

REPORT TO: AUDIT AND STANDARDS COMMITTEE

DATE: 1 MARCH 2023

TITLE: INTERNAL AUDIT ACTIVITY REPORT

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RECOMMENDED that the Committee:

- A** Reviews the outcomes of the work of the Internal Audit service for the period December 2022 to February 2023 and identifies any issues for further consideration.
- B** Approves the deferral of the following two audits from the 2022/23 Internal Audit plan: Corporate Performance Indicators and Climate change action plan.
- C** Agrees the scope of the External Quality Assessment (EQA) of the Internal Audit service.

BACKGROUND

Progress Against Audit Plan

1. Work has progressed on the 2022/23 Audit Plan. Appendix A sets out the current status of the Audit Plan.
2. The following two audits (subject to approval) have been carried forward into the 2023/24 Internal Audit plan (detailed elsewhere on the agenda) for the following reasons:
 - a) Corporate performance indicators: The Council is reviewing its suite of key performance indicators and reporting timelines. Internal Audit will review these once processes have been established and embedded.
 - b) Climate change action plan: This audit is dependent on a Council climate change strategy and action plan being in place, which is being worked on.

ISSUES/PROPOSALS

Internal Audit Reports

3. Two reports have been issued since the Committee received its last update in November 2022 and a number of reports are close to being finalised:
 - a) Treasury Management - reasonable assurance

The Council has adopted CIPFA's (Chartered Institute of Public Finance and Accountancy) Treasury Management in the Public Services: Code of Practice (the Code). The Capital and Treasury Report 2022, which included the

Treasury Management Strategy 2022/23, was approved by Cabinet on 27 January 2022 and Council on 3 February 2022.

The audit confirmed the following:

- i) The Treasury Management Strategy 2022/23 included all the specified elements as set out in the Code;
- ii) A Liability Benchmark section was included, this is a new requirement of the 2021 Code of Practice; and
- iii) The Strategy was based on forecast cash held and borrowing as at the 31 March 2021 and future planned capital and revenue cashflows derived from planned budgets, including the capital programme.

A review of treasury management deposits in 2022/23 confirmed compliance with the use of designated counterparties and limits as set out in the Treasury Management Strategy 2022/23.

Whilst the Treasury Strategy details key treasury risks, there is no operational risk register which details Treasury Management risks and the detailed controls and mitigation measures for each risk.

b) Health and Safety Housing Overview – Substantial assurance

There are robust policies and processes in place for housing health and safety building compliance testing for asbestos, gas, electrical, fire safety, lifts and legionella for the Council's housing stock. A program of work is in place to ensure compliance testing is completed within set timescales according to risk and in line with legislation.

There are clear lines of responsibilities determining housing health and safety building compliance checks and effective management oversight at the compliance and health and safety committees which include: Annual Service Charge meetings, Shared Operations Performance Board, Safety Committee, and HTS Shareholder Sub Committee. Compliance records and documentation examined were complete and accurate.

As part of best practice, the Housing Directorate has procured a new compliance system to improve the recording of data and monitoring of health and safety building compliance checks which is currently retained in spreadsheets. To ensure records and documentation transferred and input into the new compliance system are accurate and complete, a quality check should be performed on the source input data (currently held in multiple spreadsheets). In addition, a follow up quality check should be performed once all records and documentation have been uploaded into the new compliance system to ensure they are accurate and complete.

Housing Officers effectively review health and safety building compliance test findings and monitor recommendations, ensuring recommendations are completed according to the level of risk. Performance Management of external contracts completing health and safety building compliance testing is

monitored by Officers and were found to be well managed ensuring a high quality of work.”

Ongoing Audit Work

4. In addition to the Audit Plan, Internal Audit adds value by providing advice and guidance to various services across the Council. Internal Audit has:
 - a) Facilitated a workshop between the Council and HTS to discuss the Council’s Severe Weather Plan and lessons learned from the severe weather (snow and ice) experienced in December 2022. An action plan with responsible owners and timescales has been agreed between both parties.
 - b) Reviewed the internal processes for recording telephone calls and storage of voice data to ensure compliance with General Data Protection Regulations (GDPR) requirements. Internal Audit findings have been shared with the Council’s Data Protection Officer who will ensure phone call recordings are for legitimate purposes and documented in the relevant Register of Processing Activities (ROPA).
 - c) At the November 2022 meeting Internal Audit reported back on two investigations undertaken by Internal Audit. A further two have been completed and reported back to management. One was around the potential misuse of assets by an operative following a concern raised by a whistleblower. The investigation found there was no case to answer and the whistleblower has been informed.
 - d) The other investigation was a post project review which found weaknesses in the following four areas: Project planning and mobilisation, contract management, lack of contingency (financial and timescales) and lack of overall ownership. Lessons learnt from this review are being built in to the Council’s project management framework.
 - e) Continued overseeing the project plan implementing the new HR system, facilitating discussions between key departments to ensure there is a holistic approach to the project.
 - f) Co-ordinated the review of data matches arising from the National Fraud Initiative (NFI) data matching exercise 2022/23, in liaison with Licensing, Housing, Revenues and Benefits, Payroll, Council Tax and the Electoral Register.

Recommendation Tracker

5. The Audit and Standards Committee receives details of all overdue recommendations, plus any high priority recommendations from final reports, regardless of their status. The two high priority recommendations highlighted in this report relate to the 2021/22 Waste Contract Management audit.
6. The current tracker, as set out in Appendix B to the report, contains 22 recommendations which have passed their due date. A comparison with previous periods is outlined in the table below.
7. 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. The Senior Management Board endorses this approach:

Recommendation Priority	Number (March 2023)	Number (November 2022)	Number (June 2022)	Number (March 2022)	Number (November 2021)
High - not yet due	1	1	3	0	0
High - passed due date	1	1	0	0	0
Medium - passed due date	16	20	19	16	14
Low - passed due date	5	0	2	1	1
TOTAL	23	21	24	17	15

External Quality Assessment (EQA)

8. 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.

In November 2022 St Albans City and District Council joined the shared service and on joining their EQA was due for renewal. The shared service at that time (Harlow, Broxbourne and Epping Forest) had an update to EQA having been undertaken in November 2022. It was envisaged that St Albans could 'piggyback' on the shared service EQA. However, the Chartered Institute of Internal Auditors has deemed this is not appropriate (even though St Albans now follow the same processes and methodology as the rest of the shared service) and a new EQA needs to be undertaken covering all four councils.

Gard Consultancy Services (GCS), who undertook the November 2021 EQA, has been appointed to undertake this EQA, which has been programmed in for the end of March 2023. The results of which will be reported to the Audit and Standards Committee. The EQA may be accomplished through a full external assessment, or a self-assessment with independent external validation. Like the November 2021 EQA, it will be undertaken through the self-assessment route.

Fieldwork will include interviews with the Audit Committee Chairs of all four councils and with each authority's Section 151 Officer. 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 (2010-16). There are no potential conflicts of interest between GCS and the Head of Internal Audit (shared services).

Progress Against the Annual Governance Statement

9. The Corporate Governance Group (made up of the Deputy Chief Executive and Director of Finance, Director of Governance and Corporate Support, Legal Services Manager, Insurance and Risk Manager, Relationship and Commissioning Manager and the Head of Internal Audit) continues to monitor the actions set out in the Annual Governance Statement (AGS) on a regular basis, being a standing agenda item. The table below sets out the current position against the action plan:

Key improvement/review area	Progress of action taken in 2022/23
<p>Economic issues</p> <p>At the time of writing this AGS, both national and global events have led to a very volatile economic situation. Unprecedented increases in inflation compared to previous years are being seen and availability of raw materials etc. is a problem globally. This has a direct impact on the Council in terms of potential cost increases including major works and projects. There may also be an indirect consequence with a potential increase in demand by those accessing Council services</p>	<p>Implications are being monitored by SMB and will feature as key considerations in the reports presented to Cabinet through 2022/23 and in the development of the MTFS (Medium Term Financial Strategy) for 2023/24 and future years</p>
<p>Statement of Accounts</p> <p>As reported in last year's AGS, due to technical and resource issues there has been a delay in the final approval of the 2018/19 accounts</p> <p>Nationally, there has been an ongoing issue with councils being unable to get their final accounts audited. For Harlow, this has led to a knock-on effect regarding the 2019/20 and 2020/21 accounts, and in turn the 2021/22 accounts</p>	<p>Some progress is being made as the Audit and Standards Committee approved the 2018/19 Statement of Accounts at its October 2022 meeting (subject to agreement of statutory override in respect of Infrastructure Assets).</p> <p>The Council continues to work with its External Auditors to agree a timetable for the outstanding audits and update the Audit and Standards Committee accordingly.</p>
<p>Financial Management Code review</p> <p>Carried over from last year's AGS action plan</p>	<p>Following the appointment of a permanent Assistant Director Finance and other appointments within the finance function an assessment will be undertaken in 2023/24 to ensure the Council can demonstrate compliance with the Code. Or if there are deficiencies, develop an action plan to address these.</p>

Common themes from the Service Assurance Statements were:	
Risk management and business/service planning Further work is required to develop and embed operational processes	Work undertaken in 2021/22 to better align service/business plans and risk management processes has continued into 2022/23 driven by the Council's recently created Wider Leadership Team.
Project management processes – corporate approach	The work of the project governance working group has concluded and will be rolled out via the Wider Leadership Team following endorsement by SMB (Senior Management Board)

IMPLICATIONS

Strategic Growth and Regeneration

None specific.

Author: Andrew Bramidge, Chief Executive

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 Chief Executive and Director of Finance

Housing

As outlined in the report.

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

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

AGS – Annual Governance Statement

CIPFA - Chartered Institute of Public Finance and Accountancy

EQA - External Quality Assessment

GCS – Gard Consultancy Service

GDPR - General Data Protection Regulations

PSIAS - Public Sector Internal Audit Standards

ROPA - Register of Processing Activities