

REPORT TO: AUDIT AND STANDARDS COMMITTEE

DATE: 16 JUNE 2021

TITLE: INTERNAL AUDIT ACTIVITY REPORT

LEAD OFFICER: SARAH MARSH, INTERNAL AUDIT MANAGER
(01279) 446884

RECOMMENDED that the Committee:

- A** Reviews the outcomes of the work of the Internal Audit service for the period April 2021 to June 2021 and identifies any issues for further consideration.
- B** Agrees the scope of the External Quality Assessment of the Internal Audit service.

BACKGROUND

Progress Against Audit Plan

1. The Harlow audit plan for 2020/21 is almost complete and sufficient work has been undertaken in order for the Internal Audit Manager to give their annual report and assurance opinion which is reported elsewhere in the agenda.
2. Two audits from the 2020/21 plan, Planning and Building Control and Treasury Management, have been deferred due to staff availability and services prioritising Covid-19 related issues and now form part of the 2021/22 Plan.
3. Work has commenced on the 2021/22 Audit Plan. The current status of this is set out at Appendix A to the report.

Internal Audit Reports

4. Six reports have been issued since the Committee received its last update in March 2021:
 - a) Payroll – light touch audit (substantial assurance)

The purpose of the audit was to ensure robust controls were in place at the start of and during the Covid-19 pandemic as processes had to quickly evolve as most staff were required to work from home. This audit provides assurance that the Council has maintained effective payroll systems and processes.

Prior to March 2020 payroll system and processes were mainly paper based, however, managers were informed at the start of the lockdown that electronic copies could be submitted by email instead. Testing confirmed that on the whole this was being followed, however, some managers were still submitting paper copies of forms such as starters, leavers, mileage and overtime claims. Managers should be encouraged to scan documents for payroll to ensure appropriate safeguards are in place for personal data.

This has been a busy time for the HR/Payroll team as the implementation of the new HR/Payroll system (iTrent) commenced during the pandemic. The payroll module was successfully implemented in time for December 2020 salary payments. This has presented additional pressures for the team, running two parallel payroll systems, working with the project consultant to build and test the new system, as well as adjusting to the new ways of working prompted by Covid-19. The issues raised in this audit will be addressed once the new system (iTrent) is fully implemented as paper based processes will be automated.

As of March 2021, payroll reconciliations from the payroll system (CHRIS21) to the general ledger (Agresso) are complete for the period April to November 2020 and documentation has been retained by accountancy and payroll. The HR/Payroll system project team is working to resolve the minor technical issues which affected the completion of reconciliations since December.

b) Capital Projects Programme (moderate assurance)

The non-housing capital programme 2020/21 was formally approved by Cabinet on 23 January 2020 and testing verified there is an effective framework to monitor financial performance with oversight by budget holders, finance, the Senior Management Board and Cabinet. There is, however, scope to enhance the non-financial monitoring framework which could be achieved through a formally constituted officer group with a remit to consider benefit realisation, value for money, project risks, and also to establish a formal review of project performance on completion.

Control can also be strengthened with procedure notes setting out the specific arrangements for when a business case is and is not required to support a capital project, and who authorised that decision.

The procedures also need to define the process for approval of all capital projects including how this is captured and recorded at officer level in a single reference document. It was not possible to confirm, without a single record, the date and approval of all projects, for consideration by Cabinet. This is the officer approval to add a project to the planned capital programme for subsequent Cabinet approval of the overall programme.

An officer working group chaired by the Head of Finance has been meeting to move the recommendations forward.

c) Provision of IT Services to Harlow Trading Services (HTS) (moderate assurance)

A signed contract is in place between HTS and the Council and clearly defines HTS's requirements for provision of ICT Services. Audit testing verified that HTS is billed monthly at 1/12th of the annual contract fee for provision of the ICT services in accordance with the contract. Internal Audit were informed there has never been any deviation from the standard monthly fee.

Review of the contract and Service Level Agreement (SLA) revealed that, performance measures and specific KPIs (key performance indicators) which would help to monitor and assess contract performance are absent. There is no provision for penalties for under performance and with no mechanism for recording these, they will likely go unreported. Contract meetings between

HTS and ICT are less formal than might be expected. Whilst said to be regular, monthly prior to the Covid-19 Pandemic, meetings between the Council and HTS are not formalised, and issues discussed are not documented. The Coronavirus Pandemic has impacted on the nature of meetings and discussions and their formality and this has been noted by the audit.

The Council's Senior ICT Manager does not recollect any additional chargeable work taking place (e.g. out of hours support). The risk exists that such work is being absorbed by ICT and an opportunity to recover this cost is being missed.

ICT has implemented Disaster Recovery plans and procedures for HTS although these are yet to be adequately tested. Firewall hardware has been deployed to protect the network infrastructure, however, it has yet to be subject to external penetration testing.

d) IT Disaster Recovery (moderate assurance)

Whilst Disaster Recovery plans were confirmed to be in place, they had not been reviewed or updated since January 2018. No full recovery test has yet been undertaken to confirm that adequacy of fallback arrangements, although some departmental ones have taken place. The risk exists that without regular and thorough testing, the Council could experience significant and unnecessary downtime in the event of a live invocation.

Internal Audit testing also highlighted the absence of documented technical recovery procedures. Technical recovery procedures are essential to guide ICT support personnel on the process to rebuild key Council systems, particularly if the member of staff that normally deals with this area is not available and someone else has to pick up the activity.

There is a need to regularly review swipe card access to the ICT server room housing all live system hardware. Unauthorised or malicious access to server hardware could lead to reputational damage through the loss or theft of sensitive customer data.

It should be noted that ICT had undertaken extensive work to set up a fallback data centre. In addition, live and Disaster Recovery servers were configured to ensure data was replicated across the two data centres. All servers were physically secure and subject to regular data backup. This development work has taken place since the last audit review which took place in June 2017 and represents a clear improvement to the overall DR picture.

In addition, testing confirmed that ICT servers were protected by environmental hardware including air conditioning to control room temperature, Uninterruptible Power Supply (UPS) to maintain power supplies, and a fire suppression system. However, no evidence was available to confirm that all environmental hardware was subject to regular test and servicing. Without regular servicing, ICT servers may become vulnerable to power outages, power surges or substantial increases in server room temperature.

e) Accounts Payable (moderate assurance)

The purpose of this audit was to ensure robust controls were in place for Accounts Payable at the start of and during the Covid-19 pandemic as processes had to quickly evolve as most staff were required to work from home.

This audit confirms that since March 2020, changes made to Accounts Payable systems and processes in response to Covid-19 are working well in practice and are in the best interests of the Council.

Prior to March 2020, Accounts Payable system and processes were mainly paper based, however, managers and officers were informed at the start of the March 2020 lockdown that invoices will be processed electronically instead. This replaced the need for officers to pass their invoices to the Accounts Payable team for processing. Invoice documentation is retained in a shared central repository so easily accessible to the Accounts Payable team even when working remotely. The main challenges were resolved when officers were provided with ICT equipment to enable them to work remotely.

However, audit testing of invoice payments during the period February 2020 to October 2020 has identified areas of poor practice as purchase orders are not always raised in advance of receiving the goods/services meaning the financial/accounting records have not been updated even though the Council is committed to make the purchase. Furthermore, delays to processing of invoices for payment has resulted in the Key Performance Indicator (KPI) target for payment of invoices within 30 days of the invoice date to be missed during 2020/21. Internal Audit are undertaking a survey of officers involved in raising purchase orders and processing invoices for payment on behalf of the Accounts Payable team to help identify the root cause of the issues highlighted during this audit.

f) Former tenant arrears (follow up audit)

A follow up audit of former tenant arrears was undertaken to review the implementation of the recommendations made in the previous Internal Audit report issued in April 2020 which was given limited assurance.

Progress has been made to implement the recommendations since the previous audit. The void property list is reviewed regularly, therefore, that high priority recommendation has been implemented. The other high priority recommendation made relates to the review of aged debts and this is in progress, being a larger piece of work. Priority is given to the recovery of current rent arrears so there is limited resource for the review of former tenant debts and still needs to be addressed. A sample review of former tenant accounts highlighted that new former tenant arrears are not always actively monitored once initial correspondence has been sent; this reduces the opportunity to maximise debt recovery. Debt recovery processes need strengthening to ensure former tenant arrears are actively monitored from the end of the tenancy with regular communication with the former tenant. Aged debtor reports should be used to ensure the most recent terminations are targeted as this increases the likelihood of recovery.

Write offs are being actioned and former tenant debt is reviewed regularly, approximately £677k of former tenant debt has been written off since April

2020. As at 01 April 2021, former tenant debt is around £878k, the majority of the outstanding debts being more than three years old.

Ongoing Internal Audit Work

5. A number of assignments in the Audit Plan are intended to provide advice and guidance to the Council throughout the year on current issues. As these assignments will not normally result in a single, traditional audit report Internal Audit will summarise its output here for Councillors' information:
 - a) Conducting an audit of a sample of Small Business (SB) & Retail, Hospitality & Leisure Grants (RHLG) and Local Discretionary Grants cases to provide assurance to the Government Department for Business, Energy and Industrial Strategy (BEIS).
 - b) Provided advice and support to the Council's Data Protection Officer regarding information governance policies and processes including the register of processing activities (ROPA) and data retention and disposals. Internal Audit are reviewing the current Freedom of Information and Environmental Information Regulations processes and associated policies to ensure a more efficient and joined up framework across the Council.
 - c) Facilitating the setup of a new officer led working group (chaired by the Head of Governance) which aims to drive forward the information governance agenda across all services in the Council. The group aims as per its Terms of Reference are:
 - i) Communicate and champion the information governance agenda, especially around data retention and disposals
 - ii) Monitor departmental RoPAs (Register of Processing Activities), privacy notices, data breaches
 - iii) Ensure the security and authorisation of information and data held
 - iv) Promote good Information Governance practices and policies
 - v) Ensure that colleagues understand and are equipped to comply with Information Governance processes and procedures
 - d) Continued overseeing the project plan for the implementation of the new HR/Payroll system. Phase 2 of the project includes third party payments and expenses. Internal audit has facilitated regular discussions between key departments to ensure there is a holistic approach to the project.
 - e) Completed the annual service assurance exercise consulting with Heads of Service and Third Tier managers as part of the annual governance process, to provide assurance to the Council and its stakeholders that

good governance arrangements are in place. The results of which have been fed into the Annual Governance Statement.

On-going Anti-Fraud Activities

6. The following information is supplied as part of the Committee's remit in overseeing anti-fraud and corruption at the Council.
7. The table demonstrates the positive work of the Housing Fraud Officer for this year and since they began in May 2018.

Table One – Housing Fraud Officer Work

Activity (fraud prevented)	May 2018 – April 2021	April 2021
Obtaining housing by deception	19	1
Subletting fraud	21	0
Abandonments	9	0
Right to Buy fraud	7	0
Properties recovered	34	1
Completed tenancy checks	391	14
Pending Court Actions (all are for non-occupation through the Civil Court)	6	3
Criminal Convictions	3	0

8. Since 2017 data matching with other councils in Essex as part of a pan-Essex commitment to identifying fraud and error in its Council Tax base continues. The total cumulative savings for Harlow to 31 March 2021 is £223,342.94 (total number of cases 2179). Of which £36,056 was identified in 2020/21.
9. Pre and post assurance checks take place regarding the business grants administered on the Council on behalf of BEIS (Department of Business, Energy and Industrial Strategy) and Essex County Council. This has reduced the risk of fraud, for example officers have identified a grant application fraud (no payments made) in the recent round of grants and have escalated what appear to be organised crime fraud applications to the National Anti-Fraud Network which will disseminate this to relate agencies including other councils.

Recommendation Tracker

10. The Audit and Standards Committee receives details of all overdue recommendations, plus any high priority recommendations from final reports, regardless of whether they are overdue or not.
11. The current tracker, as set out in Appendix B to the report, contains 20 recommendations, 18 of which have passed their due date. The high priority recommendations relate to two separate audits: parks and landscapes and

Equality Act and impact assessments (with the last of these having only recently been completed).

12. A comparison with previous periods is outlined in the table below:

Table Two - Tracker Comparison

Recommendation Priority	Number (as at June 2021)	Number (as at March 2021)	Number as (at November 2020)	Number (as at August 2020)
High - not yet due	2	3	0	0
High - passed due date	2	3	2	2
Medium - passed due date	16	12	12	15
Low - passed due date	0	2	1	2
TOTAL	20	20	15	19

External Quality Assessment (EQA)

13. In line with the Public Sector Internal Audit Standards (PSIAS) an external assessment of the Internal Audit function needs to be undertaken at least once every five years by a qualified independent assessor from outside the Council. The form of the external assessment and the qualifications and independence of the external assessor, including any potential conflict interest, must be discussed with the Audit Committee.
14. The last EQA was undertaken in 2016/17, the results of which were reported to the March 2017 Audit and Standards Committee meeting. The EQA concluded the Internal Audit function was compliant with the PSIAS and it compared favourably with regards to its peers both within local government and the wider industry.
15. The EQA may be accomplished through a full external assessment, or a self-assessment with independent external validation. Like last time the EQA will be achieved through the self-assessment route.
16. Following a tender process Gard Consultancy Services (GCS) has been appointed to undertake the EQA in July 2021. The results of which will be reported to the November 2021 Audit and Standards Committee. Fieldwork will include interviews with the Audit Chairs of Harlow, Broxbourne and Epping Forest as well as each Section 151 Officer.
17. GCS's managing director, Ray Gard, will be undertaking the review and is an experienced finance and governance manager with extensive public sector experience. His last role being Assistant Director of Finance – Audit, Fraud and

Risk Management at London Borough of Waltham Forest (2010-2016). There are no potential conflicts of interest between GCS with the Internal Audit Manager or Harlow, Broxbourne and Epping Forest Councils.

IMPLICATIONS

Environment and Planning (includes Sustainability)

None specific.

Author: Andrew Bramidge, Head of Environment and Planning

Finance (includes ICT)

It is important that the organisation responds to and implements the recommendations flowing from the internal audit process in order to protect and improve the overall internal control environment of the Council.

Author: Simon Freeman, Head of Finance and Deputy to the Chief Executive

Housing

None specific.

Author: Andrew Murray, Head of Housing

Community Wellbeing (includes Regeneration, Equalities and Social Inclusion)

None specific.

Author: Jane Greer, Head of Community Wellbeing

Governance (includes HR)

Internal Audit provides a key element of assurance within the overall Governance framework within the Council and it is important that recommendations flowing from internal audit recommendations are acted upon and implemented within reasonable timescales if reliance on internal controls and procedures is to continue.

Author: Simon Hill, Head of Governance

Background Papers

Internal Audit Plan and Internal Audit monitoring reports

Appendices

Appendix A – Audit Plan Monitoring

Appendix B – Audit Recommendation Tracker

Glossary of terms/abbreviations used

BEIS - Department of Business, Energy and Industrial Strategy

EQA – External Quality Assessment

GCS - Gard Consultancy Services

KPI's – Key Performance Indicators

PSIAS - Public Sector Internal Audit Standards

RHLG - Retail, Hospitality & Leisure Grants
ROPA - register of processing activities
SB – Small Business
SLA – Service Level Agreement