

REPORT TO: AUDIT AND STANDARDS COMMITTEE

DATE: 15 JUNE 2022

TITLE: INTERNAL AUDIT ACTIVITY REPORT

LEAD OFFICER: SARAH MARSH, INTERNAL AUDIT MANAGER
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RECOMMENDED that the Committee:

- A** Reviews the outcomes of the work of the Internal Audit service for the period April 2022 to June 2022 and identifies any issues for further consideration.

BACKGROUND

1. As per their Terms of Reference, one of the roles of the Audit and Standards Committee is to oversee the Council's internal audit function. This report details the work of Internal Audit and any governance, risk management or control environment issues the Committee needs to be made aware of.

Progress Against Audit Plan

2. The audit plan for 2021/22 is almost complete and sufficient work has been undertaken to enable the Internal Audit Manager to give their annual report and assurance opinion which is reported elsewhere in the agenda.
3. Work has commenced on the 2022/23 Audit Plan and Appendix A sets out the current status.

Internal Audit Reports

4. Three reports have been issued since the Committee received its last update in March 2022:
 - a) HTS (Housing and Regeneration) Ltd Governance – Moderate assurance

HTS (Housing and Regeneration) Ltd was established for the delivery of housing and regeneration projects in June 2018 and is a wholly owned subsidiary of HTS Group Ltd, Harlow Council's Local Authority Trading Company. The governance arrangements include Articles of Association and a Scheme of Delegation, and these were found to be fit for purpose.

Monitoring and oversight processes are still being established as there has been limited activity to date. There is not currently a Council representative on the HTS (Housing and Regeneration) Board which would provide independent challenge from the Council's perspective.

There is a clear and documented process for the HTS (Housing and Regeneration) Board which under company structure, reports to the HTS Group Board. The HTS Group Board in turn reports to the Council's Shareholders Sub Committee. Key decisions for HTS (Housing and Regeneration) (as per the scheme of delegation) are the responsibility of the Council's Shareholder Sub Committee being the shareholder of HTS Group and its subsidiaries. The agenda for the Council's Shareholder Sub Committee does not include HTS (Housing and Regeneration) as a standing item which is required to ensure regular monitoring and oversight by the Shareholder.

The HTS (Housing and Regeneration) risk register should be reviewed periodically by HTS and risks should be owned by HTS, instead of the Council's Directors as per the current March 2020 risk register. Whilst risks have been identified, a risk management process should be implemented to ensure risks are identified and managed.

In 2018, when HTS (Housing and Regeneration) was established, a pilot exercise was agreed by Cabinet to purchase five properties for rental at affordable, market or social rent to generate income. The Council took legal advice and has provided a loan to HTS (Housing and Regeneration) and an agreement is in place for repayment at a fixed interest rate. All five properties have been let, and loan repayments are received from HTS. Lessons have been learned in terms of the resources required to renovate and manage the property lettings as they are administered by HTS. The revised business plan (presented to Shareholder Sub Committee on 23 March 2022) included strategic options for the future of (Housing and Regeneration).

b) Waste Contract Management – Limited assurance

The impact of Covid-19 on the waste and recycling contract resulted in over four months of disruption to bin collections. The contractor (Veolia) was unable to collect food and green waste and normal refuse collections were delayed, leading to a significant increase in the number of complaints from residents. At the time of the audit, the contractor has implemented changes to improve efficiencies, therefore the number of complaints has decreased, and normal service has resumed.

The contract specification states that Veolia should provide monthly performance reports to the Council for discussion at contract management meetings, however, these are not being provided. Due to the lack of performance reporting the Council is reliant on its regular contract meetings and the number of complaints to monitor performance.

There are clear roles and responsibilities for contract management processes for the Council and Veolia, and the monthly operational contract management meetings have continued throughout since the start of the contract, and minutes have been provided to show that issues are being addressed. In response to the Pandemic, in March 2020, an additional weekly meeting was established between senior Council Officers managing the contract and the Veolia Contract Manager and General Manager. These meetings are continuing but on a monthly basis and should be minuted to ensure there is no discrepancy in outcomes.

Contract payments are paid to Veolia monthly, including core charges and variable 'property uplift' charges for new homes being built. The property uplift charges are not validated prior to payment for accuracy, the payment is made with a caveat that the figures are unvalidated, and that adjustment will be made if validation identifies any discrepancy. Work has commenced on the validation to ensure correct charges are being paid.

Contract risks are not identified and managed by the Council in line with the Council's risk management framework. A Council owned risk register should be created for monitoring and to ensure appropriate action is taken to minimise the risks to the Council's legal duty to collect household waste. Risk assessments are completed by Veolia and these were found to be fit for purpose.

There were two contract variations regarding green waste collections and enhanced recycling services with the supporting documentation provided for the audit. However, to minimise the risk of future disputes the variation notices need to be formally accepted and authorised by the Council and Veolia as is required by the terms of the contract. At the time of drafting this report discussions are already in progress.

c) Facilities Management – Limited assurance

HTS provide a range of facility management services to the Council. On 23 August 2018 a contract was signed by Harlow District Council and HTS (Property and Environmental Services) Limited to deliver mechanical and electrical planned and reactive maintenance. The contract commenced on the 1 July 2018 and was for three years. On the 5 July 2021 the contract was extended and the letter confirming this states: "This twelve month contract is awarded strictly on condition of the continued adherence to the terms and conditions of the (now expired) August 2018 contract".

The contract had expired before it was formally extended. The documented review of HTS performance is undated and while it shows the items to be reviewed, the evidence to be assessed and the methodology there are no

detailed findings recorded. Therefore, the conclusions in the document are not supported due to the absence of documented detailed findings.

Stock condition surveys were undertaken in 2016, this then informed the updating of the long term maintenance plans, however, the initial five year work programme has slipped and will not now be completed until 2025/26. The full future implication on subsequent years maintenance works costs has not been determined and the associated impact going forward on the capital programmes and the medium term financial plan is therefore unknown.

The Council has a Non Housing Asset Strategy dated 2018, however it needs to be updated to reflect fundamental changes in future property needs of the Council for office space following the pandemic new ways of working, and also to determine those commercial properties which may need to be disposed of or repurposed to achieve acceptable future financial returns.

The Non Housing Asset Strategy update needs to define clear financial and operational performance measures with regular reporting on progress to enhance governance facilities management performance.

There are a number of contracts which are relet annually, better value for money may be achieved if these works were let in packages on a longer term basis. It would also reduce management time in obtaining quotes and tenders every year.

Governance can also be enhanced with an annual review of the cost of facilities management services and how the costs of each major site compares to other comparator buildings on a cost per square of similar basis, including environmental impacts and emissions.

Ongoing Audit Work

5. Internal Audit continues to provide advice and guidance in a number of areas as detailed below. Internal audit has:
 - a) Completed the annual service assurance exercise consulting with Directors and Assistant Directors 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.
 - b) Facilitated meetings of the project governance working group (chaired by the Director of Finance) which is in the process of implementing a corporate project governance framework for all projects across the Council in response to the recommendations of the recent Capital Projects audit.

- c) Co-ordinated discussions between key departments to ensure the Council has systems and processes in place to meet the DWP (Department for Works and Pensions) April 2022 requirement to implement Baseline Personnel Security Standard (BPSS) identity checks for all employees obtaining access to DWP data.
- d) Continued to provide assistance with the post payment assurance verification for Covid-19 grants as required by the Department for Business, Energy and Industrial Strategy (BEIS). This work has confirmed the Council has implemented due diligence processes to provide assurance that claimants met the eligibility criteria, minimising the risk of fraud/error. To date no errors have been found.
- e) Supported the Data Protection Officer and the officer Information Governance Group with information governance matters, including ensuring compliance around Registers of Processing Activities, Freedom of Information and Subject Access requests.
- f) Coordinated the introduction of an online fraud reporting form, to enable anonymous reporting via the Council's website of suspected fraud to enhance the Council's approach for prevention and detection of fraud.
- g) Continues overseeing the project for ongoing implementation of the new HR and payroll system, facilitating discussions between key departments to ensure there is a holistic approach to the project.
- h) Providing advice and guidance to the Regeneration team, regarding the claims process for the Community Renewal Fund (CRF). Around £466k has been received from Essex County Council to support the local economy to be in a better position, to bid and support local businesses in the town.

Anti-Fraud Update

- 6. Revenues and Benefits continue to undertake investigation of the Vigilant matches for single resident council tax discounts. The total savings since data matching began in 2018 amounts to 31 March 2022 are £264,882. Total savings in 2021/22 were £29,587. Additionally, the service is working with Epping Forest District Council's Corporate Fraud Team in looking at a potential grant fraud, which may also be a rates avoidance case.
- 7. The Council is currently considering its options for a tenancy fraud service going forward. In the interim, following Portfolio Holder approval, the Corporate Fraud Team at Epping Forest District Council are commencing fraud checks relating to all Right To Buys.

Recommendation Tracker

8. 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.
9. The current tracker, as set out in Appendix B to the report, contains 21 recommendations which have passed their due date and three high priority recommendations (not yet overdue) from the waste contract management audit.
10. A comparison with previous periods is outlined in the table below. Internal Audit continues to work with the Wider Leadership Team to initially ensure agreed implementation dates are realistic and then to ensure the Council is not exposed to unacceptable risk where the implementation date has had to be revised:

Table One – Recommendation Tracker

Recommendation Priority	Number (June 2022)	Number (March 2022)	Number (November 2021)	Number (June 2021)	Number (March 2021)
High - not yet due	3	0	0	2	3
High - passed due date	0	0	0	2	3
Medium - passed due date	19	16	14	16	12
Low - passed due date	2	1	1	0	2
TOTAL	24	17	15	20	20

IMPLICATIONS

Strategic Growth and Regeneration

None specific

Author: Andrew Bramidge, Director of Strategic Growth and Regeneration

Finance

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, Deputy to the Chief Executive and Director of Finance

Housing

None specific

Author: Andrew Murray, Director of Housing

Communities and Environment

None specific

Author: Jane Greer, Director of Communities and Environment

Governance and Corporate Services

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, Director of Governance and Corporate Services

Appendices

Appendix A – Audit Plan Monitoring 2022-23

Appendix B – Audit Recommendation Tracker

Glossary of terms/abbreviations used

BPSS - Baseline Personnel Security Standard

BEIS - Department for Business, Energy and Industrial Strategy (BEIS)

DWP - Department for Works and Pensions