

Audit Committee

28 July 2022



Title	Annual Internal Audit Report for 2021/22 (UPDATE)
Purpose of the report	To note
Report Author	Punita Talwar, Internal Audit Manager
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	Not Applicable
Corporate Priority	All Priorities: Community Affordable housing Recovery Environment Service delivery
Recommendations	Committee is asked to: 1. Note the Annual Internal Audit Report for 2021/22. 2. Note the annual audit opinion on the Council's internal control environment, risk management and governance arrangements.
Reason for Recommendation	Not applicable

1. Summary of the report

- 1.1 This report seeks to summarise Internal Audit findings and sets out the independent audit opinion of the Internal Audit Manager for the 2021/22 period. This audit opinion relates to the Council's systems of internal control, risk management and governance arrangements.

2. Key issues

- 2.1 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)

- 2.2 Internal Audit findings and observations, advisory and support work (constituting direct audit work) form the basis of the annual audit opinion on the adequacy of the authority’s internal control environment, risk management and governance arrangements. In addition, the Corporate Risk Register and Covid-19 Risk Assessment are considered in preparing the overall audit opinion. The opinion represents a key source of assurance for the authority and 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 2021/22 period (paragraph 2.7 – 2.8), who under Public Sector Internal Audit Standards (PSIAS) represents the Chief Audit Executive at Spelthorne.
- 2.3 Most planned assignments have been finalised, with a few at draft report stage. The 2021/22 audit plan has had a degree of fluidity to accommodate the ongoing impact of the pandemic on the authority. Nonetheless, the team have worked diligently to provide assurance across a diverse workplan, feeding into the annual audit opinion.
- 2.4 Appendix 1 summarises Internal Audit reviews carried out in 2021/22 highlighting assurance opinions. Audit reports include recommendations aimed at reducing risks and strengthening internal controls. Progress on implementation of audit recommendations (status) has been requested/recorded where sufficient time has elapsed since issuing audit recommendations. In other areas, confirmation of recommendations agreed for implementation by the corporate management team, Group Heads and managers has been recorded.
- 2.5 In addition to planned assurance reviews, there are several other workstreams undertaken by the team (including corporate roles and tasks), details for which are set out at Appendix 1. Some examples of how Internal Audit supports the organisation in achieving its objectives and adds value are summarised below:
- (a) **Statutory Reporting to the Audit Committee** – Several reports are produced and presented in accordance with the Committee work programme. This ensures adherence to Public Sector Internal Audit Standards (PSIAS) and supports corporate governance arrangements.
 - (b) **Advisory Role** - Reactive and pro-active advice provided to services, corporate groups and management team on various risk and control issues.
 - (c) **Counter Fraud Oversight** - Coordination and reporting of counter fraud outcomes and initiatives for tackling high risk public fraud through continued collaborative working with partners. The Internal Audit Manager prepared a detailed analysis of returns achieved across high-risk fraud categories over specific time periods, presented in the interim audit report of November 2021.
 - (d) **Corporate Risk Management** – Coordination and reporting on the Council’s Corporate Risk Register representing the Council’s most

significant risks. Training was delivered in September 2021, to inform and raise awareness of recommended approaches to risk management. This was used to promote and launch the corporate risk scoring model.

- 2.6 The Internal Audit function has operated at 1.75 FTE during 2021/22 and procured some Contractor Audit resource (within budget) to support delivery of planned assignments and specialist areas. The bulk of contracted work is undertaken from Quarter 4 to coincide with workload peaks.

2.7 Annual Audit Opinion

Annual Internal Audit Opinion 2021/22

Important considerations in undertaking assurance workstreams and producing the annual audit opinion are set out at points 1 & 2 below:

- (1) The challenges around recovery from the global pandemic throughout 2021/22, and the wide-reaching risk implications for Spelthorne Borough Council.
- (2) The significant impact of wider externalities and other local issues in exacerbating some of the Council's strategic risks, effecting timely achievement of corporate priorities and objectives.

Several factors during 2021/22 have had an adverse impact on the achievement of Council priorities and objectives, and whilst these may not all be attributable to weaknesses in systems of internal control, this is a matter of significance for the Council (as highlighted at point 2 above).

The opinion of the Internal Audit Manager on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control is that on balance **reasonable assurance** can be provided across these areas, based on our 2021/22 work. The Council has many established internal systems of control that are sufficiently designed to effectively manage risks. However, it is recognised that improvements were recommended to address *the operation of the control environment* based on control weaknesses identified across several areas including some issues and areas of non-compliance, representing medium to high priority risks. Furthermore, scope for enhancements to internal controls have been raised or recommended in some areas.

Internal Audit have consulted managers (corporate management team, Group Heads and managers) to agree and monitor the implementation of recommendations or discuss improvement actions to address risks and enhance the robustness of the authority's control environment and governance arrangements. Where actions have been taken to address issues arising from audit work performed, this is acknowledged.

Punita Talwar
Internal Audit Manager, Spelthorne Borough Council
Chartered Internal Auditor (CMIIA), BA (Hons)

May 2022

The annual audit opinion should be considered in conjunction with the key themes and issues arising from Internal Audit's work as this provides greater insight, as well as examples of good practice, set out below at paragraph 1.8. More detailed reference to Internal Audit's work for 2021/22 is included at Appendix 1.

2.8 Key themes and issues arising from Internal Audit's work 2021/22 including good practice areas

In addition to the themes and issues highlighted in the table below, Internal Audit reported on several areas of good practice and robust controls, such as:

- Emergency Planning - Emergency and crisis response planning gave due consideration to "lessons learnt " from emergency response efforts during the COVID-19 pandemic, with a view to building upon good practices identified, and enhancing Emergency Planning arrangements including necessary revision of plans.
- Opportunities - Seizing positive opportunities to adapt flexible working approaches set up during the start of the pandemic and introduction of a hybrid model, to derive ongoing benefits.
- Revenues – Fees and Charges - Established and robust mechanisms in place to monitor fees and charges income with periodic reporting to the Corporate Management Team and Members on variance levels and overall financial position. This has been particularly important during a period where the Council's income streams remain under challenge.
- Commercial Assets- Robust monitoring arrangements for commercial asset income with a collection rate of 99.98% for 2021/22, despite the pandemic and wider challenges of the macroeconomic environment presenting increased risks of tenant failure and void periods. Continued financial modelling and scenario planning for the sinking fund.
- Property Development - Quantification and measurement of the financial impact costs resulting from delayed property schemes, as well as viability assessments. Regular project monitoring, progress reporting and visibility to Members on schemes and financial position.
- Treasury Management –The half-yearly report including RAG rating performance against defined indicators. Benchmarking carried out by the Council's treasury advisors indicated that Spelthorne's performance compared favourably on investments compared to other Councils.
- Business Support Grants (Phase 2)– Prompt administration and processing of grants relating to multiple government schemes to support local businesses at a critical time; application of Spotlight, a tool to complement pre-award due diligence checks and highlight areas of risk to inform grant-making decisions.

- ICT General Controls Health check - Barracuda Web Security Gateway software is used to provide proactive web security including the identification and blocking of potential known spyware/ virus threats; real time capacity reporting is used to identify any bandwidth/ performance issues; the configuration of internal and external firewalls provides increased resilience as it provides a redundant/ failover facility in the event that one fails; Active directory passwords are configured to require a good standard of complexity; a backup routine is in place to ensure regular backups of systems and data are taken and stored offsite for increased resilience.
- ICT Network Infrastructure - An annual penetration test is undertaken to identify any network issues/ vulnerabilities to be addressed; Internal vulnerability scanning of the network is undertaken on a weekly basis; Network security roles and responsibilities are defined as part of the Information Security Policy framework.

<u>Issues Identified/Risk Implications</u> <u>Relates to 2021/22 Period</u>	<u>Action and status – Refreshed at July 2022</u>
<p><u>1.Covid-19 Pandemic recovery</u></p> <p>Continued reporting of significant risks where the impact of the pandemic on recovery has been most prevalent. The Council’s pandemic recovery risks relate to the following broad risk categories:</p> <ul style="list-style-type: none"> • Economic recovery • The Council’s financial position • Health and Safety • Failing to seize positive opportunities from the pandemic experience • Homelessness and Housing <p>Competing global crises and wider externalities such as the macro-economic environment, post-Brexit , geopolitical situation and conflict in Ukraine have further compounded the challenges of recovering from a global pandemic. Risk categories significantly influenced by these externalities were considered and</p>	<p><u>Management Action:</u> (i) <i>The prioritised actions underway or for perusal to manage the significant risks have been highlighted in the Covid-19 risk assessment and summary report (reported to the Audit Committee throughout 2021/22).</i></p> <p>(ii) <i>The Council’s broader pandemic recovery plan and action plans continue to support residents, businesses, and local communities (periodically reported to Policy and Resources Committee).</i></p> <p>(iii) <i>Introduction of additional risk reporting from July 2022 focussing on the Council’s risk exposure to wider externalities and impact as these present significant challenges for the Council’s economic prosperity, financial position, and the communities it serves, (as well several other implications), thereby adversely impacting the level of recovery, sustainability of service provision, corporate capacity levels and delivery of corporate priorities.</i></p>

highlighted during 21/22 as part of pandemic recovery risk analysis.

2. Corporate Risk Register

Corporate risks impacting the effective achievement of the Council's corporate priorities have been periodically reported. Some examples of risk categories assigned a red RAG rating during 2021/22 (representing the most significant risks for the authority) are highlighted below:

i. Economy - The economic risks including the macroeconomic environment (in particular inflationary pressures and rising interest rates) continue to have an impact on Council operations, consumer activity, revenue streams and finances as it recovers from the pandemic. The rise in living costs including the energy and fuel crisis as well as the implications arising from the geopolitical situation and Ukraine crisis present wider consequences.

ii. Overstretched corporate capacity and significant workload pressures remains a significant corporate risk area. There are many adverse consequences including workforce fatigue and stress, adverse impact on health and wellbeing, reduced staff morale, resignations and losing sight of priority focus areas impacting service delivery.

iii. Recruitment and retention – challenges reported in effectively recruiting to some technical roles with implications for gaps in skills/expertise/knowledge and service quality delivery, as well as necessity for additional consultancy costs. A reasonable level of staff departures have occurred including loss of key personnel during the period.

Management Action: *The controls and mitigation measures are set out in the Corporate Risk Register. Prioritised actions underway or for perusal to manage corporate risks are highlighted on the Risk Action Plan accompanying the summary report (as reported to the Audit Committee throughout 2021/22). These will continue to be monitored.*

Corporate Risk reporting has been recently expanded to include the Corporate Policy and Resources Committee. From 2022/23, wider Committees of the Council will be expected to consider relevant risk categories on the Corporate Risk Register, ensuring greater collective ownership in addressing or mitigating strategic risks.

It is envisaged that the planned LGA Corporate Peer review scheduled for November 2022 could provide greater direction and insight in supporting the Council to address its most significant issues and risks.

<p>iv. Sustainability and Climate Change – Given the risk significance of Climate Change on a global/national/local level and the Government’s commitment to net zero carbon emissions by 2050, this remains a significant strategic risk area.</p> <p>v. Housing – Development Targets and Affordable provision – please refer to the next section of this table elaborating the key issues and risk implications.</p>	
<p><u>3. Property development schemes - Impact of delays and rising building costs</u></p> <p>A significant issue relates to the adverse impact of the self-imposed Staines-Upon-Thames moratorium (effective from January 2021 to January 2022), delayed progression of property development schemes, and steep increases to construction, supplier, labour and material costs. These combined factors also influenced by wider externalities of a global nature have led to:</p> <ul style="list-style-type: none"> (i) Re-assessment of the financial viability of schemes (ii) Implications for Council’s budget and financial position (iii) Adverse effects, shortfalls, and delays in the achievement of development targets, the housing delivery programme and provision of housing (affordable and other) across the borough, ultimately impacting local communities and delivery of corporate priorities. 	<p><u>Management Action:</u> <i>Please refer to the Corporate Risk Register and action plan, setting out prioritised actions underway or for perusal.</i></p>
<p><u>4. Operational Resilience</u></p> <p>Resilience issues and challenges have been observed across more than one service area. It is particularly apparent where vacant posts have remained unfilled for a considerable time and where technical/other key roles are solely undertaken by one individual placing</p>	<p><u>Management Action:</u> <i>Collaborative working and Partnerships are being explored with a view to enhancing organisational and service resilience and promoting career opportunities, contributing to staff retention measures. A councillor Working Group is in place.</i></p>

much reliance on the expertise of that Officer. Whilst it is accepted that small teams inevitably present some challenges in achieving effective resilience, it is important to reiterate the risk implications of weakened resilience on service delivery.

5. Decision Making

From May 2021 the implementation of a Committee system presented a new governance structure, underpinning Council business and the decision-making process.

1. Delayed and inefficient decision making has been a recurrent theme from feedback of the new Committee system. With regards to achieving the Council's property development targets / housing delivery programme, it is apparent that the heightened risk of delayed decision-making and the associated costs of non-development is significantly impacting on Council business, finances, and timeframes for delivering corporate priorities and service objectives.
2. The current level of collaboration across different Committees as well as varying skillsets, knowledge and experience is not particularly conducive to effective and informed decision making.
3. Under a Committee structure of governance and where there is no independent overview and scrutiny committee built in at project design stage, greater emphasis is placed on robust scrutiny activity at pre - decision stage. The new Committee system does not however appear to have embedded increased overview and scrutiny, possibly

Several recommendations arising from the audit review of the Committee system of governance were reported to Corporate Policy and Resources Committee on 20 April 2022. These broadly relate to decision making, scrutiny and challenge, training and awareness, standards of conduct, roles and responsibilities, and embedding core governance objectives. Please refer to Appendix 1.

Action: *Given that the Committee system of governance is integral to council business and the decision-making process, collective corporate responsibility and ownership will assist addressing the risks, issues and recommendations raised. All recommendations have been accepted.*

The Committee System Working Group(CSWG) and Committees team are pursuing developments to enhance the way the new Committee system operates. The CSWG have a pivotal role in monitoring the achievement of the core governance objectives defined at the outset.

<p>due to a lack of awareness on how to effectively apply.</p>	
<p><u>6.Error/Fraud/Relaxation of established control processes</u></p> <p>The additional workstreams, challenges and associated pressures arising from the pandemic and ongoing recovery have continued to impact Services across the authority during 2021/22 (and beyond). It is widely acknowledged that pressurised environments are likely to increase the risk of human error or oversight.</p> <p>Internal Audit have identified the occurrence of errors and instances of weakened control processes operating in some functions, possibly arising from the relaxation/adaptation of controls in a remote working environment, as well as heavy workload pressures. Consequently, there are heightened risk implications to the authority related to error, fraud, financial losses, and additional staff time in rectifying erroneous transactions processed including recovery of duplicate payments.</p>	<p>As part of established governance arrangements, the Chief Finance Officer requires Managers to sign off an annual statement reinforcing accountability in operating adequate systems of internal control.</p> <p>Whilst a pragmatic and balanced approach has been necessary during the pandemic, it remains prudent that going forward Managers continue to monitor internal control arrangements for their respective functions and take on board any related audit recommendations (referred to at Appendix 1).</p> <p><i>The improvement measures highlighted in the Creditors audit report to address the weakened operation of some controls includes authorisation of payment runs, independent review of financial reconciliations and duplicate payments, maintaining supporting documentation for financial activity, and timely processing of credit card transactions.</i></p> <p><i>The improvement measures highlighted in the Council Tax audit report to address the weakened operation of some controls includes regular review of outstanding and historic credit balances on accounts, prompt write off activity and processing in accordance with policy, maintaining quantitative evidence to demonstrate proactive counter fraud measures undertaken for quantified inclusion in Spelthorne’s quarterly fraud returns.</i></p> <p><i>Customer Services confirmed that controls were tightened during the administration of the second phase of grants to minimise loss of public funds (Business Support Grants).</i></p> <p><i>Improvement measures and enhancements highlighted in the Treasury Management report relate to updating the Treasury Management Policy statement, transaction authorisation and record keeping, performance monitoring and reporting.</i></p> <p><u>Management Action:</u> Some audit recommendations have been implemented with</p>

	<p><i>target dates agreed for other actions. Other recommendations are under discussion.</i></p>
<p><u>7.Integration of software with Council’s main financial system</u></p> <p>Blue Box software has been implemented by the Assets team to assist with the management of the Council’s property portfolio. It is being used to generate invoices and administer commercial rental income and other rental income due from the Council’s wider housing delivery programme.</p> <p>It was confirmed through discussion with management that there are no automatic interfaces in place between the Blue Box application and Integra/ other finance systems and that no data is transferred between them.</p> <p>However, Integra is the Councils financial accounting system and at the present time Blue Box undertakes some primary accounting functions that does put the Council’s rental income at unnecessary risk. Blue Box is undertaking an initial accounting function and data then has to be manually transferred to Integra. This “double handling” of rental income could give rise to delay or at worst loss, with implications for the Council’s financial accounting records.</p>	<p>A recommendation has been raised in the internal audit review of Commercial Assets, as it is important that the integration of any standalone software with the Council’s main financial system is working effectively to support system integrity, enabling accurate and reliable reconciliations/management information/financial accounts reporting.</p> <p><i>The risk highlighted in the left column can be eliminated by allowing Integra to be the primary accounting solution for all investment property income and to allow Blue Box to run as a lease management solution only to control the lease agreement details. Integra is undergoing a major upgrade to Centros with extended functionality and system capability including management reporting. This therefore provides a timely opportunity to consider and pursue this change.</i></p> <p><u>Management Action:</u> In principle the recommendation is supported. Under discussion in terms of next steps.</p>
<p><u>8. ICT and HR - Strategies, frameworks, policies, and procedural documents</u></p> <p>There were found to be several ICT related strategies and policies that had not been reviewed or updated for some time. It is important that these are periodically reviewed to capture any changes and improvements to current practices, supporting consistent application across the ICT team and workforce.</p>	<p>Please refer to Appendix 1, sections 12 & 13 & 14 , setting out recommendations from reviews of ICT (general controls), ICT (Network Infrastructure) and HR/Payroll.</p> <p><u>Management Action:</u></p> <p><i>ICT - Most audit recommendations have been implemented with a couple of areas underway or ongoing.</i></p> <p><i>HR/Payroll – Service area have advised that all HR policies and procedures requiring statutory</i></p>

It was also identified that some HR Policies and Procedures would benefit from refreshing and review, to ensure there is a clear reference point that supports processes followed, further protecting both the Authority and its employees. Linked to this the absence of an overarching HR strategy was noted.

changes are updated. No overall HR strategy is being taken forward at this point.

3. Options analysis and proposal

3.1 There are no options.

4. Financial implications

4.1 The Corporate fraud returns collated by Internal Audit demonstrate the cumulative financial returns/savings achieved (both cashable and non-cashable). In the interim audit report of November 2021, the Internal Audit Manager provided a detailed analysis of returns achieved across high-risk fraud categories over several years, including cumulative breakdowns. Spelthorne's overall savings/fraud losses prevented for the financial year 2021/22 amount to **£338,910**. This is based on applicable financial savings advised by the NFI (Cabinet Office) across each of the high-risk public fraud categories, and is broken down in the table below:

Category	Homeless and Prevention based on NFI (Cabinet Office) saving of £3240 per case	Social Housing based on NFI (Cabinet Office) saving of 93,000 per case	Housing Benefits and Council Tax Support based on NFI methodology	Housing Register based on NFI (Cabinet Office) saving of £3240 per case	Totals Rounded
£ Savings to the public purse / losses prevented	48,600	186,000	45,990.49	58,320	£339k
Cashable savings directly to Spelthorne*	-	-	TBC	-	

Proportion of annual return figure for 2021/22	14%	54.9%	13.6%	17.2%	
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- 4.2 During 2021/22 there were two referrals made to Reigate's counter fraud team relating to Council Tax - Single Person Discount as well as two further referrals made for Business Support Grants. Further to investigation of these cases no positive outcomes were concluded, so there are no fraud savings generated from these referrals.
- 4.3 Cashable savings to the authority derived from fraud prevention and detection work can be more easily quantified for areas such as Council Tax, Business Rates and Council Tax Support. It is less straightforward to quantify cashable savings achieved for Housing related categories such as Homelessness, social housing and housing register cases, but the wider benefits of reducing the financial burden of having more families in Bed & Breakfast or temporary accommodation and freeing up social housing to those families and individuals in genuine need, along with reduced waiting times on the housing register should be recognised. This consequently relieves some pressure for the Council's Housing Service.

5. Risk considerations

- 5.1 Please refer to the table under section 1.8 for key themes, issues and risk implications for the Council, highlighted through the work of Internal Audit (relating to 2021/22) including how these will be addressed or mitigated. Implementation of audit recommendations included at Appendix A will reduce risks for the authority and enhance the robustness of the control environment which is acknowledged by the Councils Management Team and the Audit Committee.

6. Legal considerations

- 6.1 Production of an annual audit report and annual audit opinion forms a requirement under the mandatory Public Sector Internal Audit Standards (PSIAS).

7. Other considerations

- 7.1 Some internal systems of control continue to be adapted to ensure greater alignment to remote ways of working, in particular financial processes.
- 7.2 Due to the additional work pressures arising from the impact of the pandemic across the authority during 2021/22 with ongoing implications, Internal Audit have observed relaxation of defined control processes in some areas. Whilst in the circumstances some weakening of the operation of established controls is not surprising, it is highlighted again here for reference and will continue to be monitored.
- 7.3 Failure to undertake internal audit work to the required professional standards would lessen the reliability of assurance provision to the Council that effective control systems are in place and could result in an increase in the Council's annual external audit fee.

8. Equality and Diversity

8.1 There are no implications for this area arising from internal audit recommendations or internal control issues raised.

9. Sustainability/Climate Change Implications

9.1 There is inclusion on the Council's Corporate Risk Register, given that it represents a significant risk category.

10. Timetable for implementation

10.1 Implementation of audit recommendations and audit status (open or closed) will continue to be periodically monitored as part of the follow up process.

11. Contact

11.1 Punita Talwar, Internal Audit Manager. P.Talwar@splethorne.gov.uk

Background papers:

Internal audit reports

Internal audit working papers

Correspondence or discussions on risks and controls/issues arising

Audit Advisory work

Corporate Risk Register (published)

Covid-19 Pandemic Recovery - Risk Considerations (published)

Counter Fraud Returns

Appendices:

Appendix A –Workstreams undertaken by the Internal Audit team relating to 2021/22