

Corporate Governance and Standards Committee Report

Report of Chief Internal Auditor

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Internal audit plan 2018-19

Recommendation

The Committee is recommended to approve the audit plan for 2018-19 set out in Appendix 1.

Reason for Recommendation: To ensure an adequate level of audit coverage

1. Purpose of Report

- 1.1. To present the draft audit plan for 2018-19. This report also gives an update on the changes for the delivery of the audit plan in 2018-19.

2. Strategic Priorities

- 2.1. The audit of Council services supports the priority of providing efficient, cost effective and relevant quality public services that give the community value for money.

3. Background

- 3.1. Internal Audit is a statutory function. Under S.151 of the Local Government Act 1972, councils are required to have a current Internal Audit function. However, the Act does not specify how Internal Audit should be provided. Over the last few years, Internal Audit has been delivered through a mixed service provision with internal resources supported by an external contractor.
- 3.2. For the last 18 months there has been real pressures on the Internal Audit team because of the long-term absence of a senior auditor and the retirement during the year of the another senior member of staff. Our attempts to cover the vacancies with either, agency or permanent staff were unsuccessful because of the suitability of the candidates or the inability to match London Authority or private sector salaries.

- 3.3. As a result, we became increasingly reliant on our contractor to deliver the work in the audit plan and this provided an opportunity to consider alternative delivery models, which would provide a more sustainable internal audit solution for the future.
- 3.4. Following an internal review we decided to outsource the internal audit function with effect from 1 April 2018. A contractor will now be responsible for completing the Audit Plan over the coming year. The Audit and Business Improvement Manager will act as the client-side officer.
- 3.5. The Council is fortunate in that the Business Improvement Team includes staff with Internal Audit experience including an officer who has 10 years audit experience and a trainee who is doing both audit and change management professional qualifications. Therefore, the new structure will have multi-skilled staff with both audit and business improvement experience within the same team. The proposed structure will produce year on year savings of approximately £90,000 for a similar level of audit coverage.
- 3.6. The contract for internal audit went out to tender and we have appointed KPMG as our audit contractors. We will expect them to work with our services in the same manner as an internal member of staff but we retain the in-house capability and skills for projects and the more sensitive work.
- 3.7. This solution will provide the Council with the assurance, experience and flexibility that is needed while, still retaining in-house audit expertise within the Business Improvement Team. The proposed structure will not only fulfil the governance and assurance obligations of the internal audit function, but is practical and sustainable and value for money.

4. Audit Plan 2017-2018

- 4.1. We always base the plan on risk assessments in line with best practice. We aim to audit the majority of services at least once every three years although we review the major systems annually. We update the risk assessment after each audit. The planning process is an assessment of the areas of risk and the resources available. The audit plan is a balance between supply and demand and is affected by unplanned events even though there is a contingency budget.
- 4.2. The audit resources on the establishment in 2017-18 were:

In-house resources (1 vacant post)	2.67 FTE
Senior Auditor (Temp) and Contractor (vacant post)	0.75 FTE
Total resources	3.42 FTE

In reality, we had 2.0FTE and the contractor covered the rest of the work.

4.3. The planning process includes:

1. identifying the audit universe (all of the areas that require audit attention)
2. carrying out a risk assessment to identify the level of risk and the appropriate frequency of audit
3. an estimate of the resources required to carry out the audits
4. reviewing how we resource the plan
5. producing the audit plan based on the available resources.

4.4. The audit plan includes a certain amount of contingency to allow for unplanned work because the actual requirements will vary from year to year. We base the planned figure on records from previous years but it can only ever be an estimate.

4.5. The aim of the audit plan is to cover areas that support the Council's strategic priorities, governance issues and financial probity. We also have to reflect the current changes and major projects within the Council. These changes bring both opportunities and challenges for us. Audit skills are relevant to many of the new initiatives across the Council and we have become involved in both lean and fundamental service reviews, which are part of the overall business improvement programme. While this is not traditional audit work it affords an in-depth knowledge of the services that a purely systems audit would not always provide and is therefore an important source of information about the Council. This information feeds into the risk assessments.

4.6. There is always increased risk in times of change. Over the last year, there have been significant changes both within the senior management team and service structures. There are also continuing financial pressures on the Council to provide value for money. This means being more efficient and effective and looking for innovative ways of working. The challenge for audit is to help services become leaner and more effective within a controlled environment.

4.7. Change always raises the level of risk. The uncertainty affects staff and increases the risk of system failure, the relaxation or circumvention of the expected controls and fraudulent activity. We need to ensure that the appropriate control measures are in place and applied consistently across all services and that we have good governance arrangements to ensure that we are operating within both the legal framework and our own protocols and standards.

4.8. The 2018-19 plan is extracted from the audit planning system and shows a resource requirement for 400 days. The full year's plan is set out in Appendix 1.

- 4.9 The plan shows the latest risk assessment based on the updated risk assessment. The risk ratings and frequency of audits are shown in the table below:

Risk score	Audit frequency
A	Annual audit
B	Audit every two years
C	Audit every three years
D	Audit every five years

- 4.10. There are many challenges ahead for the Council and we try to strike a balance between reviewing the basic financial and management controls, the major governance areas that we must get right and the smaller services where historically the risk of system breakdown is higher. In addition, the plan includes value for money audits and specific areas where there is an increasing risk of fraud. As part of our remit to identify efficiency, effectiveness and economy, we work with managers to help them identify and deliver different service options. This could include channel shift, automation or a more radical change such as shared services but, whichever the preferred option, we ensure there is an appropriate level of control.

5. Progress against the plan 2017-18

- 5.1. The table below summarises progress against the Audit Plan. In 2017-18, there were 45 planned audits, including service and lean reviews. Over the year, we have completed or are currently working on 42 audits, which represent 93 per cent of the audit plan. The results of the work carried out in the year to 31 March 2018 are shown below:

Assurance Rating on Productive Audit Work	No. of Audits	
Substantial	8	18%
Reasonable	15	33%
Limited	7	16%
No Assurance	0	0%
No Opinion (one-off projects)	6	13%
In Progress (inc. FSR and Lean reviews)	6	13%
Deferred to 2018-19	3	7%
Total audit coverage	45	

5.2. There have been 15 Local Government Ombudsman (LGO) complaints in 2017-18. None were upheld by the Ombudsman. A summary of the cases is set out below:

Decision Date	GBC File Ref. No.	Complaint Category	Finding
19.05.17	AJ/17/0001	Corporate & Other Services	Closed after initial enquiries – out of jurisdiction
13.06.17	AJ/17/0002	Environmental Services & Public Protection & Regulation	Closed after initial enquiries – no further investigation
08.06.17	AJ/17/0003	Housing	Premature
16.06.17	AJ/16/0017	Planning & Development	Not upheld: no maladministration
30.05.17	AJ/17/0005	Housing	Closed after initial enquiries – no further action
24.05.17	AJ/17/0006	Corporate & Other Services	Closed after initial enquiries – out of jurisdiction
27.06.17	AJ/17/0004	Housing	Closed after initial enquiries – no further action
10.11.17	AJ/17/0007	Planning & Development	Premature
14.11.17	AJ/17/0008	Housing	Premature
06.12.17	AJ/17/0009	Planning & Development	Closed after initial enquiries – no further action
14.02.18	AJ/17/0012	Benefits & Taxation	Upheld: no further action
15.03.18	A/17/0014	Benefits & Taxation	Closed after initial enquiries – no further action
2.03.18	AJ/17/0015	Planning & Development	Closed after initial enquiries – out of jurisdiction
28.03.18	AJ/17/0011	Planning & Development	Not upheld: no maladministration
16.04.18	AJ/1/0018	Environmental Services & Public Protection & Regulation	Closed after initial enquiries – out of jurisdiction

5.3. In 2017-18, we continued to work on a number of lean projects and service reviews. Audit has been supporting the established Business Improvement Team to provide added impetus and experience. The reviews are significant pieces of work but they are all at different stages so it would not be appropriate to go into detail at this stage. The outcomes will be reported to the Committee when they are complete.

6. CONCLUSION

6.1. Over the last year there have been a number of changes in the Council. Services and structures are evolving and the pressure and uncertainty that change brings increases the risk of the degradation or breakdown of the control environment. We have continued to work with management to identify and examine these areas of potential risk.

6.2. Internal Audit has been part of that change. We have reviewed the audit service and the new model which uses a contractor will provide resilience, flexibility and assurance but we have retained in-house expertise and experience within the new service to deal with sensitive or specialist issues. We are continuing to work with services not only through the traditional audit route but also through lean reviews

and business process re-engineering. The audit plan for 2018-19 is structured to reflect the changing needs and priorities of the Council.

7. Financial Implications

- 7.1. The financial implications of the new structure were the subject to an internal review, which has been agreed, and the structure is now in place.

8. Legal Implications

- 8.1. The Local Government Act 1972 (S151) requires that a local council “shall make arrangements for the proper administration of their financial affairs”.
- 8.2. The 1972 Act is supported by the Accounts and Audit Regulations 2011 which state that “A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.
- 8.3. The internal audit plan is necessary to satisfy these legal obligations.

9. Human Resources

- 9.1. The new structure will be in place for 2018-19 and this has been factored into the Plan. Any changes will be reported to the Committee.

10. Background Papers

None

11. Appendices

Appendix 1: Audit Plan 2018-19

Appendix 1

	Audit Plan 2018-19	Days	Risk Rating	Audit Type
	Governance			
1	Safeguarding	15	A	Compliance with legislation
2	GDPR	10	A	Compliance with legislation
3	Fire Risk	8	A	Follow-up
4	Legionella	8	A	Follow-up
5	Asbestos	8	A	Follow-up
6	Health and Safety	8	A	Follow-up
7	Business Continuity	12	A	Follow-up
8	Transparency Reporting	8	A	Follow-up
9	Project Management	15	A	Compliance
	Services			
10	Rents	10	B	Income, debt control, performance management
11	Treasury Management	8	A	Process controls and conflict of interest and segregation of duties
12	Payroll	10	B	Segregation Controls counter fraud controls
13	Creditors	12	B	Purchase to Pay system implementation
14	S106 Funding	10	A	Compliance with best practice
15	Development Control	10	B	Performance Management
16	Debtors	8	B	Income, debt control, performance management
17	Major Capital Projects	10	A	Performance Monitoring and Reporting
18	Parking	15	A	PCNs and Performance Reporting
19	Housing Advice	12	A	Performance Monitoring and Reporting
20	Homelessness	10	A	Compliance with legislation
21	Licensing	10	B	Performance Management/Fee setting
	Contract Management			
22	Housing (Term Contracts)	15	B	Contractor Performance and Monitoring
23	Stores	15	B	System processes and stock control

	ICT			
24	Network Controls	10	A	Systems Audit and Follow-up on Cyber Security
25	ICT Project Management Controls	10	A	Systems Audit
	Counter Fraud			
26	Council Tax (Single Person Discount)	15	A	
27	Housing Tenancy Fraud	15	A	
28	Housing Benefit	15	A	
29	Money Laundering	15	A	
	Other			
30	Ombudsman	10		In house staff
31	Lean & Projects	25		In house staff
32	FOI/SAR	8		In house staff
33	Contingency	30		In house staff
		400	Days	