

Surrey Heath Borough Council
Audit & Standards Committee
25 July 2022

Internal Audit Annual Report

Head of Service: Gavin Ramtohal, Head of Legal and Democratic Services
Report Author: Alex Middleton, Head of Internal Audit
Key Decision: No
Wards Affected: N/A

Summary and purpose

To provide an annual review of Internal Audit for the financial year 2021-22 and an opinion from the Section 151 officer on the adequacy of the Council's systems of internal control

Recommendation

The Audit and Standards Committee is asked to note the 2021-22 Annual Audit Report.

1. Background and Supporting Information

- 1.1 The Public Sector Internal Audit Standards require local authorities to report on the work of internal audit on an annual basis. The Section 151 officer should also provide a written report to those charged with governance. The aims of the report are to:
- provide an opinion on the overall adequacy and effectiveness of the Council's control environment and risk landscape;
 - disclose any qualifications to that opinion, with reasons; and
 - present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies; and highlight any significant matters arising.
- 1.2 This audit report compliments some of the findings reported in the Annual Governance Statement for 2021/22.

Annual Review of Internal Audit Work for 2021-22

- 1.3 The Internal Audit work programme is directed by the 3-year Audit Strategy as well as the annual Audit Plan. The annual Plan is agreed at Member level annually.
- 1.4 In the last financial year a total of 16 scheduled audits were completed from the Audit Plan. These included all the key financial audits that are conducted annually and which are relied upon by the external auditors (e.g. creditors, debtors, treasury, revenues and benefits). Other non-financial audits were also completed including parking, fraud, information governance, emergency planning and business continuity, and a review of the Community Services Partnership with Runnymede borough council.
- 1.5 The internal audit team also undertook a number of ad hoc pieces of work including a corporate review of the Council's Financial Regulations and Standing Orders, a

review of purchasing and credit card purchases, and assisted with some corporate investigations.

- 1.6 Opportunities for improvement and increased service efficiencies along with quality control were identified in the audit process and reported to management through internal audit reports. Areas for improvement have been highlighted through audit recommendations ranging from best practice (lowest category) to essential (highest category).
- 1.7 Audit has also supported senior management in helping to meet the needs of the business and assisting the delivery of the 5 year Plan by participating in various corporate officer working groups including the equalities officer group, and the risk management group. Audit has also been active in helping to develop the team's business continuity and emergency plans as well as co ordinating and supervising the authorised signatories process, and reviewing compliance over contract standing orders, and the Council's financial regulations.
- 1.8 The internal audit team offers four different levels of assurance for the activities it reviews namely:

Level of assurance	Definition
FULL(green)	Controls are strong and being fully complied with, service is continually developing and offering added value, business objectives are being met and exceeded
SUBSTANTIAL(green)	There is basically a sound system of control, but some minor areas of weakness have been identified, which may put some of the systems objectives at risk
LIMITED (amber)	The weaknesses in the system of control are such as to put some of the system objectives at risk, and may affect council income or expenditure
NIL (red)	There are limited or no controls in place. The service poses a significant risk to the Council and there is a risk that business objectives are not met

- 1.9 In practice the majority of audits score either substantial or limited assurance, as full assurance would only be offered where the entire population is tested rather than just a sample, and audits scoring nil assurance would need to demonstrate little or no checks and balances in place or nil compliance and typically this would normally be flagged up by management in advance of any audit.
- 1.10 Audit recommendations are classified into three categories - essential, desirable or best practice.

Essential – normally require immediate attention to address substantial weaknesses and ensure council business objectives are met; could result in financial loss; non-compliance with statutory guidance/legislation; possible fraud or maladministration

Desirable - maintaining an effective control environment and ensure policies and procedures are met; ensures council priorities and milestones are met; shorter term implementation

Best Practice – industry best practice suggestions; helps to improve overall control and efficiency; assist management deliver services; medium to long term implementation

1.11 In total 79 audit recommendations were raised in 2021-22:

- 17 essential
- 61 desirable
- 1 best practice

Resources and Staffing

1.12 The audit team operates with two full time members of staff. In total there were approximately 430 days in the budget available to the audit team for 2021-22.

Overall Opinion of the Council's Section 151 Officer

1.13 The overall opinion of the Section 151 Officer is that the Council's internal control framework is adequate and effective and is being managed with due care and attention. The audit coverage is proportionate to the risk environment of the Council and the audit resources available.

Compliance with the Public Sector Internal Audit Standards

1.14 CIPFA's Code of Practice has been replaced by the Public Sector Internal Audit Standards and these Standards should be adopted by all local authorities. The work of the Council's internal audit team continues to demonstrate compliance with these Standards.

2. Reasons for Recommendation

2.1 The Public Sector Internal Audit Standards require local authorities to report on the work of internal audit on an annual basis.

3. Proposal and Alternative Options

3.1 No alternative options.

4. Contribution to the Council's Five Year Strategy

4.1 Insert text

4.2

5. Resource Implications

5.1 There are no resource implications arising from this report

6. Section 151 Officer Comments:

6.1 Nothing further to add to the report.

7. Legal and Governance Issues

7.1 Nothing to add to the report.

8. Monitoring Officer Comments:

8.1 Nothing to add to the report.

9. Other Considerations and Impacts

9.1 None

Annexes

Detail of Internal Audit Work for the Year 2021-22

Background Papers

None

DETAIL OF INTERNAL AUDIT WORK FOR THE YEAR 2021-22

Details of the catalogue of work undertaken by Internal Audit for the financial year are set out below:

- Scheduled finance audits from the annual plan
- Other Council audits from the annual plan
- Ad hoc and/or consultancy work and advice

SCHEDULED FINANCE AUDITS

A number of finance audits are carried out annually which the Council's external auditors may wish to place reliance on when audit the Council's end of year accounts. In completing the work programme for the year both the external auditors and Internal Audit will be mindful of both the effectiveness of the Council's financial systems and the adequacy of the arrangements for preventing and detecting fraud and corruption. A number of recommendations were raised in respect of the finance audits and the majority of these have since been actioned by managers. Certain recommendations are not yet due.

Cash & Bank

The audit reviewed post room procedures and processes, the operation of the Kiosk, cash receipting, income collection and the cash collection contractor, bank reconciliations and controls over card data security. 3 recommendations were raised mainly relating to tightening up on the Kiosk operation, and these have since been implemented.

Debtors and Income

The annual debtors audit examined the process of raising sundry debts but also to check that debts have been raised accurately and on a timely basis. The Council's sundry debt recovery process was also examined in detail ensuring debts are chased promptly. Audit also reviewed credit notes and whether debts have been written off correctly and validly. No material weaknesses were found and no recommendations were made.

Creditors and Expenditure

The creditors audit examined the following areas: payments to creditors and suppliers including to new suppliers, the payment run process, including checks on prepayment, post payment, and BACS file reports, and appropriate sign offs, The audit also examined controls operating over duplicate payments. In total 14 recommendations were raised, many of these relating to duplicate payment controls. An action plan was agreed with finance managers and the majority of these have since been implemented.

Revenues

The annual revenues audit reviewed business rates and council tax refunds, the reconciliation processes between revenues data and Valuation Office records/cash feeder systems. The review also tested exemptions and discounts awarded to certain accounts. The audit came up with one recommendation relating to controls operating over refunds which has now been actioned.

Housing Benefits

Housing benefit assessments and reconciliation processes were reviewed as part of the annual benefits audit. The audit also considered recovery of benefit overpayments. There were no material issues and no recommendations raised.

Treasury Management

This audit aimed to provide assurance over Council money market investments and to check that the Council is getting a reasonable level of return on its treasury investments, taking into account yield, security, and risk. The audit team tested the treasury strategy, Council investment performance monitoring, access to Bankline and other financial records, Prudential borrowing to meet investments and new acquisitions, as well as Treasury information provided by the Council's treasury advisers. In total 3 audit recommendations were raised mainly relating to re tendering the treasury advisors and these have been actioned.

Capital

The following areas were reviewed as part of the annual capital accounting audit: whether Council assets are being valued periodically and correctly, whether Council assets are being adjusted to reflect changes in market conditions and whether Council assets are recorded/logged and are verified on a periodic basis. The audit also focused on capital projects and whether proper capital budgets are being monitored. A total of four recommendations were made one relating to effective capital budget monitoring and three relating to improving service asset inventories. The actions have only recently been agreed so are not yet due.

Main Accounting

The annual main accounting audit aimed to provide assurance to management that the Council's financial system and associated feeder systems are working correctly, and are being adequately controlled. The audit examined access to Civica, journal entries are created accurately and postings are correct, and prepayments and accruals are processed accurately. The review also tested the corporate budget monitoring process. Four recommendations was raised and these are being addressed.

OTHER COUNCIL AUDITS FROM THE ANNUAL PLAN

Payroll

An annual review of the main payroll processes was undertaken. The audit focused on on-boarding and off-boarding of new starters and leavers, as well as amendments to pay. Overtime claims and staff paid by timesheet were also examined in detail. The processes for determining the number of staff employed, rates of pay, and staff grades were checked by looking at the establishment lists produced. In all 6 recommendations and an action plan has been agreed with the payroll team, the actions are not due at the time of this report.

Information Governance and DPA

Information governance arrangements and the Data Protection Act were the focus of this audit. The audit team examined the records management policy and how it is being applied, the Information Security policy and how it is being applied, Data subject access arrangements and rights of access to personal data, the contractual arrangements in place for the secure disposal of electronic media/ICT equipment, Freedom of Information requests, compliance with the requirements of GDPR legislations, the transfer of Council data between sites, and maintenance of a Publication Scheme under the FOI 2000. The audit also reviewed

arrangements in place dealing with document retention. A total of 10 recommendations were agreed and an action plan has been made to implement these by the end of the year.

Emergency Planning & Business Continuity

This area is reviewed every 3 years. The 2021/22 review consisted of: a review of the Council's emergency planning and business continuity plans, a review of business impact assessments and SITs, a review as to whether risk assessments have been carried out to identify potential threats to the Council, whether there are arrangements in place to support the recovery of critical resources and roles are identified, a review as to whether responsible officers have been identified and trained and plans are tested and updated on a regular basis. The audit also focused on the authority's disaster recovery IT arrangements, hot siting, and related activities. 10 recommendations were made and these are being addressed through reports to CMT as well as periodic meetings between Applied Resilience and service areas.

Parking

The scope of the parking audit focused on the activities under the responsibility of SHBC i.e. off street including permits and car parks. It did not cover activities now managed by Woking on behalf of SCC - on street. The audit tested off street parking income collection and accounting from town centre car parks and rural car parks, contract management arrangements with the cash collection company, as well as season ticket and permit arrangements. There were a number of issues relating to income reconciliation and income records and an action plan has been set up with the parking service manager to address these. A spot check has also been arranged for Quarter 2 2022 to see whether these actions have been implemented.

Fraud

The fraud audit considered a number of corporate issues including whether staff are complying with the requirements of declaration of interests, whether fraud awareness and training sessions are delivered, to what extent there is a strong ethical anti-fraud culture promoted across the Council, whether fraud risks are identified and managed, an evaluation of the Council's financial and management controls and if they are sufficient in the detection and prevention of fraud, and whether gifts and hospitality are being declared and reported. The audit also tested a variety of transactions and services to see if there was any indication of fraud. In total 8 recommendations were raised to improve controls and tighten up on existing procedures and processes.

Camberley Theatre

The theatre audit consisted of a review of the main theatre activities throughout the year including: financial monitoring, income received, and banking, cash handling and end of day cashing up, venue hire, booking process and hire income, bar and catering, stock controls, stock takes, as well as sales and purchases. The audit also considered show contracts and show settlements. 5 recommendations have been raised and at the time of the report are in the process of being agreed with management.

Community Services Partnership

This was the first audit of the CSP between SHBC and RBC since the Partnership commenced in 2021. The audit aimed to provide assurance to management that the transfer of Community Services from Surrey Heath to Runnymede Council was arranged and managed effectively and smoothly. In addition the audit checked that the partnership was progressing as expected

and in line with the partnership agreement. Any learning points were also identified to help inform future service planning and delivery. There were no material issues.

Housing & Disabled Facility Grants (DFGs)

Private housing and Disabled Facilities Grants are audited every 3 years. The scope of this year's audit included a review of grant policies and procedures, testing a sample of grants awarded for disabled facility adaptations to confirm they were awarded correctly and in line with policy/criteria, whether grant applications were processed and awarded in accordance with procedures and evidenced by clearly supported documentation. The audit also tested a sample of grant payments paid to individuals or suppliers, and contract monitoring arrangements were examined. 6 recommendations were made in respect of improving selecting supplies, obtaining quotes and payment to suppliers following works.

AD HOC AND/OR CONSULTANCY WORK AND ADVICE

- **Financial Regulations and SCOs** - the Council's Financial Regulations and Contract Standing Orders underwent a large review in 2021 and were brought up to date by Audit. They were agreed at CMT
- **IR35** - Audit continued to review and assess new workers for IR35 (self-employment) legislation. A paper was prepared by Audit outlining the key issues for IR35 and the main risks for the Council and this was presented to CMT for discussion. Non-compliance of IR35 could set the Council back thousands of pounds in fines.
- **Asset Disposals** - A new policy and associated procedures were prepared by Audit relating to Council asset disposals (non property) to improve controls when obsolete or unwanted assets are disposed of. This was agreed by CMT.
- **Card Use** - Audit carried out an extensive review of purchasing card and credit card use across the Council. A number of recommendations were made including consolidating the overall number of cards in use, switching some officers from credit cards to purchasing cards (which didn't incur any fees), and tightening up on procedures.
- **Investigations** - Audit has assisted with 2 internal investigations. The first was the participation in an Investigation Panel looking into concerns with a local parish council. The second investigation related to a planning matter and whether the Council's fraud policy had been complied with.
- **National Fraud Initiative (NFI)** – a national exercise and database set up by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Audit was appointed Key Contact for this activity, and tasks include coordinating the exercise for the Council, working with the NFI to deliver data matches, and setting up and deleting users.
- **Corporate risk management group** – IA has continued to participate, and has contributed to reviewing the corporate risks and the risk register, and providing risk updates that relate to the audit function.
- **Equalities and diversity action group** – again IA has participated in this group in 2021/22, by reviewing and critiquing equality impact assessments that journey through the group

- **Monitoring Financial Regulations** – part of the audit role is to monitor and report on Financial Regulations compliance, and reporting breaches of non-compliance where necessary to the S151
- **Scheme of Delegation and authorised signatory processes** – the powers of certain officers to sign for financial transactions are managed and monitored by IA. New users are set up by audit, and leavers are deleted. Audit also reviews current levels and makes amendments if required. Audit also monitors compliance throughout the year and reports breaches if necessary.