CORPORATE GOVERNANCE   **AUDIT MANAGER**
AUDIT AND STANDARDS COMMITTEE   **REPORT NO. AUD 22/11**

26 SEPTEMBER 2022

INTERNAL AUDIT – AUDIT UPDATE

SUMMARY:
This report describes:
- The work carried out by Internal Audit since the last report;
- A progress update on the 2022/23 Audit Plan; and
- An update on outstanding audit issues from reports issued in previous years.

RECOMMENDATION:
Members are requested to:
   i.   Note the audit work carried out in Quarters 1 & 2 to date.
   ii.   Note the update to the expected deliverables for Quarters 2 & 3.
  iii.   Note the outstanding high-risk 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 Q1 and Q2 to date;
- A progress update on the 2022/23 Audit Plan;
- A schedule of work expected to be delivered in Q2 & Q3; and
- An update on the outstanding audit issues from previous financial years, focusing on specific high-risk issues that appear not to be progressing.

2 Overview of Work Carried Out in Q1 & Q2 to date

2.1   Since the last report, Internal Audit continued to work with Heads of Service and Service Managers to action and update the outstanding audit issues identified from previous financial years.

2.2   Two Internal Audit reports have been issued, with no specific issues to highlight to the Committee. A summary of findings is detailed in section 4 below.

2.3   Five Internal audits/ follow ups have commenced with findings expected to be delivered within quarter 3.

2.4   Internal Audit's strategy paper for the function and resource requirements is now with Senior Management for consideration and will be shared with the Committee in due course.

3 Progress towards the 2022/23 Audit Plan

3.1 Since the last update to the Committee, there have been no changes to the audit deliverables set out within the 2022/23 Audit Plan.

3.2 The table below provides a summary of progress to date:

Audit/ Audit follow up status	Number of reviews	%
Finalised	2	9.6
In progress	5	23.8
Audits not yet due to be started	14	66.6
Total	**21**	**100%**

NB: The figures within the table include 2 audits carried forward from the 2021/22 audit plan.

3.3 Whilst a significant number of audits are still to commence it is anticipated that the audit plan will be delivered by the end of the financial year to enable the Audit Manager to provide the annual audit opinion, especially as the Audit Manager has now returned full time as of September.

4. Audit Work Completed

4.1 The table below provides an overview of the assurance opinions, given to completed audits since the last update:

Audit Title	Assurance Opinion	Recommendations by Priority		
		High	Medium	Low
2021/22 Internal Audit Plan				
Voyager House (Capital Project)	Reasonable	0	5	0
2022/23 Internal Audit Plan				
The Park Crematorium	Reasonable	1	9	0

4.2 Below is a summary of the key findings from the audits.

Voyager House
The Voyager House audit did not have any high-risk issues. However, the main issues concerned the lack of finalising and billing for the outstanding financial contribution from the North East Hampshire & Farnham Clinical Commissioning Group (CCG), the long-term tenants, and the lack of the project's inclusion in the Council's Capital Bid Process. It is to be noted that all issues have been addressed.

The Park Crematorium
The Park Crematorium audit had one high risk issue, which involved the use of the CAMEO (Crematoria Abatement of Mercury Emissions Organisation) Reserve Fund for the purchase of a replacement cremator and the repair of another.

CAMEO was set up in 2006 by DEFRA to reduce mercury emissions in cremations and allowed crematoria to charge a levy, of which the Council is permitted to retain 50% annually to improve facilities for mercury abatement. However, the Council used over £300,000 from the CAMEO Reserve Fund for repairs to the last functioning internal cremator (#1) in 2019/20 and the purchase of the containerised external cremator (#2) in 2020/21, which did not assist the abatement of mercury emissions, as confirmed by the recent emissions report. Therefore, the spend was not in line with the purpose of the fund as set out by CAMEO.

The Executive Head of Finance agreed that the capital financing on the spend incurred to date would be put back into the CAMEO Reserve Fund and would only be drawn upon as part of the wider Crematorium project.

5. Expected Deliverables for Q2 & Q3 2022/23

5.1 The work expected to be delivered in the remainder of quarter 2 & quarter 3 is detailed within the table below. These audits can be subject to change due to the evolving auditing environment. Updates on these will be provide at the next committee meeting:

| Service	Audit/ follow up/descriptor	Expected to be finalised
Democracy	Alderwood Leisure Centre – *A follow-up of the audit from 2020/21*	
HR&OD	Staff Recruitment & Retention – *A review over staff vacancies, especially key positions, and the measures taken to keep staff*	
Finance	Covid-19 Business Grants – *A review over the various grants totalling over £29m paid during the pandemic*	
Finance	CIPFA Financial Code – *A key financial system review looking at compliance with the code*	
Democracy	Financial Grants to Organisations – *A review over the process by which monies are granted to local organisations*	Q3
Finance	Cash Receipting – *A review over key financial system*	*NB: 5 of these audits/ follow ups have already commenced.*
IT, Facilities & Customer Services	Cyber Security – *A review over the Council's IT infrastructure to ensure it is robust, secure and supports service delivery*	
ACE	Procurement – *A review of the procurement process in the Council and the interaction with Portsmouth CC under the SLA*	

Service	Audit/ follow up/descriptor	Expected to be finalised
Finance	Council Tax Billing, Collection & Recovery – *A review of CT with a focus on debtors and recovery*	
Property, Estates and Technical Services	Concerto Property System – PIR Audit – *A review of the implementation of the new property system.*	
Operations	CCTV – *A review of the changes to CCTV*	
ELT	CREP – *A review of the Councils savings programme*	
Economy, Planning and Strategic Housing	SANGS - *A follow-up of the audit from 2019/20*	

6. Outstanding Audit Issues

6.1 Overall, there has been a steady progress in the implementation of outstanding audit issues since the last report to this Committee. The graph below shows the overall number of audit issues identified for each financial year and the number which remain outstanding as of September 2022.
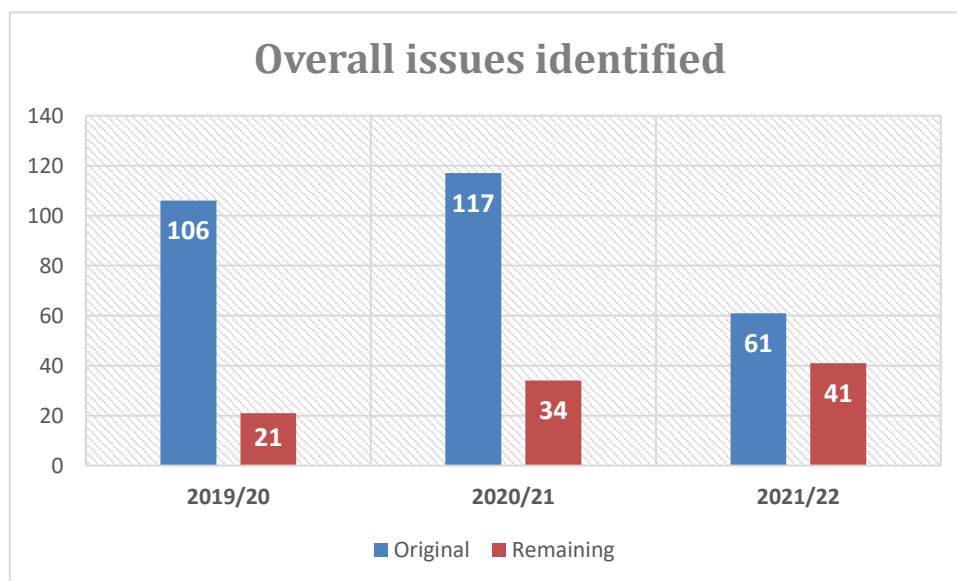
6.2 The high-risk issues identified are ones which require focus by the organisation in order to implement the actions agreed to mitigate the high-risk issues identified. Below the graph shows the number of high-risk issues identified against the number implemented as of September 2022.
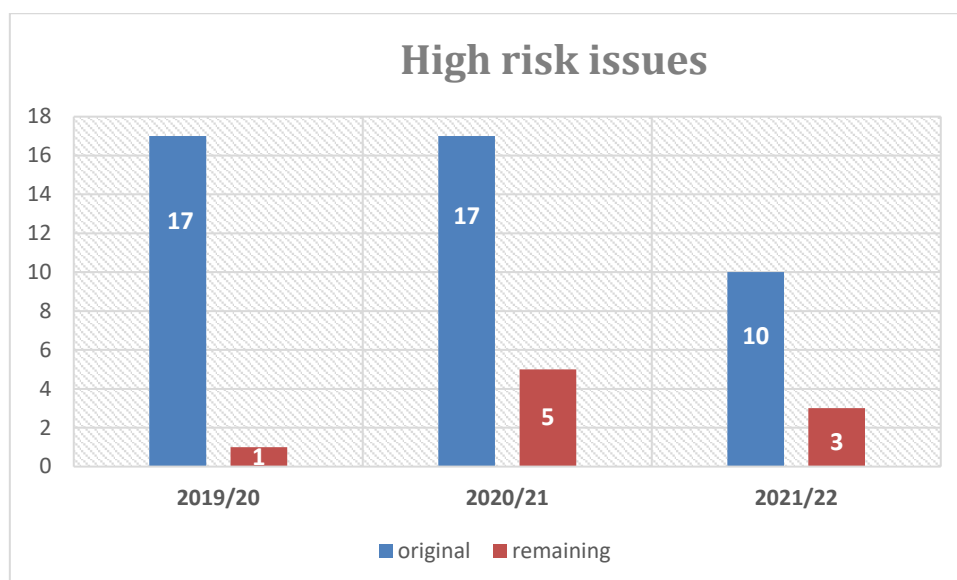
High risk issues

6.3 Since the last update to this Committee, 10 high risk issues have been implemented/ risk reduced.

6.4 There are 2 high risk issues which are highlighted within Appendix A which have a lack of progress. The Head of IT who has responsibility for implementing these actions will be in attendance at this meeting to provide the Committee an update on progress to date. It is in the Audit Manager's opinion that the other high-risk issues detailed within Appendix B are progressing sufficiently, and appropriate action is being taken to address them.

7. Recommendation

7.1 Members are requested to note the information provided within the report in relation to the progress of Audit work to date towards the 2022/23 audit plan, the expected deliverables for Q2 & Q3 and the outstanding high-risk audit issues.

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

References: *Internal Audit – Audit Plan 2022/23*, presented to the Committee on 28 March 2022.
Agenda for Corporate Governance, Audit and Standards Committee on Monday, 28th March, 2022, 7.00 pm - Rushmoor Borough Council

OUTSTANDING HIGH-RISK AUDIT ISSUES TO HIGHLIGHT

Report	Key findings	Update on action	Action by whom and when
Year of Audit	**2020/21**		
Application Patch Management	a) 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. b) 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. c) 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. d) Longer term a Configuration Management Database (CMDB) could be investigated, to store this information in a structured manner. e) 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.	*a) In place and needs maintaining.* *b) UAT In place and being used for core applications.* *c) The interim solution for recording changes is that the change is discussed with the technical services and/or application support team and upgrade requirement is recorded in the meeting minutes. We will be implementing a new system that will provide better automation for Change Management in a new Service Desk System.* *d) IT Asset Management – currently spreadsheets of assets are kept with information relating to assets recorded. Records are also kept of asset disposals. We will be implementing a new system where all asset information with be recorded in the CMDB in the new Service Desk System.* *e) Ongoing and managed on a case-by-case basis.* *f) Batching of patches will continue where appropriate but is assessed for each upgrade carried out.*	Nick Harding, Head of IT, Facilities & Customer Services 30/10/2021 Revised 31/07/2022 Revised 31/10/2022 Revised: The contract needs to be agreed and finalised before some of this work can be planned to be carried out. Therefore, at this time a specific date cannot be provided but regular updates will be provided to the Committee.

Report	Key findings	Update on action	Action by whom and when
	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.		
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. • 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.	*Review of contracts status and update of Contract Register in March 2022. Policy and Performance and Legal currently undertaking reviews with each service to identify any gaps as many original contracts across the organisation cannot be located. However, this does not stop services being provided via annual maintenance renewals. When contract is up for renewal a new contract will be put in place.* *Reviews with suppliers are also conducted regarding the services provided on a regular basis*	Nick Harding, Head of IT, Facilities & Customer Services Due to the wide variety of systems covered an end date cannot be provided but regular updates will be provided to the committee

OUTSTANDING HIGH-RISK AUDIT ISSUES - PROGRESSING

Report	Key findings	Update on action	Action by whom and when
Year of Audit	**2019/20**		
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.	*a) The Council continues to pay additional processing fees.* *b) The Council now understands the gaps in its PCI compliance and action is being taken and a technology solution is being implemented, which should be in place by March 2023.*	Alex Shiell Digital Manager, IT 30/09/2022 Revised 31/03/2023
Year of Audit	**2020/21**		
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'; 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;	*The new Constitution and Contract Standing Orders covered elements of the original audit recommendation and therefore can be considered completed. Since September 2021, Portsmouth City Council have been providing procurement support to the Council have been promoting greater visibility across the organisation about the Contract Standing Orders and contract management.*	Rachel Barker, Assistant Chief Executive 30/06/2022 Revised 30/09/2022 Revised 31/03/2023 – In addition an audit on Procurement will be carried out in Q3 which will review this, and outcomes will be reported to this Committee

Report	Key findings	Update on action	Action by whom and when
	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	*Detailed work is also underway to understand contract management activity and capability across the Council, led by policy/performance teams and Legal. This work is substantially complete with a contract management review meeting having taken place across all relevant services.* *The conclusion of this work will inform next steps which will likely include training for key staff and the development of a set of support materials for contract managers.*	
Purchase Ledger	The 2020/21 audit has confirmed the lack of segregation of duties continues to be the position. The same officer can raise a requisition and authorise payment if the amount is within their authorisation limit; they may also be the budget holder and therefore, responsible for monitoring expenditure on the account. In addition, no checks are made before a supplier is added to the system by the Purchase Ledger team. The IAS system does not enable a confirmation of receipt of the goods and services purchased; this increases the risk of duplicate payments and payment for goods/services not received. A new supplier form devised as a result of the previous audit concern raised in the 2017/18 to carry out validity checks on new suppliers has not been implemented.	The Systems Accountant started in the role on 01 August 2022 and has been reviewing the Council's financial system set-up. Further changes have been made to the finance team structure in August 2022 with additional management support to the Purchase Ledger team. A Business Process Review will be undertaken by Capita in early October 2022 that will identify actions that can be taken around improving the financial system including the areas identified in the Purchase Ledger Audit report.	Philippa Dransfield Finance Manager & Deputy s151 Officer January 2023

Report	Key findings	Update on action	Action by whom and when
		Therefore, it is proposed to defer any update on the audit issues until the meeting in January 2023.	
	A new supplier form devised as a result of the previous audit concern raised in the 2017/18 to carry out validity checks on new suppliers has not been implemented.		
Year of Audit	**2021/22**		
Insurance	Key Person Risk (Partial Repeat from 2019-20). a) Senior Management, e.g., CMT, need to urgently review how the insurance service is managed and what contingency plans need to be put in place to provide a continuous and effective service. b) A plan should be instigated to ensure that knowledge is acquired, and shared, to enable the delivery of the insurance service across all RBC services. c) Procedures/guidance to be implemented for administering the insurance service and communicating with other services, plus guidance for services with links to insurance, e.g., Property, Regeneration, IT, Legal, Operations, etc, to set out their responsibilities in managing assets and communicating with the service, e.g., claims handling, asset status and information flow, etc. d) Insurance guidance and documents, e.g., driving on company business, claim forms, year-end / renewal requirements, etc, should be placed on the RBC intranet for access to all officers. Uninsured Properties (Partial Repeat from 2019-20).	A number of recommendations were made in the Internal Audit report on Insurance in 2021/22. Actions around reinstatement valuations and property records have been completed. However, recommendations around key person risk and more widely the process for ensuring the Council's assets are adequately (and correctly) insured have not been fully completed. The Finance Manager has taken on operational responsibility for the Insurance function including liaison with the Council's insurers, brokers and the Hampshire Insurance Forum. In reviewing the current position around insurance, a number of weaknesses around documentation and process notes has been identified. Administrative support is being identified across the finance team to ensure relevant insurance and claim processing information is shared in a timely manner.	David Stanley, Executive Head of Finance / Tim Mills, Interim Head of Property, Estates and Technical Services Philippa Dransfield Finance Manager & Deputy s151 Officer

Report	Key findings	Update on action	Action by whom and when
	As a matter of urgency, it should be verified whether the two properties identified are included in the current cover with the insurer.	It is likely these actions will take more time to implement than was indicated in the last update to the committee. Members will be kept appraised on progress in the regular Internal update reports over the coming months.	
Sales Ledger	Debt Management a) Accounts in arrears date back to 2006 and aged debts over 4 years old apply across various services. b) There is variable engagement from the services in regard to managing debts, replying to monthly reports, identifying next actions, write-offs, etc c) Property Services-Rent and Housing-Rent Deposits are the two highest debts (70% of total) and there is currently no specific approach to manage these with a greater focus. d) Within the services, there is uncertainty as to their role and responsibility in the management and recovery of debt and how this aligns with the role of the Finance team. e) The monthly debt report provided by Finance to the services is in PDF format, which is not user friendly for filtering, analysing, note making, etc. f) The use of Enforcement Agency / Bailiffs for sundry debtors was put on hold in March 2020 and debts have not been identified by the services, in conjunction with Finance, for recovery via this route.	A Corporate project team has been established as part of the Savings and Transformation Programme and is reviewing the processes in place to collect income and debt. The Executive Head of Finance will, upon conclusion of the project, provide updated guidance for Heads of Service and Service Managers on the process for collecting income, aged debt collection and recovery. The Executive Head of Finance will also review the relevance, timeliness and accuracy of management information that is provided to Heads of Service and Service Managers.	Philippa Dransfield Finance Manager & Deputy s151 Officer 30/09/2022

Report	Key findings	Update on action	Action by whom and when
	g) The 000999 Holding/Suspense Account balance is £13,540.29 (as at mid-May 2022). The recent high-value items are regularly cleared but the historical items dating back to July 2000 need review. Additionally, services are not aware of how to access the account for their debt follow up purposes. h) Notes on Integra on debt monitoring and follow up action were sporadic ranging from none to detailed narrative.		