Divisions: All

AUDIT and GOVERNANCE COMMITTEE – 13 January 2021

INTERNAL AUDIT 2020/21
PROGRESS REPORT

Report by the Director of Finance

RECOMMENDATION

1. **The committee is RECOMMENDED to note the progress with the 20/21 Internal Audit Plan and the outcome of the completed audits.**

EXECUTIVE SUMMARY

2. This report provides an update on the Internal Audit Service, including resources, completed and planned audits.

3. A full update on resources was made to the Audit and Governance Committee in May 2020 as part of the Internal Audit Strategy and Plan for 2020/21. Since then the recruitment activity which had been paused due to covid-19, recommenced and we have successfully appointed to the Senior Auditor and Assistant Auditor vacancies.

4. The report includes the Executive Summaries from the individual Internal Audit reports finalised since the last report to the September 2020 Committee. Since the last update, there have been no further red reports issued.

5. Previous reports with the grading of Red continue to be monitored by the Audit Working Group for implementation.

PROGRESS REPORT:

RESOURCES

6. A full update on resources was made to the Audit and Governance Committee in May 2020 as part of the Internal Audit Strategy and Plan for 2020/21. Since then the recruitment activity which had been paused due to covid-19, recommenced and we have successfully appointed to the Senior Auditor and Assistant Auditor vacancies.

7. The November committee meeting was also updated, with the additional posts that had been agreed as dedicated counter fraud resource, with an updated structure chart presented for Internal Audit and Counter Fraud. The delivery of a joint Internal Audit Service across both CDC and OCC will be extended to include a joint counter fraud service from April 2021.

Recruitment is in progress to ensure resources are in place for the beginning of the financial year.

8. The Senior Auditor and Audit Manager continue to undertake professional study, undertaking the Chartered Internal Audit Qualification. They both have one more exam to complete. We are now supporting the other two Senior Auditors, who are now undertaking the Certified Internal Audit Qualification. The Assistant Auditor has also now commenced studying for an Internal Audit apprenticeship.

2020/21 INTERNAL AUDIT PLAN - PROGRESS REPORT

9. The 2020/21 Internal Audit Plan, which was agreed at the July Audit & Governance Committee, is attached as Appendix 1 to this report. This shows current progress with each audit. The plan and plan progress is reviewed quarterly with the individual directorate leadership teams.

10. There have been 5 amendments to the Internal Audit Plan, which are included in Appendix 1 of this report. This highlights 5 pieces of audit activity that have been deferred until 21/22 Internal Audit Plan, and three pieces of work that have replaced these. (2 audits that have been deferred have not been replaced, these days have been used as a contingency to cover additional days required on other audits and a shortfall of days available due to recruitment of the Senior Auditor post, etc being delayed due to covid).

11. There have been 4 audits concluded since the last update (provided to the September meeting of the Audit and Governance Committee); summaries of findings and current status of management actions are detailed in Appendix 2. The completed audits are as follows:

Directorate	2020/21 Audits	Opinion
Childrens	Troubled Families – 20/21 – Claim 2	n/a
Communities	Highways	Amber
IT	IT Incident Management	Amber
Childrens	Carterton Community College	Amber

PERFORMANCE

The following performance indicators are monitored on a monthly basis.

Performance Measure	Target	% Performance Achieved for 20/21 audits (as at 09/12/20)	Comments
Elapsed time between start of the audit (opening meeting) and Exit Meeting.	Target date agreed for each assignment by the Audit manager, stated on Terms of Reference, but should be no more than 3 X the total audit assignment days (excepting annual leave etc)	60%	Previously reported year-end figures: 2019/20 61% 2018/19 69% 2017/18 80% 2016/17 60%
Elapsed Time for completion of audit work (exit meeting) to issue of draft report.	15 days	70%	Previously reported year-end figures: 2019/20: 74% 2018/19 82% 2017/18 95% 2016/17 94%
Elapsed Time between issue of Draft report and issue of Final Report.	15 days	75%	Previously reported year-end figures: 2019/20: 74% 2018/19 85% 2017/18 92% 2016/17 75%

The other performance indicators are:

- % of 2020/21 planned audit activity completed by 30 April 2021 - reported at year end.

- % of management actions implemented (as at 9/12/20) - 69%. Of the remaining there are 4% of actions that are overdue, 5% partially implemented and 22% of actions not yet due.
  (At September 2020 A&G Committee the figures reported were 63% implemented, 6% overdue, 6% partially implemented and 25% not yet due)

- Extended Management Team satisfaction with internal audit work - reported at year end.

COUNTER-FRAUD

12. The next counter fraud update to Audit & Governance Committee is scheduled for March 2021.

SARAH COX
Chief Internal Auditor

Background papers: None.
Contact Officer: Sarah Cox: 07393 001246

APPENDIX 1 - 2012/21 INTERNAL AUDIT PLAN - PROGRESS REPORT

Audit	Planned Qtr Start	Status as at 8/12/20	Conclusion
Corporate / Cross Cutting			
Covid-19 funding / payments – where requested we are reviewing and advising on processes being established, providing assurance on some of the payments and reliefs made.	Q2	Fieldwork	
Commercial Development, Assets and Investments			
Contract Management – Payments by Results Contracts (sample across services) - (Combined Audit and Counter Fraud activity)	Q3	Deferred to 21/22 – see notes below	
Property, Investment & Facilities Management	Q3/Q4	Deferred to 21/22 – see notes below	
Communities			
Highways Contract Management	Q1	Final Report	Amber
Communities / Place and Growth / Finance			
Capital Programme – Governance, Formulation and Prioritisation	Q4	Deferred to 21/22 – see notes below	
Finance			
Payroll	Q1	Draft Report	Amber
Pensions Administration	Q3/Q4	Fieldwork	
Combined audit & counter fraud reviews of financial systems / processes – areas to be determined based upon risk.	Q3/Q4	Additional days spent on Covid 19 funding / payments audits (as above)	-
Childrens			
Childrens Payments via Controcc/LCS Recording – Follow up audit	Q4	Scoping	
Management of Placement Vacancies	Q3	Scoping	
Family Safeguarding Plus – Financial Management	Q4	Scoping	
Troubled Families (3 claims)	Q1-Q4	July Claim -complete	n/a

			Sept Claim – complete March Claim – to do	
ICT new system implementation - Children's Education System (including design of internal controls / processes, including IT security controls)	Q3/Q4	Not started		
ICT – Application audit - Childview System (OYJS)	Q1	Final Report	Amber	
SEND (audit started at the end of 2019/20, c/f to 20/21 due to covid-19)	Q1	Final Report	Red	
Carterton Community College	Q1	Final Report	Amber	
Adults				
Order of St Johns Contract	Q3	Scoping		
Mental Health – Outcomes Based Contract Contribution	Q2	Deferred to 21/22 – see notes below		
Addition to plan: Approved Mental Health Professionals Team	Q4	Scoping (replaces Mental Health OBC)		
Client Charging	Q4	Scoping		
Payments to Providers	Q4	Scoping		
Customers & Organisational Development				
Cultural Services – Music Service	Q3	Fieldwork		
Corporate - Risk Management	Q4	Scoping		
Customers & Organisational Development – ICT				
ICT Incident Management	Q3/Q4	Final Report	Amber	
ICT Disaster Recovery Planning	Q1	Final Report	Amber	
ICT Asset Management	Q3/Q4	Draft Report		
ICT Web Portals	Q3/Q4	Scoping		
Grant Certification				
Various (approx. 10 for OCC)	Q1-Q4	Better Broadband Programme – complete June 2020.	n/a	

		Better Broadband Programme – complete June 2020.	
		Bus Subsidy Grant – complete Sept 2020.	
		Local Transport Capital Funding Grant (Integrated Transport and Highways Maintenance grants) – complete Sept 2020.	
		Local Transport Capital Block Funding (National Productivity Investment Fund) Grant – complete Sept 2020.	
		Disabled Facilities Capital Grant – complete October 2020	

Amendments to 2020/21 Internal Audit Plan

Audit	Comment / Replaced with	C/F
Deferred - Combined audit & counter fraud reviews of financial systems / processes – areas to be determined based upon risk.	**Added -** Additional time required for audits of Covid-19 funding / payments (sample has included Early Years, Transport, Test & Trace and Temporary place of rest site), so original days allocated for these combined reviews utilised on covid payments work instead.	The audit plan / counter fraud plan for 21/22 will include combined reviews of financial systems processes.

Deferred - Contract Management – Payments by Results Contracts (sample across services) - (Combined Audit and Counter Fraud activity)	Deferred to 21/22 due ongoing work with the implementation of the provision cycle. Delays in recruitment of the Senior Auditor and Counter Fraud Officers due to covid have reduced the plan days available, so this audit has not been replaced.	The audit plan / counter fraud plan for 21/22 will include review of contract management activity.
Deferred - Property, Investment & Facilities Management	**Added -** Deferred to 21/22 due to additional work undertaken by Internal Audit & Counter Fraud Team in response to an investigation involving this service area. Investigation ongoing and will feed into the scope of future Internal Audit activity.	The audit plan for 21/22 will include providing assurance within the area of Property, Investment & Facilities Management. Scope to be determined.
Deferred - Capital Programme – Governance, Formulation and Prioritisation	Deferred to 21/22 due ongoing work with improvements to Capital Governance Framework. Delays in recruitment of the Senior Auditor and Counter Fraud Officers due to covid have reduced the plan days available, so this audit has not been replaced.	The audit plan for early 21/21 will include – Capital Programme review.
Deferred - Mental Health – Outcomes Based Contract Contribution	**Added –** Deferred to 21/22 due to ongoing transformation work being undertaken with MH OBC. Replaced with an audit of Approved Mental Health Professionals Team (AMHP) – scheduled for start at beginning of Q4.	The audit plan for early 21/21 will include – MH OBC review.

APPENDIX 2 - EXECUTIVE SUMMARIES OF COMPLETED AUDITS

Summary of Completed Audits 2020/21 since last reported to Audit & Governance Committee September 2020

Troubled Families Claim 2 2020/21

The October 2020 claim consisted of **177 families for Significant & Sustained Progress (SSP)**. This quarter no claim was made for **Continuous Employment (CE)** as the roll out of Universal Credits and system changes to a more complicated income-based calculation means no data has been provided to the Council. Central Government are currently working on a solution for this.

The audit of the previous claim (July 2020) identified no issues or management actions, owing to the previous improvements to the process for identifying duplicate claims and updates to the Think Family Outcome Plan. All previous actions from previous audits have been implemented.

The audit checked a sample of 10% of the total SSP claim (18 families) to ensure that they met the relevant criteria for payment and had not been duplicated in the current or previous claims. Their initial eligibility criteria for inclusion in the Programme were also checked.

Overall Conclusion

The audit noted the improvements in the internal processes for data checking and validation made following previous claims have remained effective. Testing for duplicates found no families that have previously been claimed for, and no issues were identified with the eligibility or sustained progress of the families sampled.

Due to satisfactory responses having been received for all queries raised by Internal Audit, this claim can be signed off for submission.

As such, no audit findings or management actions were raised.

Highways Contract Management 2020/21 Audit

Overall conclusion on the system of internal control being maintained	A

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
A: Contract Governance	A	0	5
B: Risk Management	A	0	2
C: Contract Performance	A	0	3
D: Payments and Incentives	A	1	1
		1	11

Opinion: Amber	
Total: 12	Priority 1 = 1 Priority 2 = 11
Current Status:	
Implemented	0
Due not yet actioned	8
Partially complete	0
Not yet Due	4

The Highways Contract payments process has been subject to regular review by Internal Audit since the start of the contract with the current contractor with previous audits noting weaknesses in relation to the monitoring and accuracy of costing of works completed under the contract. It is noted that significant work has been undertaken by the Service, working with Skanska, to improve the way in which the SkanWorks system is used at OCC to provide assurance on the accuracy and timeliness of payments made for works completed under the contract.

A newly established Highways Alliance Board, with representation from OCC senior management, Members, and Skanska Directors, is currently reviewing the contractual arrangements including review of the optional contract extension and identifying potential improvements. Following the outcome of these discussions, it is expected that a joint improvement plan and timetable will be implemented.

Due to this ongoing work, the testing undertaken as part of this audit has focused on the day to day management of the contract, including performance monitoring, escalation and resolution of issues, and reviewing the mechanisms for providing assurance over the accuracy and timeliness of payments.

During the audit, both the Group Manager (Highways Contract), responsible for contract management, and the Head of Commissioning left OCC. It was reported comprehensive hand overs were held, with responsibility for contract management moving to the Head of Service – Highways Maintenance, with the now vacant posts included in the ongoing Provision Cycle review.

Overall the audit found a good system of internal governance in place; appropriate Groups exist to monitor quality, capital finance, revenue finance, and overall contract management, and two Boards exist for escalation of issues, higher level performance monitoring, and key decision making. It was noted however that due to Officer and Member availability, the last few Boards have been cancelled. The new Highways Alliance Board provides some degree of governance oversight, however the absence of the Highways Operation Board (last held in March) and the Strategic Partnership Board (last held in December), means previously established routes to escalate issues and carry out key decisions have not been operational. At the conclusion of the audit it was reported the next Board meetings have been set up and future dates will be arranged shortly, but due to the previously mentioned contract extension work these Boards require further review to ensure a strong governance structure going forwards.

Review of the strategies in place for the management of highways found the Highways Asset Management Policy (HAMP) is out of date (2014-2019), however it

has been reported the suite of Highways Asset Management documents have been extended for a further year, while capital funding processes are reviewed.

With regard to performance monitoring and risk management, areas of good practice noted include reporting of highway maintenance activity through the Community Operations dashboard, providing Deputy Directors with oversight of high level PIs, including Skanska's overall compliance with the contract. Performance indicators are also included as corporate measures, reported to Performance Scrutiny and Cabinet.   At the contract management level, a performance dashboard of Operational Performance Indicators (OPIs) is in place and regularly reported on, with Contract Management Group minutes documenting the review of these indicators, discussion around poor performance, and escalation of issues where necessary. However several issues were noted with this, including an example of consistent poor performance where it could not be evidenced action had been taken, a performance indicator where data was not available throughout 2019/20 and 2020/21, and the cancellation of the Strategic Partnership Board meaning the OPIs have not been reviewed for 2020/21 to confirm measures and their targets are still appropriate.   It was reported to Internal Audit that a full process review of performance is being carried out by the Highways Maintenance Team, looking at each measure, how data is collected, recorded, and quality assured, and whether it is appropriate. It is therefore intended that these issues will be addressed through the review, with recommendations for improvement being reported to the Strategic Partnership Board.

Similar issues were noted with risk management; while a Highways Partnership Risk Register is in place and was updated quarterly throughout 2019/20, a register for 2020/21 has not yet been developed, a number of risks on the register recorded no progress in reducing the risk score to its target score (instead recording 'no change' each quarter), and while it could be evidenced that the highest scoring risk on the Highways Partnership Risk Register had been escalated to the Community Operations Risk Register, the scoring differed between the registers. It was also noted that the Health & Safety OPI around accident frequency rates did not meet its target at all during 2019/20 or so far in 2020/21, instead fluctuating between RAG ratings of Amber and Red, yet the Highways Partnership Risk Register does not include any risk relating to Health & Safety, and while the Community Operations Risk Register contains several, including unsafe work practices, they are all RAG rated Green.

In terms of finance, positive improvements were noted in the budget monitoring carried out at Group Manager level, following the introduction of new software to produce a dashboard showing forecast spend, commitments, compensation events, and early warnings. While no issues or concerns were reported from the service in terms of individual budget holders' budget monitoring, previous audits have highlighted issues with budget holders' ability to accurately review their costs, and the management action agreed to provide training for budget holders on SkanWorks remains outstanding. Implementation of a further action, introducing reporting on the number of budget holder log-ins to SkanWorks shows this continues to be an issue, with only 20% of budget holders logging on to the system in the months of April, May, and June. As these budget holders are responsible for signing off payment applications against Task Orders in their area, it is unclear what level of

scrutiny is being carried out against the applications, as in the majority of cases, SkanWorks is not being utilised to drill down into costs.

It was also noted Skanska will shortly be replacing SkanWorks with a new system, Causeway, although no definitive date has been provided by Skanska. While it is intended lessons learnt from the implementation of SkanWorks and information sharing with other local authorities who already have Causeway will be utilised, there is currently no project board or group in place to ensure the new system is fit for purpose and information recorded will be accurate, accessible, and reliable.

Follow up testing of actions from previous Highways Payments audits found 4 actions remain outstanding (3 from 2018/19 and 1 from 2016/17). Progress has been reported in implementing all of these, however further action is needed before implementation is complete. These actions have been reassigned to the new contract manager and will continue to be monitored through the 4action tracking system. A further 6 actions have been closed since the previous Highways Audit. This audit confirmed 4 of these have been effectively implemented. Of the remaining two actions, one, relating to the accuracy of defect photos held in SkanWorks, was not tested as part of this audit's review, and the other, Budget Holder SkanWorks training, was closed at the conclusion of the audit, so implementation has also not been tested.

Due to the Covid-19 pandemic, the audit also reviewed the processes in place to manage additional costs encountered as a result of Covid-19. It was confirmed both the Finance and Provider Cells signed off OCC's approach, moving to the cost reimbursable pricing structure as a temporary measure, and the addition of two new Task orders. Weekly reports from Skanska tracking the costs assigned to these TOs have been shared with OCC, providing oversight and an audit trail of the additional costs. The same information is also available to OCC on SkanWorks. At the audit's conclusion in September it was confirmed OCC/Skanska have now reverted back to the standard mechanisms.

OCC IT Incident Management 20/21

Overall conclusion on the system of internal control being maintained	A

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
Service Desk Function	G	0	0
Incident Logging and Tracking	A	0	2
Incident Management and Escalation	A	0	3
Management Reporting	R	0	1
Access Rights	A	0	2
		0	8

Opinion: Amber	
Total: 8	Priority 1 = 0
	Priority 2 = 8
Current Status:	
Implemented	5
Due not yet actioned	0
Partially complete	0
Not yet Due	3

There is an established service desk function within IT Services for dealing with IT incidents and service requests, which is formally structured with defined roles and responsibilities. Incident management procedures are documented and have recently been reviewed in light of a new service desk system that was implemented in July 2020. Details on IT support arrangements and how users can contact the IT service desk are available on the Intranet and were publicised in an IT headline ahead of the new service desk going live. The new portal is the most popular way of users contacting the service desk, followed by phone and email. Service desk analysts have been trained on the new service desk system and also receive other training on areas such as communication skills and telephone etiquette.

A review of the incident logging process confirmed that all relevant details are collected, including customer contact details and a brief description of the incident. As customers enter details of their incident, relevant self-help articles are made available. The logged incident goes into a triage queue where it is assessed by service desk analysts and either resolved or escalated to other support teams for further investigation. The triage process should include prioritising the incident as either urgent, high, medium or low, based on an impact and urgency assessment. However, we found that the priority matrix on the service desk system is not enabled so changing the impact and urgency assessments does not change the overall priority of the incident, which could lead to incidents not being correctly prioritised and resourced accordingly. All incidents should also be categorised but our sample testing of 10 incidents identified 5 where the category field had not been completed. Category fields are used for management reporting on the types of incidents being logged and allow a trend analysis to be performed.

Our testing confirmed that IT agents are updating incident records as they are progressed and the system logs whenever a ticket is transferred from one agent to another. Incident escalation is in place and service level breaches are alerted to the assigned agent and their manager, although these alerts are only sent after the breach has occurred which means there is no opportunity to take any corrective action to prevent the breach from happening. A master call is logged when different users report an incident with the same underlying cause. The resolution of these mater calls should include the identification of the root cause but our testing found that details of this are not always recorded and hence may not be available should the same incident reoccur. Whilst there is a defined process for major incidents, we found that the service desk system is not configured to send out automatic email alerts when a major incident is logged, which could lead to a delay in all relevant

staff being notified. All resolved tickets are confirmed with customers before they are closed and a knowledge base is maintained.

Customers have an opportunity to complete a satisfaction survey when they are emailed at resolution stage and any negative feedback is reviewed and followed up by the IT Service Support Manager. For the period 22 September - 22 October 2020, 406 satisfaction surveys were completed of which 89.4% were positive and 5% were negative. There is no other management reporting in place for the service desk to review their activity and performance.

The number of users with administrator level access to the service desk system should be reviewed and the access provided to IT agents also reviewed as it currently includes the ability to delete tickets, which according to the documented incident management process should be limited to a small number of people.

CARTERTON COMMUNITY COLLEGE 2020/21

Overall conclusion on the system of internal control being maintained	A

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
A: Governance, Policies & Procedures	A	0	5
B: Budget Setting & Management	A	2	3
C: Procurement & Contracts	A	1	1
D: Income	A	0	2
E: Payroll & HR	R	1	5
		4	16

Opinion: Amber	
Total: 20	Priority 1 = 4 Priority 2 = 16
Current Status:	
Implemented	10
Due not yet actioned	0
Partially complete	1
Not yet Due	10

The audit focussed on governance and key financial and HR processes reviewing whether these were operating in accordance with Council requirements including compliance with the Scheme for Financing Schools and

the Financial Manual of Guidance. Weaknesses noted included issues with the timeliness of financial reporting and provision of information to the governing body, the availability of accurate and up to date information on school contracts, inconsistencies in recording practices for support staff annual leave arrangements and an anomaly in relation to the outcome of the staff restructuring process. Appropriate management actions were agreed to address all the weaknesses identified and, since conclusion of the audit, a significant number of these actions have already been reported as implemented.