen controls, or accept the associated risks of not doing so. Some proposed actions are yet to be agreed/confirmed by Management).

Key themes and issues arising from Internal Audit's work 2019/20

<u>Issues Identified/Risk Implications</u>	<u>Planned Action</u>
<p><u>1.Rent Management System (Bed and Breakfast Accommodation)</u></p> <p>It is acknowledged that a number of factors may contribute to the level of Bed and Breakfast debt such as inefficient systems (Access database); statutory limitations; the nature of the service in terms of increasing fluidity and movements of Bed and Breakfast clients who often become difficult to trace.</p> <p>Documented reporting of Bed and Breakfast debts (including overall debt) could be improved.</p> <p>Absence of a clear documented policy for recovery of Bed and Breakfast debt.</p> <p>Poor system integrity due to increased risk of error, duplication of data, irreconcilable systems (Access and Integra) and inefficient processes, leading to a significant level of aged debts and financial losses.</p> <p>Project set up to address and move forward the operational issues with some developments. However, resourcing, skillset, overall ownership and accountability, and lack of clarity on what is needed were acknowledged as areas requiring attention to accelerate project success.</p>	<p>See agreed audit recommendations and positive status updates received from Management set out at Appendix 1 to this report. Summarised actions underway include:</p> <ul style="list-style-type: none"> -Improved analysis, monitoring, visibility and reporting of Bed and Breakfast debt (current and ongoing) to the Corporate Debt Group, including identification of cases for write off <i>(Actioned)</i> - Review of the Bed and Breakfast debt recovery policy/procedure ensuring reference within the overarching Corporate Debt Policy. <i>(Actioned)</i> -Bed and Breakfast debts should only be processed and managed through the use of the Council's key financial system to ensure greater accuracy in terms of amounts owed. <i>(Project to implement a new Rent Accounting and Debt Management system solely through the Council's main financial system, Integra, is close to completion)</i> -Group Heads (Community Wellbeing and Commissioning and Transformation) have jointly agreed the future direction of the project and pursued actions to enhance project governance (including a clearly defined Business Case). <i>(Actioned)</i> -A Root and Branch review to streamline the implementation of the finance aspect of the Rent Management (Bed and Breakfast) project will be pursued in due course dependant on other factors.
<p><u>2.Commercial Asset Acquisitions and Investments; Property Development</u></p> <p>Procurement process for appointing Professional Advisors – whilst exemptions to Contract Standing Orders have been formally reported and approved by Cabinet, there is a lack of documented explanation for</p>	<p>See agreed audit recommendations set out at Appendix 1 to this report, also referred to below.</p> <p>Future reports on acquisitions (commercial assets and for development and regeneration purposes and on development schemes) will set out in more detail the rationale/management explanation for setting aside contract standing orders, where this is required. This will ensure there is greater transparency and will provide</p>

<p>seeking exemption to waive Contract Standing Orders (CSO'S). This may increase risk of challenge.</p> <p>Scope to further strengthen the governance process by consistently ensuring clear trails to support key decisions and approvals</p>	<p>evidence which Cabinet can expressly refer to in their consideration of the matter(s). Committee Services will then be able to ensure this is formally minuted as part of the Cabinet decision. <i>(With immediate effect)</i></p> <p>A wider procurement exercise is also underway for new construction contracts to further promote transparency and value for money.</p> <p>The revised arrangements for decision making in respect of Council Property and the role of the Property Investment Committee (PIC) was approved by Cabinet in November 2019. These are intended to streamline the decision making process with respect to assets whilst ensuring that those decisions are clearly documented and transparent. Arrangements will be monitored further as part of a planned review of the Constitution and governance issues.</p> <p>For future property acquisitions there will be documented evidence to confirm the required group (Property Investment Committee, PIC) receives recommendations and information from officers with regards to potential new acquisitions for development purposes and also to support approval of the new acquisition opportunity to be referred to Cabinet and/or Council for decision. <i>(With immediate effect)</i></p>
<p><u>3.Planning (Development Management) and Building Control</u></p> <p>Financial reconciliation processes between the Uniform application system and the Council's main financial system (Integra) regarding fee income received are ineffective. This presents risks that fee income due will not be received correctly and in full and any errors/losses/ discrepancies may not be identified.</p>	<p>See agreed audit recommendations and status updates set out at Appendix 1 to this report, summarised below.</p> <p>Planning and Building Control Fees recorded on the Uniform system should be periodically reconciled against income received in the Councils main financial system, Integra E-Series on a regular basis.</p> <p>Reconciliation processes have now been set up with Finance for Planning fees and those are underway <i>(Actioned)</i>.</p>
<p><u>4. General Data Protection Regulations (GDPR) Compliance</u></p> <p>Overall, a failure to effectively comply with GDPR Regulations is a high-risk compliance issue, possibly</p>	<p>Data protection will continue to be raised regularly at a senior management level (MAT) to encourage engagement with Data Protection matters. A compliance plan was previously submitted to MAT Plus with deadlines but they have not been adhered to.</p>

leading to data security breaches, which could leave the authority exposed to large fines and reputational damage arising from negative publicity.

Key activities demonstrating compliance with GDPR have not yet been fully addressed by individual Service Areas.

The pop-up cookies banner on the Council's website does not inform visitors of the use of cookies. By clicking on 'hide this message', visitors are essentially accepting all cookies that are being deployed. This is not compliant as consent is not actively sought and does not meet minimum transparency requirements.

Whilst GDPR training has been promoted and delivered at various levels, there is scope to strengthen the completion of training logs. Where these are not consistently documented, the council will find it difficult to evidence and demonstrate that staff are trained accordingly.

Whilst there is a Privacy Impact Assessment (PIA) Template to determine whether the inherent risks of the processing operation require the need for a Data Protection Impact Assessment (DPIA) to be undertaken, there is no DPIA register to track completion or for evidence purposes.

Whilst due diligence for third parties is carried out, there is no defined/documented procedure for this.

See audit recommendations set out at Appendix 1 to this report. Some areas are summarised below.

- Managers are ultimately responsible for undertaking data protection activities and this message will continue to be reiterated. It is not considered practical for Data Protection Champions to be appointed within each service to accelerate required tasks.

-The Council's website host has been asked to address the Cookie issue as outlined in the audit recommendation (*actions to address include replacement of the 'hide this message' statement with a banner which allows options for opting into non-essential cookies, although, this can remain if consent for non-essential cookies is separately sought*).

- Corporate Management Team have previously supported the need for the Information Asset Register (IAR) exercise to be prioritised by service areas, although progress has been delayed due to COVID-19 presenting extreme challenges on staff time. Once the Information Asset Registers are complete, project plans can be updated with appropriate timelines. The Root and Branch team are completing process maps to assist in ascertaining data flows.

-Ideally the Council should create and maintain a record of evidence (for example a central log) showing completion of GDPR training and this should be monitored and reviewed on a regular basis. This can be phased into 3 sections; tailored training to senior management; general data protection training for all staff (online) and tailored training to specific services and specialist areas. (*It is acknowledged that Management have reviewed this area but consider current arrangements to be sufficient*).

-A Data Protection Impact Assessment (DPIA) register should be put in place (*acknowledged by Management and this has now commenced*). This will allow the council to review areas that have been given deep privacy consideration, involve key stakeholders in the council and act

	<p>as a source of evidence for complying with wider obligations</p> <p>-As part of third party compliance, a procedure for due diligence will be established to be considered as part of the on-boarding and monitoring processes (including prior to Contractor selection).</p>
<p><u>5.Policies and Procedures</u></p> <p>There are a number of out of date policies and procedure manuals, some of which relate to core financial systems. Out of date policies and procedures increase the likelihood of practices being applied inconsistently or inefficiently resulting in processing of financial transactions incorrectly, financial loss, and/or breach of legislation. Other associated risks include lack of clarity regarding roles and responsibilities and division of duties across teams, which may also make it more difficult to demonstrate adequate segregation of duties.</p> <p>This issue was also highlighted during 2018/19.</p>	<p>Management have agreed to address audit recommendations relating to review of procedural guidance as set out at Appendix 1 to this report.</p> <p>Where applicable consideration should also be given to alignment with other policies to promote consistency.</p> <p>Some policy reviews have taken place such as the Corporate Debt Policy which was reported to Management Team in March 2020.</p> <p>There is scope to introduce action tracking of policy and procedural review to serve as a reminder.</p>
<p><u>6. Corporate Risk Register – Climate Change</u></p> <p>A new risk category has been included on the Corporate Risk Register (from July 2019) relating to Environmental risk giving reference to climate change implications and setting out the sustainability measures Spelthorne are taking to demonstrate social responsibility in response to this significant global threat.</p>	<p>The Corporate Risk Register gives reference to planned action/developments underway in this area, set out below:</p> <p>A cross party working group will be set up on Climate Change. A Climate Action Plan will be developed as part of this working group.</p> <p>Surrey County Council have adopted a Climate Change Strategy and Strategic Framework (setting out the joint ambition across the 12 authorities to address carbon emissions for eight major sectors).</p> <p>The Sustainability Strategy and the Energy & Water Efficiency Policy are being reviewed.</p> <p>A new Sustainability Strategy is to be developed in 2020.</p>

	A new Biodiversity Action Plan is being developed due for implementation in 2020.
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2. Options analysis and proposal

- 2.1 There are no options.
- 2.2 Implementation of audit recommendations will reduce risks for the authority and enhance the control environment which is acknowledged by the Councils Management Team.
- 2.3 Failure to undertake internal audit work to the required professional standards would lessen the Council's assurance that effective control systems are in place and could result in an increase in the Council's annual external audit fee.

3. Financial implications

- 3.1 The Corporate fraud returns collated by the Internal Audit Manager demonstrate the cumulative financial returns/savings achieved. From January 2015 to March 2020, notional savings to the public purse exceed £2.6m, of which £492,000 represents quantifiable cashable savings for Spelthorne. Specifically for the 2019/20 period (rounded to the nearest £1,000), the overall savings to the public purse equated to £136k with cashable savings for Spelthorne amounting to £11k.

4. Other considerations

- 4.1 There are none.

5. Sustainability/Climate Change Implications

- 5.1 There is reference in the report.

6. Timetable for implementation

- 6.1 Not applicable, although implementation of audit recommendations will continue to be monitored as part of the follow up process.

Background papers:

Appendices: Appendix 1 – Summary of Internal Audit Work for the year 1 April 2019 – 31 March 2020