CORPORATE GOVERNANCE, AUDIT & STANDARDS COMMITTEE

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INTERIM AUDIT MANAGER
22nd NOVEMBER 2021
REPORT NO. AUD 21/05

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INTERNAL AUDIT – AUDIT UPDATE

SUMMARY:
This report describes:
- The work carried out by Internal Audit since the last report;
- An update on the overall progress on the 2021-22 Audit Plan, and
- An update on outstanding audit issues from reports issued in 2019-20 & 2020-21.

RECOMMENDATION:
Members are requested to:
  i.   Note the audit work carried out in Quarter 3 to date.
  ii.   Note the update to the expected deliverables for Quarters 3 & 4.
  iii. Note the outstanding audit issues and engagement by the Services to address them.

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1   Introduction

1.1   This report is to provide Members with:
- An overview of the work carried out by Internal Audit in Q3 2021-22 to date;
- An update on progress towards the Audit Plan for 2021-22;
- A schedule of work expected to be delivered in Q3 & Q4; and
- An update on the outstanding audit issues from Internal Audit reports covering 2019-20 & 2020-21 focusing on the high-risk issues.

2   Overview of Work Carried Out in Q3 to date

2.1   Since the last report, Internal Audit has been working with Heads of Service and Service Managers to action and update the outstanding audit issues from 2019-20 and 2020-21 Audit reports. Significant progress has been made (see Section 6).

2.2   Internal Audit has also been conducting two audits – Contractors & IR35 and Risk Management. The first audit's fieldwork has been completed, the report has been drafted, factual accuracy of the findings agreed and formal management responses with implementation dates, if applicable, are now awaited. The second audit's fieldwork is being completed and the report is being drafted.

2.3   Wokingham Borough Council (WBC), under a s113 Agreement to conduct audits on behalf of Internal Audit, has finalised and issued two audit reports for Finance – Benefits and FMS[1] & Bank Reconciliations.

2.4   WBC has also commenced an audit in Finance on Insurance over the Council's assets including the commercial property portfolio. The fieldwork should be completed soon, and a draft report issued for formal management responses is expected by the end of November.

2.5   The Interim Audit Manager is still trying to finalise the External Tenants of the Council Building audit from 2020-21, but there has been a lack of coordination between the owner of the report, being the Head of ICT & Facilities, and the Executive Head of Regeneration & Property to provide satisfactory management responses and implementation dates. Recent discussions with both have moved this forward.

2.6   Finally, the Interim Audit Manager is reviewing the status of the 2020-21 follow up audit reports for Corporate Governance and Depot (Capital Project) with the Executive Head of Finance for merit in progressing them. The former has been drafted, but not issued, and the second has not been started. Progress on these will be advised to the Committee at the next meeting.

3   Progress towards the 2021-22 Audit Plan

3.1   Since the last update to the Committee the following changes have been made to the Audit Plan:

- The audit of National Non-Domestic Rates (NNDR) & Council Tax Recovery has been changed to focus on NNDR Billing, Collection & Recovery only, as this process has significant financial risk for RBC with local businesses recovering from the pandemic. Hence, the Council Tax Recovery aspect will be expanded to a separate audit of Council Tax Billing, Collection & Recovery, but deferred to Q1 of 2022-23.

- The Value for Money audits of Financial Grants to Organisations (FGO) and of the Crematorium have been postponed to 2022-23 following consultation with the Executive Directors and the Executive Head of Finance. The FGO audit will be covered by the CREP Programme and the Crematorium is undergoing a feasibility study currently. Instead, the Interim Audit Manager will focus on the capital project audit of Voyager and assistance with the Union Yard regeneration project.

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[1] FMS = Financial Management System

- The audit of Procurement has been postponed to 2022-23, as the Council's Procurement Officer has left recently, and the function has been moved to a temporary shared service with Portsmouth City Council, being coordinated by the Assistant Chief Executive.
- The remaining IT audits over Remote Working/Windows 10 and the Property System have been postponed. Whilst both audits were developed with the Head of ICT & Facilities earlier this year, the Windows 10 and Property System projects are part of the ICE Programme (now merged with CREP to become ICE3) and are delayed. So, audits will be done as part of 2022-23. Regarding Remote Working, the technical side will be covered as part of the PSN Certification process, which is scheduled for Q4 and will be conducted by a third party, SureCloud. Internal Audit will review the governance side separately.

There should not be any further changes to the 2021-22 Audit Plan.

3.2   The table below provides a summary of progress relevant to the 2021-22 Audit Plan, including the changes to the plan detailed above in 3.1:

Audit Status	Number of reviews	%
Finalised	3	16.7
Draft report with Auditee for management response	1	5.5
Testing in progress	2	11.1
Not yet started	5	27.8
Postponed to 2022-23	5	27.8
Cancelled	2	11.1
Total	**18**	**100%**

3.3   The difference in the number of planned reviews from the number last reported,16, is due to a combination of an audit that was brought forward from 2020-21, but not counted, and a calculation error of 1, as the previous report's total should have been 17. However, this means that 11 planned audits will be delivered in 2021-22.

4.   Audit Work Completed

4.1   The table below provides an overview of the assurance opinions, given to completed audits since the last update, based on Internal Audit's assessment of the control environment:

Audit Title	Assurance Opinion	Recommendations by Priority		
		High	Medium	Low
2021-22 Internal Audit Plan				
Benefits	Substantial	1	0	0
FMS & Bank Reconciliations	Substantial	0	2	2

4.2   The table above highlights two audits, both in Finance. The one high risk-rated issue in the Benefits audit relates to information governance and security. This is a repeat issue from February 2019 (2018-19 Audit Plan) concerning document storage and scanning. The medium risk-rated issues from the FMS & Bank Reconciliations audit relate to the budget monitoring timetable tasks and uncleared suspense account items, both of which have been addressed.

5.   Expected Deliverables for Q3 & Q4 2021-22

5.1   The Audit Plan has been reviewed and updated. There has been a change of audit timings for the Sales Ledger and NNDR Billing, Collection & Recovery audits, as the latter audit is an amended carry forward from 2020-21 and so will be done in Q3 instead. The Sales Ledger audit will move to Q4.

The work expected to be carried out and completed in Q3 & Q4 is detailed within the table below:

Service	Audit/ follow up/descriptor	Status
HR	Contractors/Consultants & IR35 – *A review of the IR35 contracts in RBC with reference to the relevant budget costs and compliance with IR35 guidelines*	Report issued for management responses
ACE	Corporate Risk Management – *A review of the process for identifying, assessing, monitoring and reporting risk across RBC.*	In draft report stage
Finance	Insurance – *A key financial system review looking at adequate coverage for RBC assets.*	In progress
Finance	NNDR Billing, Collection & Recovery –	Due to commence

	A key financial system review looking at business rates billing, collection & recovery.	
Regeneration & Property	Voyager (Capital Project) – *A review of the regeneration project*	Due to commence
Regeneration & Property	Union Yard (Capital Project) – *Audit is providing Project Assurance and will be working alongside the Project Manager*	Due to commence, but will go beyond Q3
Finance	CIPFA Financial Code – *A key financial system review looking at compliance with the code*	Planned for Q4
Finance	Sales Ledger – *A key financial system review looking at debtors and recovery*	Planned for Q4

6. Outstanding Audit Issues from 2019-20 & 2020-21

6.1 From a review of the Audit reports issued during 2019-20 & 2020-21, the following information was identified:

Year	# of Reports	# of Issues	# Implemented (@22/09/21)	% Implemented (@22/09/21)
2019-20	12	106	59 (18)	56 (17)
2020-21	12	118	47 (31)	40 (35)

6.2 Overall, there has been a significant increase in issues implemented for both audit years with auditees engaging with Internal Audit positively and promptly.

6.3 For 2019-20, of the 106 issues raised, 17 were high-risk and 8 (47%) have been implemented. Per the previous report, only 4 had been completed. For 2020-21, of the 118 issues raised, 17 were high-risk and 7 (41%) have been implemented. Per the previous report, 5 had been completed.

6.4   Details of the outstanding high-risk issues for the two years are attached in Appendix A below. They include management updates and, in some cases, revised target dates.

7.   Recommendation

7.1   Members are requested to note the information provided within the report in relation to the audit work carried out in Quarter 3 to date, the expected deliverables for Quarters 3 & 4 and the outstanding audit issues from 2019-20 & 2020-21.

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HEAD OF SERVICE: David Stanley, Executive Head of Financial Services

References: *Internal Audit – Audit Plan* report, presented to the Committee on the 29th March 2021.

Agenda for Corporate Governance, Audit and Standards Committee on Monday, 29th March, 2021, 7.00 pm - Rushmoor Borough Council

APPENDIX A

OUTSTANDING HIGH-RISK AUDIT ISSUES

Year of Audit	**2019-20**

Report	Key findings	Management response and agreed action	Action by whom and when
PCI DSS	a) The Council are allegedly paying a fine as a result of not being fully compliant with PCI DSS standards. This is due to the card terminal within the Princes Hall Theatre not transferring Cardholder data securely to the in-house CAPITA 360 system. This could not be confirmed at the time of audit. b) There is no management or oversight of the alleged fine within the Council, with no one being able to provide details i.e. start date, monthly amount, expiry date or whether this was still ongoing.	AGREED The Council has been making a monthly payment to CAPITA since late-2018 in respect of "CAPITA PCI DSS ANNUAL MGMT FEE". Whilst the charge is relatively low (£10 per month) it is unclear what this fee covers. In the absence of any detailed knowledge or awareness across Finance and IT teams, the Executive Head of Finance will review. *Update: a) The Council pays CAPITA an additional processing fee. There is no fine. Issue addressed.* *b) A project has been established to ensure the Council is PCI DSS compliant with options available depending on the way in which car*	David Stanley, Executive Head of Finance 30/09/2022

		payments flow through the Council's systems. *An independent assessment is being commissioned (SAQ Assessor) to ensure the Council fully addresses the PCI DSS compliance issues given its varied payment processes.* *It is unlikely the project will be completed until Q1/Q2 2022/23 given the complexity and IT solutions.*	
Estates Management & Commercial Lettings	Information Sharing Prior to the Property and Estates Manager joining the council in March the graduate surveyor was the only officer with full knowledge of how to manage the records management spreadsheet	But now the knowledge sits with the P&E Manager and alternative means to manage this needs to be put in place, with a dedicated Admin role to do so. *Update: Others within the team have knowledge of the workings as an interim measure.*	Paul Brooks, Head of Property, Estates & Technical Services 31/01/2022
Estates Management & Commercial Lettings	Debt Write Off Audit were advised by the Sales Ledger team that a debt of £26,595 relating to one of the two tenants at Wellesley House was awaiting write off authorisation. However, the property team were unclear who had responsibility to do this and the process to follow for writing off/chasing debts was unclear.	The current procedures contain debt management within the Finance Team. This responsibility needs to be shared and properly communicated through clear and jointly owned information collected in a way that reflects property as a different kind of debt to others. See above	Paul Brooks, Head of Property, Estates & Technical Services / David Stanley, Executive Head of Finance 30/06/2022

		Through proactive tenant management the situation has improved on the retained office part occupied in the building and as at Jan 2020 the tenant had caught up with the rental payments for that Ground Floor Office Suite only. *Update: Executive Head of Finance to provide HoS with supplementary debt management guidance.*	
Estates Management & Commercial Lettings	Aged Debt The 63.1% of the total debt (29/8/19), £142,238.36, has been outstanding for over 90 days.	As above. *Update: Executive Head of Finance to provide HoS with supplementary debt management guidance.*	Paul Brooks, Head of Property, Estates & Technical Services/ David Stanley, Executive Head of Finance 30/06/2022
Estates Management & Commercial Lettings	Financial Monitoring There is currently no reporting on the performance requirement that the Council needs to achieve a net initial yield of approximately 5.25% to make an asset purchase financially viable. In addition, there is confusion as to whose responsibility it is to undertake this monitoring and reporting	LSHIM is reporting on the Investment and Legacy portfolios to the PIAG There is no such reporting on the remainder of the Councils properties managed in house by the Estates Team. These do not sit comfortably within the same performance parameters or expectations as the Investment/Legacy Portfolios but still a means to measure and to report will be required to be developed.	Paul Brooks, Head of Property, Estates & Technical Services 30/06/2022

		Update: Rent collection data is reported to PIAG for the nine LSHIM asset managed properties. The new asset management system will allow performance data to be collected to assess this.	
Taxi Licencing	Due to the manual nature of inputting the data into the system this has highlighted a number of human errors. Ranging from not recording payments which have been made against accounts, to the incorrect amount being inputted and charged. Options should be considered to see if elements of the system could be more automated to minimise the potential for errors and have a more efficient process.	We recognise that the current systems and processes for Taxi Licensing are open to human error, due to the lack of automation available with the systems that we are working on. The errors identified have been corrected as far as possible, and changes have been made to the documents, processes and performance monitoring of the work to reduce the likelihood of errors, and to identify errors sooner. Longer term, we are reviewing the way that licences are processed, with a view to improving the technology to allow for more automation, therefore reducing the likelihood of human error, whilst improving the service to customers. We are undergoing continuous review, and where errors are identified, consideration is given to any process or system change that could be implemented to reduce the likelihood of the same error occurring. Since implementing this, we have seen a	Shelley Bowman, Principal Licencing Officer 31/01/2022

		reduction in the error rate on the cases which are reviewed. *Update: Since our last update Operations have purchased Enterprise (IT System which allows automation of process) and RBC have additionally purchased the connectors which will further improve automation and self-service.* *Through the ICE project Manage my Licence has been designed and a prototype tested. We are anticipating a go live date on our website November 21. This IT based approach will reduce pressure on the officers and give them time to review charges, carry out checks and reduce opportunity for human error in the processing of taxi license request.* *In addition, we have introduced an administrative support role within the Licensing Team and are currently exploring new ways to structure the team to further improve service delivery, capacity and reduce error.*	
Building Control Partnership	2010 Building Regulations Requirement Hart do not publish their surplus or deficit figures as is required by the 2010 Building Regulations	Look to resolve during negotiations on new Deed, referring to The Building	Martin Hobley, Building Control Partnership Manager

			(Local Authority Charges) Regulations 2010. Review of Regs to agree how the Partnership adheres to the requirement. *Update: The figures have been received through another route. However, the issue continues to be pursued with writing to the finance team as well as pursuing through their Head of Finance.*	31/01/2021
S106 SANGS	a) There should be a plan in place as to how the funds are properly utilised and regular meetings to monitor this. This needs to include a plan of how to utilise monies that the Council may currently hold over 5 years or determine to repay sums. This would ensure that all monies that have been paid to the Council are utilised appropriately and prevent Developers successfully requesting funding back. b) There should be knowledge of who manages this fund. There should be regular meetings to discuss the value to enable full oversight.		Recommendation agreed. As part of the process of compiling the register and cleansing data any sums held for over 5 years will be identified. Regular meetings will be held between the Head of Economy, Planning and Strategic Housing, Planning and finance will be held quarterly starting in September All sums will be allocated to specific officers and teams and monitored through the quarterly meetings. *Update: This process is ongoing due to the extent of the work. Additional funds have been identified over 5 years. The focus is on ensuring expenditure and developing proposals for an officer who will deliver these projects funded from s106, which will be considered by*	Tim Mills, Head of Economy, Planning and Strategic Housing 30/11/2021

		ELT shortly and it is anticipated this will be agreed.	

OUTSTANDING HIGH-RISK AUDIT ISSUES

Year of Audit	**2020-21**

Report	Key findings	Management response and agreed action	Action by whom and when
Alderwood Leisure Centre	It is unclear to identify if payments have been received for all of the bookings made as clear payment records are not held on the EZ facility system and unclear narratives on the Integra code.	EZ confirm certain aspects can be tied into RBC system. Nigel Swan emailed for guidance 30/11/21.Meeting with Alex Shiell 6/01/2021 to discuss requirements to integrate the two systems. *Update: This is a system connectivity issue. However, until a solution is found, a manual workaround is in place.*	Chris Beckett, ALC Manager 31/01/2022
Application Patch Management	IT are in the process of documenting processes, although application change management/patching has not yet been covered. When this is documented both overall and system specific arrangement need to be addressed. Linked to this further investigation needs to be carried out regarding systems where there is limited user testing of changes (see findings below, on roles and responsibilities). Specific to Express future changes need to be applied to test and tested/signed off, prior to migration to live.	The council has a small IT team and tends to focus its limited resources on key line of business applications support. There are plans to recruit a service delivery manager to improve consistency of application support. It should be noted that key systems e.g payments, payroll, revenues and benefits, business rates are well supported, including the use of external support companies – to ensure applications are patched and upgraded to the correct level.	Nick Harding, Head of ICT, Facilities & Projects 30/10/2021 Revised 31/07/2022

	Retain evidence for future nontrivial changes/patches applied. This should aim to capture: • Identification of change/patch, i.e. what was applied. • Evidence of testing (unit, integration and user, as applicable) and outcomes. • Sign offs/approval. Longer term a Configuration Management Database (CMDB) could be investigated, to store this information in a structured manner. IT are in the process of increasing the IT Team, specifically recruiting additional staff to support changes to applications, including bringing back in-house changes currently processed by third parties; this should continue as planned. Batching is a symptom of current under resourcing and reliance on third parties. While a pragmatic approach is sensible, current batching levels are excessive. How batching is approached needs to be covered in documentation (i.e. assessment and decision for each change) and, as far as possible, minimised.	The regulatory services applications e.g GIS/LLPG, Confirm and Uniform have dedicated IT staff employed to carry out upgrade works and maintain the systems to the correct level. It is agreed that the exception is the financial system, which is of ongoing concern. There are plans for a major review planned for 2021 as part of the ICE programme. On Risk, the over-reliance point is more a management prioritisation issue both for Heads of IT and Finance. *Update: Change Management – Jul 2022 as dependent on a new service desk system that incorporates Change. UAT – April 2022.* *Asset Management – new solution trial aimed to complete during Q4 2021/22* *All other recommendations are ongoing.*	
Application Patch Management	Locate/put in place fit for purpose contracts for all systems. At a high level these should: • Be up to date/in date. • Refer/link to current legislation.	Disagree – this is in medium priority and not a priority at this time/ the ICE and C19 projects have a higher priority. If	Nick Harding, Head of ICT, Facilities & Projects 31/12/2022

	- Set out performance expectations, ideally quantified. - Set out support arrangements/response times. - Set out a realistic level of reporting, to confirm that performance/support expectations are being met. For example, annual/quarterly reports, against contract expectations. - Identify a realistic level of oversight, for example, periodic calls/meetings with account managers.	additional resource are provided this task could be agreed Many of the Councils line of business applications have been in place with suppliers for many years and over time contracts have not been reviewed as the systems and support have been satisfactory. The councils has good ongoing working and support arrangements so contracts have only been reviewed as services have decided to change applications. If for any reason, we needed to request an up to date contract from a suppler this would be possible. Given the amount of work involved we have not been able to allocate resources from IT to Legal to carry this task. *Update: Review of contracts status by March 2022.* *Reviews with suppliers between Nov 2021 and April 2022.* *Where agreed re-negotiation needs to take place – throughout 2022*	
Contract Management Follow Up	There is no Contract Management corporate framework in place to provide guidance for Contract Managers, Procurement and management to: a) Assess the level of contract management required, e.g. formal, ad-hoc, 'light touch';	The New Constitution with the Contract Standing Orders, which covered the elements highlighted in the recommendation, went to Cabinet in May and was agreed. The Policy and	Principal Procurement Officer 30/06/2022

	b) Assess the risk to the business, e.g. financial, Health and Safety, reputational, business continuity, etc; c) To re-assess the level of contract management as the contract becomes established and client relationships evolve; d) Set out the requirement of recording meeting minutes / contract issues / progress, including the need for a standard template; e) Set out the steps to take if a contractor's performance / quality of delivery is inadequate, e.g. KPIs. f) Set out the process for the review / monitoring of continual contracts, e.g. HAGS/SMP Ltd, those contracts with expiry dates and any action required, e.g. PHS; g) Set out the process for adding on to the Contract Register; h) Set out the process when handing over an on-going contract to a new manager to oversee, e.g. PHS. i) Set out the reporting requirements to senior management and Members	Project Advisory Board (PAB) were consulted on the Council's Procurement Strategy 2020-2024 at their meetings in November 2019 and June 2020. A final draft of the Procurement Strategy was considered by Cabinet in August 2020. Training and Guidance will be produced for all officers involved in the procuring of services following the adoption of the revised Contract Standing Orders and Procurement Strategy. *Update: Procurement responsibility changed September 2021 with Portsmouth CC providing support. Head of Finance and Asst CEX to review Q1 2022*	
Contract Management Follow Up	There is no corporate guidance that sets out the clear roles and responsibilities for the Contract Managers, Procurement and management	The updated Contract Standing Orders (CSO), sets out the roles and responsibilities. However, training on the update CSO will be given in the next few months so that contract managers are aware are their roles and responsibilities.	Principal Procurement Officer 30/06/2022

		Update: Procurement responsibility changed September 2021 with Portsmouth CC providing support. Head of Finance and Asst CEX to review Q1 2022	
Disabled Facilities Grants Follow Up	Two quantity surveyors are exclusively used (with one particularly favoured- BJC Design with payments in 2018/19 of c.£46k). The Contract Standing Orders 'requirement of aggregation' are not applied in assessing contract requirements.	The Procurement Officer is working with Property Services to set up a separate framework agreement for surveyors and to advertise for new surveyors to be 'procured' and vetted. The Procurement Officer confirmed this will go out to competition for acquiring new contractors/surveyors (see also recommendations 5 and 6 above). *Update: Working with Portsmouth CC to understand where they can support this process.*	Hilary Smith, Private Sector Housing Manager 31/12/2021