

Corporate Governance and Standards Committee Report

Ward(s) affected: n/a

Report of Chief Internal Auditor

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Internal Audit Plan 2019-20

Recommendation

The Committee is recommended to approve the internal audit plan for 2019-20, as set out in Appendix 1.

Reason(s) for Recommendation:

To ensure an adequate level of audit coverage

1. Purpose of Report

- 1.1. To present the draft audit plan for 2019-20, and give an update on 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 in place arrangements for the proper administration of their financial affairs, which includes an effective 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. In 2018-19, the Council decided to move to an alternative delivery model for audit and entered into a contract with KPMG to carry out the majority of the audit plan

for 2018-19. The Audit and Business Improvement Manager is the client-side officer and we retained a multi skilled team within Audit and Business Improvement who have both audit and business improvement experience. The new structure has produced year-on-year savings of approximately £90,000 for a similar level of audit coverage.

- 3.3. KPMG have worked with our services in the same manner as an internal member of staff and the feedback has been mainly positive.
- 3.4. This solution has provided the Council with the assurance, experience and flexibility that is needed while, still retaining in-house audit expertise within the Business Improvement Team. The structure fulfils both the governance and assurance obligations of the internal audit function, but is practical and sustainable and value for money.

4. Audit Plan and Performance

- 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 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.
- 4.3. 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.
- 4.4. 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.
- 4.5. The last 12 months have brought challenges for the Council. The UK was due to leave the EU on 29 March 2019 but the process is still ongoing and the outcome still to be determined. This uncertainty has made planning for post Brexit very

difficult so over the last few months we have been making arrangements to deal with the potential risks to services in the event of a 'no deal' scenario. We have identified the impact on our services where we employ a number of EU nationals and we have looked at the risks to our supply chains especially the services we provide to our most vulnerable residents. As an example we have gained assurances that there will be no disruption in our Meals on Wheels supplies and we are working with partners in other Surrey authorities and Surrey County Council to co-ordinate our efforts and resources.

- 4.6. The continuing financial pressures mean that we need to look how we can deliver more efficient, effective and innovative ways of working. The Future Guildford project was introduced during 2018-19 to look at all Council services, how they are delivered, how they can be improved to become more efficient, cost-effective and maintain a high level of customer service.
- 4.7. Change always raises the level of risk. 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 while not stifling innovation.
- 4.8. The 2019-20 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. In compiling the plan, 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, we look at specific areas where there is an increasing risk of fraud.
- 4.11. As part of our core remit to identify and promote economy, efficiency, and effectiveness, we are working as part of the Future Guildford Project with

managers and staff to help them identify and deliver different service options. This could include channel shift, automation or a more radical change such as shared services and outsourcing but, whatever the preferred option is, we ensure there is an appropriate level of control.

5. Progress against the plan 2018-19

- 5.1 The table below summarises progress against the Audit Plan. In 2018-19, there were 38 planned audits, including service and lean reviews. Over the year, we have completed, or are working on, 36 audits, which represent 95% of the audit plan. The work carried out so far shows that there is no indication of any material or significant issues arising from this work. The results of the work carried out in the year to 31 March 2019 are shown below:

ASSURANCE RATING	NUMBER OF AUDITS	
Significant Assurance	0	0%
Significant Assurance with minor improvement opportunities	18	47%
Partial assurance with improvements required	8	22%
No Assurance	0	0%
No Opinion (one-off projects) Value for Money	10	26%
In progress(Inc. fundamental service reviews)	2	5%

- 5.2 In addition, the internal audit team are still monitoring the risks to the Council in the event of the UK leaving the EU without an agreement and where these have been identified and have taken actions to minimise the risks.
- 5.3 The internal audit team has also been closely involved in the Future Guildford project carrying out workshops and business re-engineering processes. This is an opportunity for us to provide assurance that any new structure, system and process re-design includes the right level of governance and control.
- 5.4 There have been no material governance, or internal control issues of which we have been made aware during the year. The main issue and priority from an audit perspective, is that we maintain high levels of governance within the Council and that the programme of transformational change and improvement is embedded across the Council whilst maintaining service delivery and the effective operation of key controls.
- 5.5 The work over the year identified some governance areas where there were a number of medium risks and the resulting recommendations will be subject to follow-up reviews in 2019-20. These are project management and procurement.

Project Management – There is robust governance arrangements on our major projects but we need to ensure that there are consistent processes with key deliverables and measurable outcomes for all projects. During 2018-19, we reviewed all our projects and we are improving the governance particularly relating to monitoring, reporting and benefits realisation.

Procurement – We are a complex authority and we recognise that the procurement processes need to be flexible especially in specialist and technical areas. We control certain areas of spend very tightly and centrally but there are areas where it is more efficient and effective to devolve procurement decisions more widely. We are currently considering what the Council's procurement team really needs and wants to control to ensure that we focus on what is important and this will include working with specialist teams to obtain the best outcomes, both financially and operationally. This is an on-going piece of work, which will be considered as part of the Future Guildford project.

- 5.6 There have been 24 Local Government Ombudsman (LGO) complaints in 2018-19. We have received decisions on 20 of the complaints, two were upheld and we have apologised in both instances to the complainant. The outcomes of the remaining four complaints will be reported to Committee. A summary of the cases is set out below:

GBC File Ref. No.	Complaint Category	Finding
AJ-18-0001	Benefits and Tax	Closed after initial enquiries – no further action
AJ-17-0010	Housing	Not upheld: no maladministration
AJ-18-0002	Planning & Development	Upheld: maladministration & Injustice
AJ-18-0003	Planning & Development	Upheld: maladministration, no injustice
AJ-18-0004	Planning & Development	Not upheld: no maladministration
AJ-18-0005	Planning & Development	Closed after initial enquiries – out of jurisdiction
AJ-18-0006	Benefits & Tax	Closed after initial enquiries – no further action
AJ-18-0007	Environmental Services & Public Protection & Regulation	Closed after initial enquiries - no further action
AJ-18-0008	Planning & Development	Premature
AJ-18-0009	Planning & Development	Closed after initial enquiries - no further action
AJ-18-0010	Housing	Closed after initial enquiries - out of jurisdiction
AJ-17-0013	Planning & Development	Not upheld: no maladministration
AJ-18-0011	Planning & Development	Closed after initial enquiries - out of jurisdiction
AJ-17-0003	Housing	Not upheld – no maladministration
AJ-18-0012	Planning & Development	Complaint received – not counted as a complaint decision (<i>premature</i>)
AJ-18-0015	Benefits & Tax	Closed after initial enquiries – no further action.
AJ-18-0018	Environmental Services & Public Protection & Regulation	Premature
AJ-18-0019	Planning & Development	Not upheld – no evidence of fault in the Council's actions
AJ-18-0020	Corporate & Other Services	Closed after initial enquiries – no further action
AJ-18-0021	Housing	Closed after initial enquiries – no further action

6. Conclusion

- 6.1. The last year has been one of change. 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 and will continue to do so in 2019-20. Internal Audit has been part of that change. The co-sourced contract has given us the resilience, flexibility and assurance but we have retained in-house expertise and experience within the internal audit team to deal with sensitive or specialist issues. We are continuing to work with services not only through the traditional audit route but also through the Future Guildford workshops lean reviews and business process re-engineering. The audit plan for 2019-20 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 of 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 Committee.

10. Background Papers

None

11. Appendices

Appendix 1: Internal Audit Plan 2019-20