



Royal Borough  
of Windsor &  
Maidenhead



**WOKINGHAM**  
**BOROUGH COUNCIL**

## **ANNUAL INTERNAL AUDIT & INVESTIGATION REPORT 2020/21**

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## **1. PURPOSE OF THE ANNUAL REPORT**

1.1 This Annual Report provides a summary of the work completed by the Shared Audit and Investigation Service (SAIS) during 2020/21. Its purpose is: -

- to include an opinion on the overall adequacy and effectiveness of the Council's internal control environment,
- present a summary of the audit work on which the opinion is based,
- draw attention to any key issues that may impact on the level of assurance provided,
- provide a summary of the performance of the Service,
- comment on the Audit Service's level of compliance with the Public Sector Internal Audit Standard (PSIAS).

## **2. HEAD OF INTERNAL AUDIT OPINION AND KEY HEADLINES**

- 2.1 The original 2020/21 Audit and Investigation Plan was approved by the Audit Committee on 5 February 2020. Audit work in Quarters 1 and 2 of the financial year saw delays with the commencement of specific audit work being put on hold due to services responding to the impacts of the Covid-19 pandemic.
- 2.2 The original Plan was reviewed and updated to take account of the impact of the pandemic on both the risk profile of the organisation, to agree new audit priorities and to refocus and reprioritise the work of the team to support the organisation to respond to the new risks and changes from the impact of Covid-19; and the resources to deliver the internal audit and investigation activity and in the context of being able to provide adequate assurance over key risk areas and provide an annual audit opinion. The 2020/21 Audit and Investigation Plan In Year Review, which has been required to be more fluid than normal as a result of the pandemic on the Council, was approved by this Committee on 23 September 2020.
- 2.3 During the year, there have been changes to the resource base of internal audit. Two members of the team have had long term redeployments to other service areas to assist the Council respond to the impacts of the Covid-19 pandemic in other service areas. This has resulted in further planned internal audit work being deferred due to there being insufficient capacity to accommodate some of the audit work. In addition, there have been some operational disruptions that impact on the access of internal auditors to key officers, information or systems as those officers have responded to the impact of the pandemic on their services resulting in inefficiencies and reduced outputs. In addition, the SAIS itself has responded to the impacts of Covid-19 by adapting its processes to respond to services being delivered remotely and by providing its own service remotely.
- 2.4 Additional work for the SAIS during the year has related to the various Covid-19 Grants and the Central Government requirements with set timescales and this has had a significant impact on the work of the team in responding to these requirements within tight timescales. This work is summarised in section 6.3 in the main body of this report.

- 2.5 This report provides a summary of the work undertaken by the SAIS in the financial year 2020/21 and the results of that work, whilst also taking account of other assurance mechanisms, which feed into that Head of Internal Audit (Chief Audit Executive) overall opinion. The overall opinion is given based on the audits undertaken during the 2020/21 financial year and summarise the opinion on the internal control environment based on the work in those areas of coverage.
- 2.6 From the work undertaken during the year during this period of uncertainty and from assurances provided by other assurance frameworks, our overall opinion on the adequacy of the Council's arrangements internal controls within the areas reviewed during the year is that:-

#### **Audit Opinion 2020/21**

*Substantially Complete and Generally Effective but with some improvements required". Based on audits completed during the year, most key controls are in place and are operating effectively with the majority of residual risks being reduced to an acceptable level and reported concerns being aimed by management to be reduced to a predominately moderate impact level. A small number of exceptions were identified, and these have been presented to previous meetings of the Audit Committee and the current position in respect of these specific reviews is summarised in the body of this report. This audit opinion supports other assurance mechanisms such as External Audit, external professional body inspections and the Annual Governance Statement (AGS).*

- 2.7 Our opinion is based on evidenced assessment of the control framework in a number of areas in accordance with our revised audit and investigation plan. It should be noted that in devising the annual audit and investigation plan, a risk-based approach is taken and as such areas of highest risk are targeted for review of the mitigation and controls in place.
- 2.8 Full details of the internal audit work we have completed that has informed this opinion can be seen in Appendix A(I), together with the assurance levels we have been able to provide for each review. For each audit review completed, the assurance level is determined based on the level of control found as set out in Appendix A(I) - Legend Section.

### **3. AREAS OF RISK EXPOSURE**

- 3.1 From internal audit work undertaken during 2020/21, for those audits completed to Final Report stage, one received a third category of audit opinion (on a scale of category 1 being 'High' and 4 being 'Low') and two audits improved from category 3 to category 2 opinions. A summary of these audits is provided below.

## **Category 3 Audit Opinions**

### **Housing Rents**

- 3.2 An audit review of Housing Rents was carried out during the final quarter of 2020/21. This review covered a wider scope than the previous audit completed in 2019/20 which had a Category 2 opinion ("Substantially complete and effective"). Prior to this, a Category 3 audit opinion had been assigned to this service area ("Range of mitigation controls is incomplete, and risks are not effectively mitigated").
- 3.3 Follow-up work has been completed in liaison with the Rental Income Team Manager during the past two financial years to track progress since the original Category 3 audit opinion was given in June 2018. This focused on rent collection and the management of current and former tenant arrears. Significant progress in these areas could be demonstrated and a series of updates have been reported to this Committee.
- 3.4 Concerns identified from this recent review are summarised below:
- Anomalies with the rents for re-let properties which indicate that the Rent Standard may have been breached - Internal Audit are aware that work has been undertaken to review rents for all re-let properties with a specialist consultant (Housing Finance Associates) and were informed that this has identified a single instance of a breach of the Rent Standard. The Council has decided to self-report this to the regulator.
  - Management has acted swiftly to strengthen controls over the rents of new lets. The formula rent has been uploaded into Northgate (NG) Housing so that any new lets will have the correct rent applied for the remainder of 2020/21 and for 2021/22. This will be an effective control to prevent any future errors.
  - Internal Audit also identified that both the decision not to apply rent flexibility or market rents to high income tenants had not been ratified. We are aware that further work on the Rent Standard has identified awareness and governance weaknesses. Wokingham lacks the expertise to set rents in accordance with the standard and currently there is a dependency on Housing Finance Associates (HFA) to provide the annual rent setting information.
  - No proactive work has been undertaken to pursue former tenant rent arrears during the Covid-19 pandemic and no pro-active write off activity was undertaken during 2020/21. Substantive testing was not therefore carried out in this area.
  - There were a number of write offs that had been undertaken by the service in response to particular issues during the year and these complied with the Council's Write Off policy.

- The number of accounts in arrears had marginally increased (870 in April 2020 to 905 in January 2021) but debt greater than £1k had fallen. This would indicate that, despite an increased workload, the process for rent management has been effective throughout the period. This is supported by the findings from our work that identified good management of current tenant rent arrears. Sample testing identified proactive management of all the rent accounts reviewed for this audit.
- The Covid-19 pandemic had impacted on the team's ability to complete fully, checks on sheltered housing tenants; a shift to email agreement of tenancies was put in place to comply with Covid-19 working requirements. However, there is a backlog of cases where identity checks will need to be completed once Covid-19 restrictions are lifted.

### **Category 3 Audits improved to Category 2 Opinion**

- 3.5 For two audits previously reported in 2019/20 as being Category 3 (Debtors and Public Health), follow up audit testing during 2020/21 confirmed that these audits have now improved to Category 2 opinions.

#### **Debtors**

- 3.6 Previous audit reports relating to Income Systems and Debtors had assigned a Category 3 audit opinion ("Range of risk mitigation controls is incomplete, and risks are not effectively mitigated"). Since the 2017/18 audit, which assigned Category 3 opinion, follow up work has been carried out to track progress and updates have been given to this Committee.
- 3.7 A full audit was carried out in 2019/20 (final report April 2020) with a Category 2 opinion ("Substantially complete and generally effective"). The progress identified is summarised below.
- 3.8 An experienced Senior Manager, Income Payments and Recovery has been in post since 2018 and has implemented a number of effective measures, along with the service Customer Delivery Lead. These measures included:
- A strict debt tracking process, with a monthly analysis of debt creating a framework for monitoring, managing, and targeting specific debts for effective recovery;
  - A dedicated team of debt recovery specialists put in place;
  - Improvements to the process for collecting income by Direct Debit, including moving away from the existing paper-based system to a more efficient automated system to comply with the Automated Direct Debit Instruction Service (AUDDIS).

- 3.9 There were 9 Medium Risk Concerns identified in the April 2020 audit report. All were assigned treatment counter measures by management. These included:
- Monthly debt reports to be issued to Budget Managers for analysis and action;
  - Performance targets set for the management of both current and aged debt – a proactive approach to regular debt review which had previously been periodic and inconsistent to some extent;
  - Measures to prevent debt developing at the outset – the improved direct debit collection methods being key to facilitating this;
  - A full review and update of documented procedures for this service area;
  - Regular financial reconciliations to take place for Accounts Receivable, to be clearly documented/signed.
- 3.10 There have been considerable pressures in the team since the April 2020 audit report due to Covid-19 impacts, therefore follow up audit work will be programmed in to assess sustained progress in the latter part of 2021/22.

### **Public Health**

- 3.11 A follow-up review was carried out in November 2020 to update the findings of the Public Health 2018/19 audit report (finalised April 2019) where a category 3 assurance opinion was given.
- 3.12 An experienced Public Health Consultant was appointed in August 2020 who has worked closely with the Public Health Programme Manager and her team to address the weaknesses identified in the April 2019 audit report, as part of a wider remit to reshape the service under the Berkshire wide structure. The team have also been central to WBC's navigation through the demands of Covid-19 during since March 2020.
- 3.13 The original audit report contained 9 Concerns, comprising 3 considered to be high risk and 6 as medium risk. The key concern areas identified were:
- Definition/clarity of responsibilities and lack of structured framework;
  - Clarity of governance and reporting arrangements;
  - Budget reporting and financial monitoring arrangements;
  - Risk Register details to be specified and updated;
  - Format of performance management data.
- 3.14 Reasonable progress had been made as at November 2020 in these concern areas with a number of the original audit concerns having been superseded by the revised Berkshire wide structure/framework and other risks agreed as moving from medium to low risk category. Given the extreme demands on this service area since March 2020, a further audit review will be carried out at an appropriate time during the latter part of 2021/22.

#### **4. INTERNAL AUDIT SERVICE PERFORMANCE AND CONTRIBUTION**

- 4.1 Appendix A (I) details the status of audits against the 2020/21 Audit and Investigation Plan as at 31 March 2021 and those audits completed from the 2019/20 financial year. Table 1 provides a summary.

**Table 1: Status of 2020/21 audits**

Audit Status	Number of audits
Work in progress	4
Draft Report	2
Final Report	9
Total	15

- 4.2 For the reviews completed, where an audit opinion was appropriate (i.e., Final Report stage), the following breakdown of classification is summarised in Table 2 below.

**Table 2: Summary of 2020/21 Audit Opinions**

Overall Audit Opinion	Summary of Audit Opinion	No of Adults (2020/21)
1	Complete and Effective	0
2	Substantially Complete and Generally Effective	8
3	Range of Risk Mitigation Controls is incomplete, and risks are not effectively mitigated	1
4	There is no effective Risk Management process in place	0

- 4.3 Audit reports are presented using lean terminology, using the cause, concern and countermeasure and management are given the opportunity to treat, tolerate, terminate, or transfer the concerns and associated risks. Management Action Plans have been put in place to address issues identified during audit work and audit follow up verification will confirm whether agreed countermeasures for Major and Extreme concerns have been actioned within agreed timescales.

- 4.4 Where concerns are classified as being very high or high that have been tolerated by management, these are highlighted to the Audit Committee. There are no cases of Very High or High concerns being tolerated by management.

### **Grant Certification**

- 4.5 Where a grant giving body requires an internal audit certificate before releasing payment, the team carries out work to verify and certify amounts that the Council can claim. Without this certification, grants may become repayable. Grants certified include: -

- Bus Service Operators Grant;
- Disabled Facilities Grant;
- Local Transport Capital Funding Grant;
- Troubled Families Grant (Quarterly).

### **Consultancy, Contingency and Advice**

- 4.6 In addition to completing planned audit reviews, the team also provide consultancy, ad hoc advice, and guidance across the Council to assist colleagues with ensuring control and governance arrangements are considered in developing processes/policies etc. as summarised in Appendix A(I) to this report.

### **Tackling Racism at Work Working Group**

- 4.7 A member of the team is on the Tackling Racism at Work working group which has a scope to review Council policies covering Racism at Work. This has been expanded to all other Diversity and Equality policies as another aspect of this work.

### **Outstanding management responses**

- 4.8 There are no outstanding management responses to audit reports.

## **5. RESOURCES**

- 5.1 Due to the impact of Covid-19 on services within the Council, there have been a number of redeployments during the year where members of the SAIS have assisted in the Council's response to the pandemic. This has had a significant impact on the work of the team, with these redeployments being responded to at short notice, involving two members of the team during the year from an already relatively small team.
- 5.2 In addition, during the year there have been several vacancies, particularly in the second half of the year.

- 5.3 This has been partly addressed by the engagement of a temporary resource for a portion of the year. In addition, in order to make the best use of audit resource, we have: -
- Streamlined audit processes to increase capacity, where appropriate.
  - Narrowed the focus of audit scopes to examine only key risks
  - Appointed temporary cover to fill vacant audit posts.
  - Used resource flexibly to refocus on specific potential control risk/fraud areas e.g. Council requirements to pay Government Grants within short timescales by undertaking pre/post check work aiming to minimise fraud entering the system or being identified.

## **6. FRAUD AND IRREGULARITIES**

- 6.1 The work undertaken by the SAIS has included re-active investigations as well as developing pro-active fraud drives.
- 6.2 There have been no incidences of material fraud, irregularities or corruption discovered or reported during the year.

### **Proactive Investigations**

- 6.3 A number of pro-active exercises have taken place in conjunction with the Revenues Team (Income, Payments and Assessments) including; Empty Property Relief, Covid-19 controls, Covid-19 Business Grant post assurance, Covid-19 fraud risk assessment and BEIS returns, preparation for the Covid-19 Restart Grants and the National Fraud Initiative. Checks have been carried out to confirm the validity of Covid-19 Business grant claims. Whilst the vast majority of claims made have been correct there have been cases where further investigation has been required.

### **Covid-19 Business Grant Fraud Pre and Post Assurance Work**

- 6.4 The Shared Service liaised with the Revenues Team (Income, Payments and Assessments) in terms of the process and controls set up for the payment of Covid-19 grants at the outset. We have also been involved in the Covid-19 Business Grant Fraud post assurance work as set out below.
- 6.5 For Small Business, Retail, Leisure and Hospitality Grants, pre-payment checks were carried out for each application by the Revenues Team (Income, Payments and Assessments) at the start of the Covid-19 Grants payments cycle in late March/early April 2020. Given the pressures from central government to pay these grants as quickly as possible, a corporate decision was taken to relax the pre-payment checks to comply with the target percentage of grants to be paid within a given period (75% of claims to be paid by end April 2020). We liaised with Finance and the Revenues Team (Income, Payments and Assessments) to independently review all applications for which payments were made between 3<sup>rd</sup> and 21<sup>st</sup> April representing 347 business applications at total payments of £5.42 million.

Whilst additional enquiries were made for a number of cases, there were no significant issues or fraudulent applications identified.

- 6.6 The Shared Service has also worked during the year on the post assurance requirements of BEIS for the range of Covid-19 grants made below, for which the outcomes will be reported in our next audit report to this Committee; -
- Local Restrictions Support Grant (Closed) Addendum
  - Local Restrictions Support Grant (Sector)
  - Local Restrictions Support Grant (Closed)
  - Local Restrictions Support Grant (Open)
  - ARG (Additional Restrictions Grant)
  - Local Restrictions Support Grant (Closed) Addendum & CBLP (Closed Business Lockdown Payment)
  - Christmas Support Payment for wet-led pubs

- 6.7 In addition, the Shared Service commenced work on the pre-payment assurance work required for the Business Restart Grants and that work is continuing.

### **Empty Property Review**

- 6.8 Work has been undertaken during the first part of the year to investigate Council Tax Empty Property Relief. It should be noted that the properties identified in the Council Tax Empty Property Relief exercise as occupied that were previously shown as unoccupied feed into the New Homes Bonus Scheme formula and may result in extra income into the council through liable charges being raised for previous council tax liability.
- 6.9 The number of letters sent out for the empty property review was 739 with 591 received back of which 277 of these, reporting changes in circumstances which contribute to the above.

### **National Fraud Initiative Data Matching**

- 6.10 The bi-annual upload of data for the National Fraud Initiative has taken place and the data matches returned will be reviewed as part of the 2021/22 financial year.

### **Reactive Investigations**

- 6.11 In terms of Reactive investigations during the year, work continues with Housing Tenancy and Council Tax Reduction Scheme referrals.

### **Other Investigations Activity**

#### Regulation of Investigatory Powers Act

- 6.12 No investigations have been undertaken during 2020/21 that has required Regulation of Investigatory Powers Act surveillance approval to be requested.

## **7. CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDITING STANDARDS (PSIAS)**

- 7.1 The PSIAS, as revised in April 2017, define the service and professional standards for public sector internal audit services. The standards apply to the Internal Audit function in all parts of the public sector in the UK and are mandatory. Within the PSIAS there is a requirement for an independent external review of the internal audit function once every five years.
- 7.2 The external inspection of the Internal Audit Service against the PSIAS took place in 2018 and assessed the service as ‘generally’ conforming to the standards (the top category of opinion). The action plan and progress against it has been previously reported to the former Audit Committee. A further subsequent self-assessment had taken place and work continues to address the action points identified to assist the service in continuous improvement.
- 7.3 In addition, Internal Audit completes an annual self-assessment of its compliance with the requirements of the PSIAS and the relevant CIPFA’s Local Government Application Note (LGAN). The purpose of the self-assessment is firstly to provide assurance to the Audit Committee and management that Internal Audit is compliant with the PSIAS and that consequently they can rely on the work of Internal Audit, and secondly, to further enhance delivery of the internal audit function through the identification of opportunities for development.
- 7.4 Overall, the 2020/21 self-assessment has concluded that Internal Audit continues to be “generally compliant” with the PSIAS/LGAN requirements with a small number of actions to be addressed from the external assessment.
- 7.5 The Audit Charter and Audit Protocol were updated and approved at this Committee (5 February 2020). This covered the potential impairment of the Head of Internal Audit’s (HoIA) independence and objectivity from directly managing services the SAIS may review, plus how and where the SAIS will report the results of these audits. A number of actions are still required to demonstrate full compliance with the Standards. A summary of the areas is set out below: -
- SAIS to commission external ICT audit specialists to carry out an ICT Audit Needs Assessment for the primary clients and to use this to inform the Audit Plan.
  - Review the Audit Manual to ensure it is up to date and fit for purpose.  
Include statements within this on: -
    - Distribution and use of the content of Internal Audit reports to each report.
    - The process for releasing Audit reports to 3<sup>rd</sup> parties.
    - The evaluation processes if the Head of Internal Audit believes management is accepting a level of risk that is unnecessarily high.  
Work is in progress to update the Audit Manual generally and to

address the above points from the PSIAS; this will be presented to this Committee for approval (Autumn 2021).

- The SAIS should routinely obtain copies of the Penetration Testing (PSN) reviews and consider the work done in the reviews to contribute to the HoIA annual opinion.

## **8. CONTEXT AND COMPLIANCE**

- 8.1 Internal audit is 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, internal control, and governance processes. (Source: Public Sector Internal Audit Standards and Local Government Application Note: Chartered Institute of Public Finance and Accountancy in collaboration with the Chartered Institute of Internal Auditors).
- 8.2 Internal Audit is a statutory requirement for local authorities. There are two key pieces of relevant legislation:
- Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs.
  - The Accounts and Audit Regulations 2015 (Amendment) (England) states that "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".
- 8.3 Internal Audit independence is achieved by reporting lines which allow for unrestricted access to the Chief Executive, the S151 Officer, Directors, and the Chair of the Audit Committee.
- 8.4 The HoIA confirms that any restrictions on the scope of internal audit work and reasons are as outlined in the headline summary section of this report.

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