

Report of the Chief Audit and Control Officer**INTERNAL AUDIT PROGRESS REPORT****1. Purpose of Report**

To inform the Committee of the recent work completed by Internal Audit.

2. Recommendation

The Committee is asked to NOTE the report.

3. Detail

Under the Council's Constitution and as part of the overall corporate governance arrangements, this Committee is responsible for monitoring the performance of Internal Audit. A summary of the reports issued and progress against the agreed Internal Audit Plan is included at appendix 1. A summary narrative of the work completed by Internal Audit since the previous report to this Committee is also included.

Internal Audit has also reviewed progress made by management in implementing agreed actions within six months of the completion of the respective audits. Details of this follow-up work are included at appendix 2. Where agreed actions to address significant internal control weaknesses have not been implemented this may have implications for the Council. A key role of the Committee is to review the outcome of audit work and oversee the prompt implementation of agreed actions to help ensure that risks are adequately managed.

Members may observe that some of the terminology used within this report has changed from that used in previous Internal Audit Progress reports. For instance, recommendations are now categorised as 'high priority', 'medium priority' and 'low priority' rather than 'significant' or 'merits attention' as previously. Similarly, audit 'objectives' have now been replaced with audit 'key risks'. This change in terminology is part of a move towards a more risk-based approach and focus for Internal Audit, in line with 'industry' best practice. The underlying audit work and level of assurance provided does not significantly change as a result.

Further progress reports will be submitted to each future meeting of this Committee. A final report detailing the overall performance and productivity of Internal Audit for 2022/23 will be presented to this Committee in July 2023.

4. Financial Implications

The annual cost of the Internal Audit activity is included within established Finance Services budgets. The salary cost for Internal Audit was underspent in 2021/22 due to the vacancy referred to in the report.

5. Legal Implications

This report already sets out the legal framework for Internal Audit to provide a summary of internal audit work. It addresses the statutory obligations for local audit processes. The Local Government Act 1972 and subsequent legislation sets out a duty for the Council to make arrangements for the proper administration of its financial affairs. This report also complies with the requirements of the following:

- Local Government Act 1972
- Accounts and Audit Regulations 2015
- CIPFA/IIA: Public Sector Internal Audit Standards (PSIAS)
- CIPFA/IIA: Local Government Application Note for the UK PSIAS 33.

The provision of an Internal Audit service is integral to financial management at the Council and assists in the discharge of its duties.

6. Human Resources Implications

Not Applicable.

7. Union Comments

Not Applicable.

8. Data Protection Compliance Implications

There are no Data Protection issues in relation to this report.

9. Equality Impact Assessment

As there is no change to policy an Equality Impact Assessment is not required.

10. Background Papers

Nil.

APPENDIX 1

INTERNAL AUDIT REPORTS ISSUED SINCE JANUARY 2022

Audit Title	Report Issued	Assurance Opinion	Actions (High Priority)	Actions (Medium / Low Priority)
Bank Reconciliation	11/01/22	Substantial	0	1
Garden Waste Collection	19/01/22	Substantial	0	1
Financial Appraisal – Stapleford Hub	01/03/22	No cause for financial concern noted		
Environmental Health	02/03/22	Reasonable	0	3
Customer Services	07/03/22	Reasonable	0	2
Bramcote Leisure Centre	11/03/22	Reasonable	0	3
Treasury Management	11/03/22	Substantial	0	0
Financial Appraisal – TCRF Applicant	16/03/22	No cause for financial concern noted		
Financial Appraisal – TCRF Applicant	17/03/22	No cause for financial concern noted		
Financial Appraisal – TCRF Applicant	30/03/22	No cause for financial concern noted		
Homelessness Prevention Grant Return	12/04/22	Submitted with no issues noted		
Financial Appraisal – High Hazels Court	26/04/22	No cause for financial concern noted		
Council Tax	11/05/22	Substantial	0	1
DH Lawrence Birthplace Museum	12/05/22	Reasonable	0	2
Corporate Governance	16/05/22	Annual Governance Statement 'Approved'		
Financial Appraisal – TCRF Applicant	26/05/22	No cause for financial concern noted		
Financial Appraisal – TCRF Applicant	30/05/22	No cause for financial concern noted		
Cash Receipting	20/06/22	Audit re-scooped		
Financial Appraisal – TCRF Applicants	21/06/22	No cause for financial concern noted		
'Protect and Vaccinate' Grant Return	24/06/22	No issues noted – return submitted		
Grounds Maintenance Services	27/06/22	LIMITED	1	2
Health and Safety	11/07/22	Reasonable	0	3
'Contain Outbreak' Grant Return	28/07/22	No issues noted – return submitted		
'Test and Trace' Grant Return	01/08/22	No issues noted – return submitted		
Licensing	10/08/22	Substantial	0	1
Financial Appraisal – TCRF Applicants	10/08/22	No cause for financial concern noted		
Financial Appraisal – TCRF Applicants	25/08/22	No cause for financial concern noted		
Kimberley Leisure Centre	13/09/22	Reasonable	0	0
Benefits	14/09/22	Substantial	0	1
Markets – Cash Review	22/09/22	No issues	0	4
Bereavement Services – Cash Review	26/09/22	No issues	0	2
Major Projects – Governance Dashboard	26/09/22	No cause for concern noted		

REMAINING INTERNAL AUDIT PLAN 2022-23

Audit Title	Progress
Financial Resilience	In progress
Rents	In progress
Stapleford Town Fund	In progress
Business Rates (NNDR)	In progress
Business Support	Not yet commenced
Former Council House Repurchasing	Not yet commenced

Right-to-Buy	Not yet commenced
Housing Management System	Not yet commenced
Choice Based Lettings	Not yet commenced
Human Resources	Not yet commenced
Local Authority Trading Company	Not yet commenced
Council Tax	Not yet commenced
Sundry Debtors	Not yet commenced
Bank Reconciliation	Not yet commenced
Creditors and Purchasing	Not yet commenced
Key Reconciliations	Not yet commenced
Gas Servicing and Maintenance	Not yet commenced
Electrical Testing	Not yet commenced
Climate Change	Not yet commenced
Business Continuity	Not yet commenced
Payroll	Not yet commenced
Information Management	Not yet commenced
Operational Risk Management – Kimberley Depot	Not yet commenced
Waste Management (including Trade Waste)	Not yet commenced
Legal Services	Not yet commenced
Commercial/Industrial Properties	Not yet commenced
Housing Repairs	Not yet commenced

COMPLETED AUDITS

A report is prepared for each audit assignment and issued to the relevant senior management at the conclusion of a review that will:

- include an overall opinion on the effectiveness of the policies, procedures and other systems of control implemented by management in mitigation of the specific identified key risks relating to the area under audit. This opinion is categorised as either 'Substantial', 'Reasonable', 'Limited' or 'Little' assurance;
- identify inadequately addressed risks and ineffective control processes;
- detail the actions agreed with management and the timescales for completing those actions; and
- identify issues of good practice.

Recommendations made by Internal Audit are prioritised, with the agreed actions being categorised accordingly as follows:

- High Priority – Action considered necessary to avoid unmitigated exposure to significant risks (previously 'Significant')
- Medium Priority – Action considered necessary to avoid unmitigated exposure to other key risks (previously 'Merits Attention – Necessary Control')
- Low Priority – Action recommended in order to improve existing procedures and other systems of internal control (previously 'Merits Attention')

The following audit reports have been issued with key findings as follows:

1. 'Contain Outbreak' (COMF) Grant Return

Internal Audit was requested by the Head of Finance Services to review and submit a return to the UK Health Security Agency. The purpose of the return was to confirm that the conditions attached to the grants awarded to the Council for the purposes of the 'contain outbreak' (COMF) scheme had been met.

No issues were noted as part of this review and the return was submitted to the Agency accordingly.

2. 'Test and Trace' Support Payment Grant Return

Internal Audit was requested by the Head of Revenues, Benefits and Customer Services to review and submit a return to the UK Health Security Agency. The purpose of the return was to confirm that the conditions attached to the grants awarded to the Council for the purposes of the 'Test and Trace' Support Payment Scheme had been met.

No issues were noted as part of this review and the return was submitted to the Agency accordingly.

3. Licensing

Assurance Opinion – Substantial

The primary purpose of the audit was to provide assurance over the effectiveness of the policies, procedures and other systems of control implemented by management in mitigation of the following specific identified key risks:

- Licences are granted without the appropriate legal and regulatory requirements being met.
- Unlicensed activity within the Borough is neither detected nor appropriately managed.
- Licence conditions are inadequately enforced.
- Incorrect fees and charges are applied to licence applications and renewals.
- Income collection for licence fees and charges is inadequately managed.

Internal Audit was pleased to report that no significant issues were identified in the course of this review. In particular, it was noted that appropriate controls are in place to ensure licences are only issued where the appropriate legal and regulatory requirements have been met.

One recommendation (low priority) relating to an improvement in the system of recording complaints from members of the public regarding licensed premises or licence holders was presented to and agreed with management.

4. Financial Appraisals – Town Centre Recovery Fund Grant Applications

Internal Audit provided several financial appraisals of businesses which had applied for grants from the Stapleford Town Centre Recovery Fund. These reviews were requested by the Economic Development and Regeneration Manager, with management requiring consideration of the financial viability of the applicants in order to evidence that the payment of a grant from the fund would be reasonable and to reduce the risk of fraud.

The reviews were produced on the basis of information received from the applicants, financial data retrieved from Companies House and other publicly available information. No specific cause for financial concern was noted in reference to any of the applicants. The findings were reported to senior management and the officer requesting the reports.

5. Kimberley Leisure Centre

Assurance Opinion – **Reasonable**

Members may recall that on the 31 August, the Joint-Use Agreement with East Midlands Education Trust (EMET) for the use of the sporting facilities at Kimberley School by the Council's leisure service company, Liberty Leisure Limited (LLL), came to an end. Members may further recall that whilst LLL continues to offer leisure services at Kimberley School under licence from EMET, responsibility for the maintenance and upkeep of the buildings has now transferred to the trust.

As part of the Internal Audit Plan for 2022/23, a pre-transfer review of certain specific aspects of operations at Kimberley Leisure Centre was carried out in order to provide assurance to management, the Board and the Council and to assist management at Kimberley Leisure Centre in their preparations for the transfer. The specific areas reviewed by Internal Audit were:

- Asbestos Management
 - Electrical Safety
 - Fire Safety
 - Legionella Protocols
 - Inventory Management

No significant issues were noted during the course of the review. As the Centre has now transferred to EMET, no recommendations for future action regarding the areas reviewed as part of this audit were made. Rather, during the course of the audit a small number of minor issues were communicated to management with appropriate action being taken prior to the date of the transfer.

6. Benefits**Assurance Opinion – Substantial**

The primary purpose of the audit was to provide assurance over the effectiveness of the policies, procedures and other systems of control implemented by management in mitigation of the following specific identified key risks:

- Claims for Housing Benefit and Council Tax Support may not be assessed in an accurate and timely manner.
- Benefit overpayments may not be identified and recovered in a timely manner.
- Write offs may not be appropriately validated and authorised.
- Performance reporting and monitoring against service targets may be inadequate.
- Reconciliations to other primary financial systems may not be completed in an accurate and timely manner.
- Sensitive personal information may not be handled in an appropriate manner.
- Effective processes may not be in place to manage potential fraudulent activity.

Internal Audit was pleased to report that no significant issues were identified in the course of this review. In particular, it was noted that the write offs reviewed as part of the testing were appropriately authorised and reconciliations to the primary financial systems for the period had been completed in a timely manner.

One recommendation (medium priority) relating to the importance of maintaining a regular programme of checking of processed applications for Housing Benefit and/or Council Tax Reduction was presented to and agreed with management.

7. Markets – Cash Handling Review

As reported to this Committee at the previous meeting in July, the original Audit Plan for 2022-23 contained an audit of Cash Receipting across the entire Council. During the planning work for this audit, however, it was discovered that the amount of cash received by the Council is now minimal. Only two service areas were noted to handle cash amounts and transaction volume of any significance, one of these being Markets.

The planned audit of Cash Receipting was accordingly re-sscoped to form a review of cash handling within the two service areas identified.

Internal Audit was pleased to note that the cash handling processes implemented by the Markets service area are considered generally satisfactory and no significant issues were identified during the course of the audit.

Four recommendations (two medium priority, two low priority) relating to the provision of a card payment facility, a formal risk assessment for cash handling, the development of market site plans and the storage of used documentation, were presented to and agreed with management.

8. Bereavement Services – Cash Handling Review

As reported to this Committee at the previous meeting in July, the original Audit Plan for 2022-23 contained an audit of Cash Receipting across the entire Council. During the planning work for this audit, however, it was discovered that the amount of cash received by the Council is now minimal. Only two service areas were noted to handle cash amounts and transaction volume of any significance, one of these being Bereavement Services. The planned audit of Cash Receipting was accordingly re-scope to form a review of cash handling within the two service areas identified.

Internal Audit was pleased to note that the cash handling processes implemented by Bereavement Services at Bramcote Crematorium are considered generally satisfactory. In particular, during the period under review it was confirmed that all income received had been appropriately receipted and banked in a timely manner.

Two recommendations (one medium priority, one low priority), relating to the provision of a card payment facility and a review of the frequency of cash collections, were presented to and agreed with management.

9. Major Projects – Governance Dashboard

The Council currently has three major projects in progress: the redevelopment of Beeston Square, the Housing Delivery Plan and the Stapleford Towns Fund. As part of Internal Audit's role in providing independent assurance over the governance arrangements in place at the Council, a 'Governance Dashboard' report relating to these three projects is periodically provided to this Committee.

The most recent Governance Dashboard is presented to this Committee alongside this progress report as part of the same agenda. Internal Audit is pleased to report that no issues have been noted with the governance arrangements for the three major projects currently in progress.

Current Audit Performance

As reported previously to this Committee, a vacancy existed within the Internal Audit team between October 2021 and July 2022. This has resulted in considerable slippage in the completion of both the 2021-22 and 2022-23 Internal Audit Plan.

The Chief Audit and Control Officer is pleased to report that, as of 1 August, a new Senior Internal Auditor has joined the Council. Work has now commenced on higher-risk planned audits that were previously deferred as a result of the vacancy period.

APPENDIX 2**INTERNAL AUDIT FOLLOW-UP**

Internal Audit has undertaken a review of progress made by management in implementing agreed actions within six months of the completion of the audit. The table below provides a summary of the progress made with agreed actions for internal audit reports issued and where actions have now become due for follow-up. Those audits where all actions have previously been reported as completed have been excluded from this list.

Audit Title	Report Issued	Original Assurance Opinion	Number of Actions (High Priority in brackets)	Progress
Financial Resilience	03/07/20	Reasonable	4	1 Outstanding
Local Authority Trading Company	06/07/20	Reasonable	3 (1)	2 Outstanding
Housing Delivery Plan	08/06/21	Substantial	3 (1)	2 Outstanding
Creditors and Purchasing	18/11/21	Reasonable	7	2 Outstanding
Environmental Health	02/03/22	Reasonable	3	Completed
Customer Services	07/03/22	Reasonable	2	1 Outstanding
Bramcote Leisure Centre	11/03/22	Reasonable	3	Completed

Further details of progress being made with high and medium priority agreed actions that have not yet been fully implemented are included below along with comments from management reflecting any updates on progress. Evidence of implementation will not be routinely sought for all actions as part of this monitoring process. Instead, a risk-based approach will be applied to conducting further follow-up work. Actions marked as 'superseded' refer to occasions where either 1) developments within the relevant Council department, or the environment within which the department operates, have occurred since the date of the original audit report and the action is no longer relevant or considered a priority in light of the consequent change to the Council's risk profile; or, 2) an alternative action has been implemented to mitigate the risk identified.

Where the agreed actions to address significant internal control weaknesses have not been implemented this may have implications for the Council. A key role of the Committee is to review the outcome of audit work and oversee the prompt implementation of agreed actions to help ensure that risks are adequately managed.

OUTSTANDING ACTIONS

1. Financial Resilience	July 2020, Reasonable, Actions – 4
1.1 CIPFA Financial Resilience Index	
<u>Agreed Action</u> (Medium Priority)	
It is anticipated that the CIPFA Financial Resilience Index will be refined post Covid-19 to ensure that it remains fit for purpose. The benefits of using this analytical tool to support good financial management and provide a common understanding amongst managers and members of the current financial position and potential risks are acknowledged. Further work in developing this for Broxtowe, at least in the short-term, will be dependent upon further updates from CIPFA.	
<u>Manager Responsible</u> Deputy Chief Executive	Target Date: 31 March 2021
<u>Progress Report of the Deputy Chief Executive</u>	
The 2022 update of the CIPFA Financial Resilience Index has only recently been published. As one of several key tools which assist the Council in understanding its overall financial position relative to comparable and neighbouring Authorities, the Index data will be reviewed and any insights considered and actioned as appropriate.	
Revised Target Date: 30 September 2022	
2. Local Authority Trading Company	July 2020, Reasonable, Actions – 3
2.1 Revision and Update of Service Management Agreement	
<u>Agreed Action</u> (High Priority)	
The Council's new Leisure Facilities Strategy is currently being developed, although its full adoption and implementation will be a long-term project. In the meantime, it is anticipated that the proposed Strategy will have been developed by late summer 2020. At this stage, the Strategy will be used as the starting point for an initial review of the Service Management Agreement between the Council and the Company.	
<u>Managers Responsible</u> Deputy Chief Executive Leisure Client Officer Managing Director – Liberty Leisure Limited	Target Date: 31 October 2020
<u>Progress Report of the Deputy Chief Executive and Leisure Client Officer</u>	
The Licence to Occupy the Kimberley Leisure Centre has now been agreed by the East Midlands Education Trust, the Council, Liberty Leisure Limited and Kimberley Academy. The agreement is currently with the Trust to sign. The agreement will come into force on 1 September 2022 and has secured the short term continuation of Liberty Leisure Limited operating from the site and the Council continuing to offer/provide community leisure within the Kimberley area.	
The Leisure Facilities Strategy continues to be worked through by the Council. The latest strategy report identified a large capital investment which the Council would have to agree to in order to deliver a new leisure facility. This would in turn mean that the Council could face a significant borrowing cost; as a result, the Deputy Chief Executive is currently investigating options of how to potentially meet this increased borrowing.	

A report will be presented to Cabinet in September which will provide one element of this work.

Revised Target Date: 31 December 2022

2.2 Review of Joint-Use Agreement with Chilwell School

Agreed Action (Medium Priority)

The ongoing review and re-negotiation of the Joint-Use Agreement with Chilwell School will recommence, in conjunction with Legal Services, with a view to finalising the agreement.

Managers Responsible

Deputy Chief Executive
Leisure Client Officer

Target Date: 30 April 2021

Progress Report of the Deputy Chief Executive and Leisure Client Officer

With the work for Kimberley Leisure Centre coming to an end, it will provide the opportunity to undertake a short review of the joint-use agreement for Chilwell School. This review will cover the current operations at the site, the future opportunities which may be presented and the longevity of the agreement from an operational perspective. It is expected the review will be concluded by January 2023.

Revised Target Date: 31 January 2023

3. Housing Delivery Plan

June 2021, Substantial, Actions – 3

3.1 Revision and Update of the Housing Delivery Plan

Agreed Action (Medium Priority)

The Housing Delivery Plan will be refreshed and updated, in consultation with the Head of Housing, to fully reflect the current aspirations and potential of the project. An update report will be presented to the Housing Committee accordingly.

Managers Responsible

Head of Asset Management and Development
Housing Delivery Manager

Target Date: 31 December 2021

Progress Report of the Housing Delivery Manager

A review of the adopted Housing Delivery Plan will be undertaken at the next meeting of the Housing Delivery Group (an inter-departmental officer group). Following this a report will be prepared for Cabinet outlining the strategy for the future development of the Housing Delivery Plan.

Revised Target Date: 30 September 2022

3.2 Risk Register

Agreed Action (Medium Priority)

A standalone project-specific risk register for the Housing Delivery Plan will be developed and maintained.

Managers Responsible

Head of Asset Management and Development
Housing Delivery Manager

Target Date: 31 August 2021

Progress Report of the Housing Delivery Manager

A risk register for the Housing Delivery Plan will be developed following the review of the Housing Delivery Plan.

Revised Target Date: 31 October 2022

4. Creditors and Purchasing

November 2021, Reasonable, Actions – 7

4.1 Implementation of Kofax

Agreed Action (Medium Priority)

Significant progress has been made with the implementation of the Kofax intelligent scanning project and an update report will shortly be presented to GMT. A recent offer of external consultancy support has been made, but this may not be required with the project already moving towards completion.

The project management of the Kofax system implementation was assigned to the Principal Accountant (currently vacant and being filled on an interim basis), with operational support from the Projects and Performance Officer. In the meantime, the Head of Finance Services will assume responsibility for monitoring and providing feedback on progress and any issues identified. Going forward, the benefits of establishing an Officer Working Group to raise, discuss and resolve issues will be considered.

Managers Responsible

Head of Finance Services
Chief Accountant
Principal Accountant

Target Date: 31 March 2022

Progress Report of the Head of Finance Services

Progress continues to be made with processing more transactions through the Kofax intelligent scanning system. The new Principal Accountant is leading the project implementation team and actions have been allocated to extend usage and provide training, guidance and solutions. It is still envisaged that this work will be largely concluded by the revised target date of 31 October 2022.

Revised Target Date: 31 October 2022

4.2 Supplier Bank Details

Agreed Action (Medium Priority)

The process for adding and updating supplier bank account details will be reviewed, in conjunction with the software supplier and benchmarked against other local authority users of this system. The system functionality and reporting will determine the approach but essential measures will be taken to ensure that adequate segregation of duties are maintained and enhanced management information can be produced by the system in relation to bank account changes.

Managers Responsible

Chief Accountant
Principal Accountant

Target Date: 31 March 2022

Progress Report of the Head of Finance Services

The process for adding and updating supplier bank account details is well-established and effective. However, the whole process will be reviewed and stress tested to ensure that it remains fit for purpose in combatting potential fraudsters. This work will be concluded once other priorities with final accounts and audit have been completed.

Revised Target Date: 30 September 2022

5. Customer Services

March 2022, Reasonable, Actions – 2

5.1 Review of Customer Services Strategy

Agreed Action (Medium Priority)

The Customer Services Strategy will be reviewed and updated as necessary.

Managers Responsible

Head of Revenues, Benefits and Customer Services

Target Date: 31 August 2022

Progress Report of the Head of Revenues, Benefits and Customer Services

The Customer Services Team is currently working with the Overview and Scrutiny Working Group and will look to incorporate appropriate recommendations into the revised Customer Services Strategy. As a result of this, the revised Strategy is likely to be submitted to the November meeting of Cabinet for formal approval.

Revised Target Date: 30 November 2022