

Corporate Governance and Standards Committee Report

Ward(s) affected: n/a

Report of Chief Internal Auditor

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Date: 30 July 2019

## Summary of Internal Audit Reports - October 2018 – March 2019

### Recommendation

The Committee is requested to note the summary of audit reports and other associated work for the period October 2018 to March 2019.

#### Reason for Recommendation:

To ensure an adequate level of audit coverage.

### 1. Purpose of Report

1.1. To present a summary of audit work for the period October 2018 to March 2019.

### 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. Summary of Audit Reports – October 2018 to March 2019

3.1. The summaries of the audit reports that we have carried out in the period October 2018 to March 2019 are set out below. Internal Audit uses a scale to categorise the findings and audit opinion under five classifications. These are:

- **Significant Assurance** -The area under review is well controlled with no problems found
- **Significant Assurance with minor improvement opportunities** - systems are sound with a low level of risk

- **Partial Assurance with improvements required** - controls working but inconsistently applied and increased risk of problems occurring
  - **No Assurance** - fundamental control weaknesses and/or significant problems that need immediate action
  - **No Opinion** (one-off projects) - results of on-off investigations or consultancy work on which no audit opinion is given
- 3.2. The classifications are included in the reports to managers and have been included here to provide the Committee with an overall conclusion on the findings of the audits. The reports are ranked in order of audit opinion.

#### **4. NO OPINION**

- 4.1. There were no reports with “No opinion” in this period.

#### **5. NO ASSURANCE**

- 5.1. There were no reports with a “No Assurance” opinion in this period.

#### **6. PARTIAL ASSURANCE - Progress Report**

- 6.1. There were a number of partial assurance reviews in 2018-19 and as a result, much of the work was focused on in year follow up audits to ensure that the agreed recommendations have been put in place or are scheduled. Progress against the main findings in each audit is set out in the table below.

<b>Fire Risk Assessments (FRAs)</b>		
<b>Recommendations</b>	<b>Actions Agreed</b>	<b>Implementation Date</b>
<p>A procedure should be established to review the FRAs annually, in line with the requirements of the Corporate Fire Safety Policy.</p> <p>All residential properties should be identified and managed. The list should include the date of the latest FRA and the next assessment due date for each property. The listing should be kept up to date to reflect the status of the FRA for each property.</p>	<p>The matrix in the policy is for guidance only, as the FRA should always be re-performed in accordance with the contractors' suggested review date. The new Fire Safety Group has been tasked with ensuring the Council has up to date fire risk assessments which will be reviewed annually in accordance with the recommendations in the Council's Corporate Fire Safety Policy.</p>	<p>This has been agreed and we are currently testing a system that prompts staff to review their risk assessments on the due date. Staff are now required to carry out an on-line Fire Risk workplace assessment test. These are reviewed by the Health and Safety Officer</p>
<p>Following the completion of a FRA, management should develop an action plan to ensure that all recommendations raised are RAG-rated and prioritised.</p> <p>The action plan should be kept up to date to reflect the status of recommendations.</p>	<p>An action plan is being developed to ensure the Council can clearly identify and sign off what actions need to be undertaken in accordance with the latest fire risk assessments. The Fire Safety Group will review outstanding actions.</p>	<p>Surveyors are reviewing all action plans to verify that all the actions have been implemented. Completed January 2019</p>

<b>Asbestos</b>		
<b>Recommendations</b>	<b>Actions Agreed</b>	<b>Implementation Date</b>
<p>The Council should ensure there is an up-to-date register, which clearly details all properties owned by the Council where asbestos containing materials (ACM) are present</p>	<p>An up-to-date asbestos register has been developed which identifies all properties where asbestos containing materials have been detected. This will identify what needs to be actioned following the asbestos management surveys and allow re-inspections to be signed off.</p>	<p>A specialist consultant has been appointed to review the corporate properties register.</p>
<p>The Council should ensure that accountability for asbestos management and appropriate responsibilities are assigned to a named individual within the Council.</p> <p>The Council should establish a Corporate Asbestos Management Group – with individual working groups feeding into it, whereby responsibility for asbestos management is clearly assigned.</p>	<p>An Asbestos Management Group is being established with representatives from relevant service areas. The Group will agree Terms of Reference and update the Corporate Asbestos Policy. They will ensure that corporate processes, procedures and training are put in place to provide comprehensive management of asbestos. The designated responsible officer and the Group will review outstanding actions on the asbestos registers. Performance will be monitored by Corporate Mgt Team.</p>	<p>All recommendations have been implemented and there are now sufficient governance processes in place. Key Performance Indicators (KPIs) have been established to monitor contract performance. A training needs analysis has been carried out for Building Responsible Persons and this is reviewed by the Health and Safety Officer.</p>
<b>Legionella</b>	<b>Actions Agreed</b>	<b>Implementation Date</b>
<p>The review found that not all properties had an up to date legionella risk assessment (LRA) in place. Risk assessments should be completed every 2 years or sooner if work has been carried out. There is also a concern that in a limited number of instances work had been carried out and Mechanical and Engineering staff had not been informed and therefore the risk assessments had not been updated.</p> <p>Not performing LRAs in a timely manner increases the risk of legionella going undetected</p>	<p>Management should review the dates of the latest LRAs for the Council's properties and ensure that an assessment is completed for all properties where an assessment is overdue.</p> <p>An appropriate process should be established whereby M&amp;E are notified of all works on properties that will result in the requirement of a new LRA being completed.</p>	<p>All recommendation arising from the audit last year have been actioned and implemented. There are now regular meetings with the contractor and performance is monitored on a bi-monthly basis. The Legionella Policy was signed off by the Health &amp; Safety Group on 23/08/18 and was uploaded onto the Intranet ensuring access to all staff. A training needs analysis has been carried out for Building Responsible Persons and this is reviewed by the Health &amp; Safety Officer.</p>

## 6.2. **Transparency Code**

In February 2015, the government issued a revised Local Government Transparency Code and while compliance with the Code is compulsory, the Local Government Association has made it clear that it is very unlikely that any external inspections will be made of individual councils. However, it is possible that members of the public will complain to the Information Commissioner should they consider a council to be failing to comply.

6.3. In summary, councils are required to publish the following information, subject to certain restrictions relating to issues such as commercial confidentiality, data protection, copyright, licenses and statutory requirements:

- Expenditure exceeding £500
- Government Procurement Card Transactions
- Details of tenders above £5,000
- Details of contracts above £5,000
- Local authority land
- Social housing assets
- Grants to voluntary, community and social enterprise organisations
- Organisation chart
- Trade union facility time
- Parking account
- Parking spaces
- Senior salaries
- Constitution
- Pay multiple
- Fraud

6.4. The Code requires that information is:

- demand led - requiring an understanding of what data communities want and how it should be published.
- open - helpful and accessible presentation and availability and promoted and publicised.
- timely - available as soon as possible after production.

6.5. The Code recognises that the method of publication is essential to true transparency and endorses what the Government calls the “five step journey to a fully open format”, which includes a star rating:

- One Star - Available on the web (whatever format) but with open license
- Two Star - As for one star plus available as machine-readable structured data (e.g. Excel instead of an image scan of a table)
- Three Star - As for two star plus use a non-proprietary format (e.g. CSV and XML)
- Four Star - All of the above plus use open standards from the World Wide Web Consortium (such as RDF and SPARQL21)
- Five Star - All the above plus links an organisation’s data to others’ data to provide context

- 6.6. The Government recommends that local authorities publish data in Three Star formats where this is suitable and appropriate, alongside open and machine-readable format within six months of the Code being issued.
- 6.7. The review in 2017 identified areas for improvement and made recommendations detailed in the table below:

	<b>Recommendation</b>	<b>Implementation</b>
1	The Web Team carries out a review of the Transparency web page in order to review the content and increase traffic to the page.	Partially implemented. Will be re-visited as part of the Future Guildford Intranet and web review
2	The Council reviews the content of the web page to ensure that it is up to date.	This will be done as part of the review of the web page
4	Ensure that where the Transparency information is published in a larger document, it is also published as an extract in the appropriate format to ensure accessibility and utility.	Implemented in full
5	Ensure that all information is published in the appropriate format to achieve the Three Star level required by the Code.	Will be part of the web review
6	Make the Council's Information Rights Officer responsible for the oversight of the Council's response to the Transparency Agenda.	Implemented in full
7	Review the Council's procurement processes to ensure the publication of tender and contract details.	Implemented

## **7. Significant Assurance with minor improvement opportunities**

### **7.1. Payroll**

The Council employs around 730 staff with employee related expenditure last year of £31 million. The payroll review found that there was a robust process for ensuring segregation of duties when creating and making changes to employee's payroll records. Payroll and HR staff were knowledgeable and had a clear understanding of the processes and outcomes expected of them.

7.2. Where over-payments have occurred, there was evidence that we raise an invoice to chase the debt, through the Council's internal debtors' team. We did not identify any instances where leavers were incorrectly paid after their leave date.

7.3. The process for running the monthly pay-run is well-designed with the use of exception reports which create triggers in relation to anomalous data that requires further investigation. There are multiple checks in the process to ensure values paid are appropriate – this includes performing reconciliations by both the payroll and finance teams and segregation of duties throughout the process for authorising the BACS payment which provides additional assurance over appropriateness of transactions.

7.4. We performed data analytic routines on reports produced by the payroll system covering periods between April – September 2018 to identify potentially unusual trends. This included identifying employees who were paid following their leave date, employees who had paid nil tax and National Insurance contributions and individuals with multiple payroll records. We are satisfied there were no anomalous results from this testing.

7.5. We did note some inconsistencies in the administration of leavers. with either the manager or employee contacting HR. Problems are more likely to occur where there is ambiguity in roles and responsibilities of staff, which can be resolved by clearly defined roles and responsibilities.

## **Audit Opinion-Significant Assurance with minor improvement opportunities**

### **7.6. Rents**

The Council manages 5,213 social housing properties with a rental income of £29 million in 2018-19. The collection rate in 2018-19 was 99.11%. Our review of the rent setting and collection process found it to be robust and well-designed. Decisions for changes in rent charges are transparent and comply with legislative requirements. They are reviewed at multiple senior management meetings thus allowing for appropriate challenge and oversight. The changes in rent charges were applied appropriately and communicated properly to tenants.

- 7.7. Income from rent is monitored on a daily basis with the rent officers receiving regular reports to identify which tenants fall into arrears. These reports are used to inform how to prioritise cases for chasing that both support the tenant to meet liabilities as well as taking preventative measures to ensure that the tenant does not fall into further debt.
- 7.8. Our testing found that appropriate efforts were made to contact the tenant to negotiate repayments. In addition, greater emphasis is now placed on assisting the tenant to meet rent obligations and providing debt management support prior to escalating the case to Court.
- 7.9. Rent account reconciliations are performed on a regular basis to ensure that cash received is appropriately reflected on Orchard. Any outliers are identified via the daily suspense account review exercise as well as via the rent arrears process managed by rent officers.
- 7.10. There is sufficient oversight and review of rent income and expenditure against budget with several levels of senior management reviewing the budgeting reports. Additionally, proposed decisions regarding use of funds and reserves are transparent and decisions supported at various stages. We have reviewed processes in place for monitoring rent setting and collection, including the design of information and Key Performance Indicators reported through to management and found there to be good governance and reporting arrangements in place.

#### **Audit Opinion-Significant Assurance with minor improvement opportunities**

- 7.11. **S106**  
Planning obligations under Section 106 of the Town and Country Planning Act 1990 are commonly known as s106 agreements. They are a mechanism which makes a development proposal acceptable in planning terms, that would not otherwise be acceptable. They are focused on site specific mitigation of the impact of development. S106 agreements are often referred to as 'developer contributions.
- 7.12. A common use of planning obligations is to secure financial contributions to provide infrastructure or secure affordable housing. However, this is not the only use for a s106 obligation. A S106 obligation can also:
- restrict the development or use of the land in any specified way
  - require specified operations or activities to be carried out on the land
  - require the land to be used in any specified way; or
  - require a sum or sums to be paid to the authority on specified dates
- 7.13. In the event of non-compliance with the S106 agreement it can be enforced against the person that entered into the obligation and any subsequent owner. In cases of a breach of the obligation, the authority can take direct action and recover expenses. The planning obligation is a formal document, a deed, which states that it is an obligation for planning purposes, identifies the relevant land, the person entering the obligation and their interest and the relevant local authority that would enforce the obligation.

- 7.14. The review looked at the design of controls associated with S106 funding, focusing on the key controls covering:
- The identification of schemes eligible for funding under a S106 agreement;
  - The administration of S106 agreements, including monitoring and tracking;
  - The process for collecting income due from S106 agreements; and
  - Whether S106 funds are only used for the purposes of the agreements.
- 7.15. There is an established process for producing new Section 106 agreements, monitoring payment of contributions, and spending monies received. In producing a new agreement, there is a clear trail to support why the contribution was raised, and use of the Geographic Information System (GIS) makes it quick and straightforward to identify Special Protection Area (SPA) contributions. These form the majority of the Council's Section 106 agreements. There is effective communication of agreements to the Council's legal service, which has controls to ensure that agreements are finalised in an efficient and cost-effective manner. There was proper segregation of duties for approving the agreements prior to issuing to the developer.
- 7.16. We did find that there needs to be more consistent communication between teams. For example, we identified in some cases changes to contributions were discussed between the legal team and the planning officer without informing the Section 106 Officer. However, we found that the eventual invoicing was accurate, and the agreements were consistent with the properties built.
- 7.17. Agreements are monitored via Acolaid, which alerts the Section 106 Officer when triggers have been reached or payments are due. Developers do not always notify the Council on a timely basis that commencement triggers are reached and while the Section 106 Officer does review building control and land charges records, we feel that the focus should be on chasing agreements where the application is close to expiry, which would be the ones at highest risk of having commenced.
- 7.18. The Section 106 Officer does, however, follow up all developments that have not started. The Council has appropriate controls over the release of funds and ensures that they are released to contribute to costs in line with what is set out in the Section 106 deed. The Council maintains separate records of funds billed and funds received in order to mitigate against system weaknesses and all agreements in our testing sample reconciled correctly.
- 7.19. There is limited internal reporting of Section 106 transactions and while this does not impair the day to day operation of the service, it is important that performance is tracked and reported to allow prompt action on potential issues.

### **Audit Opinion-Significant Assurance with minor improvement opportunities**

- 7.20. **Creditors**  
The current system for processing purchase invoices is in a state of transition with the introduction of a new system. We tested the design and operating effectiveness of controls around both processes and found the new process to be well-designed and has addressed the weaknesses in the old system process, such as the lack of a three-way match and the need to raise and authorise purchase

requisitions. These are controls most commonly associated with best practice and allow for more accurate budget monitoring.

- 7.21. We found the processes for reconciling ledgers, processing payment runs, and authorising one-off payments were well-designed with segregation of duties implemented at each stage to ensure appropriateness of transactions. Additionally, we found that there was a checklist in place for payment-runs which incorporate common pitfalls to consider prior to authorising payments to ensure best practice is followed.
- 7.22. Supplier amendments to bank details are done both centrally and locally by different teams. When supplier amendments are requested, the relevant local teams are responsible for carrying out independent verification of bank details prior to completing the payment requisition form and forwarding this to the Payments team for payment. Departments do not always send evidence of verification to the central team. The requirement to perform independent verification is not formally defined in a policy and there is additionally no central assurance that local teams are performing this control.
- 7.23. We performed data analytics routines over the listing of invoices raised between April –October 2018 to identify potentially anomalous trends. This included identifying potential duplicate transactions, reviewing whether payments were made on weekends and whether unusual payments were made to suppliers. We encountered some issues when attempting to determine whether transactions were approved in line with the scheme of delegation. Further investigations were made and we are satisfied that there were no exceptions.

### **Audit Opinion-Significant Assurance with minor improvement opportunities**

#### **7.24. Debtors**

The review of the Debtors system found the following areas of good practice:

- Time frames for chasing debt are defined depending on the type of customer. This is to account for their individual circumstance and to better tailor an approach that has proved most effective in recovering debts. These timeframes are defined in policy and are embedded in the general ledger to allow for automatic debt chasing.
- Monthly reports are issued to senior members of staff to allow for appropriate performance management and oversight of outstanding debts. The report includes details of outstanding debt as well as an audit trail of actions taken against key debts (defined as being older than 6 months and greater than £2,000).
- There are several layers of segregation of duties involved in processing write-offs. The debtor team members identify cases they believe should be written off. This list is further reviewed by the debtors supervisor who determines whether further debt chasing is possible or not. The debtors supervisor then proposes write-offs to an appropriate signatory per the debt recovery policy

- 7.25. We found the design of the debt chasing and monitoring processes to be robust. The responsibility for monitoring debts is allocated to different debtor team members based on the type of debt thus encouraging accountability. In addition, on a monthly basis, reports are circulated to senior staff members to allow for performance management and oversight of outstanding debts. This performance report includes an audit log of prioritised debts (greater than £2,000 in value and older than 6 months) stating actions taken against each debt.
- 7.26. There is also a further control in which a report of unallocated cash receipts is run on a daily basis with to resolve and allocate these balances.
- 7.27. The areas recommended for improvement related to the scheme of delegation for authorised signatories did not always accurately reflect their approval limits.

### **Audit Opinion-Significant Assurance with minor improvement opportunities**

- 7.28. **Homelessness**  
The Homelessness Reduction Act 2017 was a major change in legislation, which significantly increased the duties of the Council. The Act places a new statutory duty on the Council to take reasonable steps to help all applicants who are threatened with homelessness. This duty is blind to priority need, local connection and intentional homelessness. The Act sets out the extent of the advice we must provide and requires it to be specifically tailored to vulnerable groups. Generic advice is not permitted and there is now a new obligation to provide those who approach us with a 'Personalised Housing Plan' (PHP). The plan needs to last up to 6 months ahead and set out the reasonable steps the applicant and the Council will take.
- 7.29. The Act also imposes a new duty for councils to relieve the homelessness of eligible persons. In such cases, there may be a requirement to provide accommodation for 56 days (previously 28 days) even if the applicant is found not to have a priority need and/or may have become homeless intentionally.
- 7.30. The Act introduces additional requirements to issue written decisions at various points in the process and grants rights to have decisions reviewed. Whilst this protection already exists, the legislation introduces significantly more decision stages, creating the potential for a corresponding number of review hearings.
- 7.31. The audit review found that the Council has demonstrated a planned approach to the introduction of the Homelessness Reduction Act. The key element to the Council's compliance was the introduction of an electronic casework system, Housing Jigsaw, which is closely aligned to the requirements of the Act. The Council has a well-designed approach to reporting matters to Homelessness Prevention Officers, partially via automated Jigsaw dashboards showing cases with actions or decisions about to fall due or are overdue; as well as escalating matters upwards to directors and councillors.
- 7.32. The Council has outsourced (prior to the introduction of the Act) part of the service to "HOST" (Homelessness Outreach and Support Team). This service works with

certain hard-to-reach groups such as rough sleepers and young single individuals. Outsourcing complex areas to specialists is in line with best practice.

- 7.33. The Council has oversight of the outsourced provision; however, it was found that the contract and the performance monitoring have not evolved with changes in the law. Furthermore, testing identified that documentation obtained by HOST was not always uploaded onto Jigsaw, which is not in line with Council policy. HOST maintains its own internal records as well as updating Jigsaw and has to double key the data. In many cases HOST uploads an extract of its system to Jigsaw, but it is not fully complete. Staff do not have complete visibility of HOST records, and as a result Jigsaw does not always contain a complete case file. The inability to access this documentation can prevent officers from having the full context required to make decisions.
- 7.34. It was recommended that the Council should require HOST to more effectively use Jigsaw. This could be achieved by investigating access to mobile devices within the HOST contract, additional training of HOST staff, and more clearly defining expectations with HOST managers. In addition, the Council should review a sample of HOST cases on a rolling basis to ensure compliance with documentation requirements and a compliance target should be defined in agreement with them to monitor performance.

#### **Audit Opinion-Significant Assurance with minor improvement opportunities**

##### **7.35. ICT Project Management**

Our evaluation and testing confirmed that there is generally a sound system of internal control to help ensure that the ICT Transformation Project delivers its intended objectives. The ICT Strategy adopted in January 2017 sets out a clear vision for enabling transformational change across all Council services through a modern infrastructure which is aligned to support delivery of both the Corporate Plan and individual services.

- 7.36. There is a formal governance structure for the project which aligns the project with the organisation's strategy and portfolio direction. There is a Programme team which manages the various work streams and which reports to the Programme Board. Key stakeholders are involved including cross functional areas so that project deliverables meet the organisation's operational and strategic requirements. There is a formal issues management process with any specific issues or incidents logged which are escalated if necessary to the Corporate Programme Governance board. Issues are monitored during the weekly project management meetings. However, the following areas for improvement were identified:
- The project risk management documentation should be completed in terms of risk treatment plans, qualitative rankings and identification of risks.
  - A detailed resource schedule showing project resources has been defined for the project; however, detailed roles, responsibilities and skillsets required for each role should be defined.

#### **Audit Opinion-Significant Assurance with minor improvement opportunities**

7.37. **Network Controls**

The Council is going through a modernisation programme to replace existing, end-of-life network and network security infrastructure. We assessed network controls in the current state while noting improvements that will be introduced by the modernisation programme.

7.38. The Council is running on CISCO 3750 switches which have been patched to the highest level available in anticipation of a switch to new Dell switches as the current switches are outdated and no longer supported. This was completed in March 2019. We confirmed that internal network vulnerability scans of the network are now performed monthly by a dedicated resource additionally, external vulnerability scans are performed annually by NTA Monitor Limited.

7.39. Remote access to the Council's network is controlled via Citrix NetScaler desktop virtualisation software; users require two factor authentication through a valid username and password as well as an access code generated from an authorised token device. We confirmed that as part of the network upgrade, the Council will be switching to a new remote access solution.

7.40. A patch management policy including patching schedules has been documented and approved, this includes a detailed patching schedule for all servers and desktop devices. Patch updates are centrally managed on Windows Server Updates Services (WSUS). The patching regime for servers and desktops is operating as intended.

7.41. The Council uses F-secure anti-virus software on its internal network environment with automatic updates to client terminals from a central update server. We confirmed from inspection of the anti-virus Health report that anti-virus definitions were up to date with the latest virus definitions.

7.42. We identified the following areas which could be improved to further strengthen network controls.

- There are no Security Information and Event Management (SIEM) capabilities to proactively correlate and analyse a centralised collection of logs to flag potential security events. While a SIEM solution has not been defined in the anticipated future state of the network, this would be an important consideration for management given the increased security risks of migrating to a cloud based computing environment.
- Network Access Control (NAC) is not enabled on the Council's wired network. NAC is a method of restricting access to the network to authorised computing devices only. Without NAC there is a risk that unauthorised non-Council devices can connect to the Council's network and potentially breach security. Management is aware of this risk which will be addressed by the new Dell Switches on the network.

**Audit Opinion-Significant Assurance with minor improvement opportunities**

7.43. **Parking**

The review of the Council's parking services identified that there is a thorough robust process for collection of income from Pay and Display machines. Parking

staff are knowledgeable and have a clear understanding of the processes. There is a clear and effective working relationship with the outsourced service provider for cash collection (CSS –Contract Security Services) with evidence of communication and investigation where there are anomalous trends in takings.

- 7.44. We did note, however, that for the reconciliation performed by the finance team (i.e. between cash counted and actual cash received in the bank), discrepancies were not followed up. The highest discrepancy noted is £15 and the cumulative net effect across the six months reviewed is less than £5; however, without verifying that the figures banked agree with what was communicated as being received, there is a risk that discrepancies are not picked up and reflected in the Council's accounts.
- 7.45. In addition, though the parking staff are sufficiently knowledgeable of their duties and responsibilities, we noted that the policies and procedures for parking services had not been updated since 2014, which is an insufficient basis for any new staff to ensure they are well-informed of concerned processes.
- 7.46. The process for issuing penalty charge notices (PCNs) and chasing debt are well designed and testing showing that the controls in this area are operating effectively. We noted, however, that there is some judgement involved in determining whether a challenge to a PCN is appropriate or not. Whilst this is not unexpected, the absence of a second review of subjective cases increases the risk of inconsistency in the way decisions are made across the team.
- 7.47. Refunds are rarely issued with over-payments identified via regular exception reporting. Our sample testing found that for all refunds issued, there was appropriate evidence to support the refunds and our discussion with Management and review of the system showed us that there was sufficient segregation of duties between teams in processing refunds.
- 7.48. There are multiple levels of oversight of parking income and expenditure at senior management level, thus ensuring that management are kept informed of any developments in the service. In addition, review of papers reported to each senior management meeting evidenced that funds were appropriately ring-fenced to cover costs of the Council's park and ride service, which per section 55 of the Road Traffic Act is appropriate as this falls under 'provision for public passenger transport services'.
- 7.49. The areas for improvement relate to PCN appeals and while it is recognised that there is a level of judgement in determining whether appeals against penalty charge notices (PCNs) are upheld or not. The cancellation rate amongst enforcement officers is variable, and there is no second review of judgements. There is a risk that the decision on whether a case may be appealed or not could depend on the subjectivity of the enforcement officer reviewing the case and a second review should be introduced.

**Audit Opinion-Significant Assurance with minor improvement opportunities**

7.50. **Treasury Management**

The review found that the Council has a robust treasury management strategy. It details treasury management procedures and outlines roles and responsibilities of different officers and defines access rights for staff. The treasury management strategy (TMS) was developed to comply with the revised CIPFA Code of Practice on Treasury Management in the Public Services and ensures that our processes reflect current regulations. It includes key details around procedures to guide staff in performing their duties and reflects compliance with best practice.

7.51. There is sufficient oversight of treasury management activities at several levels of senior management with reports on activity regularly reviewed at senior management committees and provides them with sufficient information to support their decision-making capabilities.

7.52. Forecasts are produced for the short, medium and long-term with review of long-term forecasts used to aid strategic decisions at senior management level and use of short and medium term forecasts to inform operational decisions regarding cash management.

7.53. Criteria for making investments and borrowings are defined in the capital strategy authorised by senior management. The Council uses external treasury advisors to assist with identifying qualifying transactions.

7.54. The use of brokers is spread to ensure diversification of risk. Our sample testing of investments and borrowings found that they had been carried out in line with policy and that they had been considered when developing cash flow forecasts.

7.55. We reviewed the access rights regarding the online banking system and bank mandate. We found that all authorisation rights were at the right level and had been delegated to the right staff within the finance team.

**Audit Opinion-Significant Assurance with minor improvement opportunities**

7.56. **Housing Term Contracts**

The Council has a number of term contracts and applies a bespoke approach to each contract, depending on the complexity, volume, and risk of each contract. A key control is the segregation of duties in commencing work – a contractor must provide a quote which is accepted prior to the order being approved. As the schedule of rates is built into Orchard, the quote is checked against the contractually agreed values. This is in line with industry practice.

7.57. Except for voids, which are unpredictable, each contract is governed by a work programme which is set out at the start of each year. This is an appropriate way to schedule a term contract. From minutes and papers reviewed, we saw that these work programmes are monitored on a contract-by-contract basis although we could not see whether the overall scheme of work as a whole was on-plan due to a lack of consolidated report for senior management.

7.58. The Council has an appropriate approach for monitoring the quality of work performed. Orchard has been configured to not allow payment of any order over £500, and 10% of other orders, without post-inspection, which helps to ensure that

the Council's highest risk orders and a selection of lower-risk orders are inspected routinely.

- 7.59. Each contract has an assigned contract manager who has a detailed level of knowledge about the contract and so is able to effectively review the work. In the case of the kitchen and bathroom contract, which has the potential to significantly disrupt a tenant's living arrangements, we saw that tenants are asked to sign off the work as acceptable. The level of reporting provided to senior management is limited. The key determinant as to whether the contracts are performing to schedule is whether the agreed programme of work is adhered to. We did observe some basic reporting on the key projects for the benefit of senior management, and we understand that the preferred method of monitoring is through regular one-on-one meetings. However, we could not clearly see the programmes being reported upwards.
- 7.60. There is a clear segregation of duties in place for orders. All orders are quoted and the Orchard system tags each quote against the property being serviced to support monitoring.
- 7.61. There is a clear schedule of rates for each contractor, and the schedule of rates is loaded into the system to help ensure that quotes are in line with the contractual rates. Import files are used to increase the efficiency of this process.
- 7.62. Where relevant work programmes for the year ahead are agreed with the contractor, which reduces administrative effort for the Council.
- 7.63. The system automatically selects orders for post-inspection in line with the order value, and a random sample of other orders. This ensures all contractors are subject to quality monitoring.
- 7.64. Performance is regularly discussed with each contractor, and there is a clear trail of the discussions which have taken place. There are named contacts on each side of the relationship.
- 7.65. Contracts have been arranged to provide flexibility for key services. For instance, there are multiple gas contractors (split by area) but all can cross-service, and likewise the Kitchen and Bathrooms contractor can perform voids work and vice versa.
- 7.66. Contractor performance is not formally monitored in line with best practice and performance is not reported to senior leadership. This prevents emerging issues from being promptly followed up.
- 7.67. The KPIs need to be accurately defined to prevent disagreements between contractor statistics and the Council's records.

#### **Audit Opinion-Significant Assurance with minor improvement opportunities**

- 7.68. **Fraud Awareness**  
Overall, we found that there was good awareness amongst staff of key fraud risks related to their area, but a more structured approach to monitoring fraud risks and

controls could ensure that fraud risks are more appropriately mitigated across the Council.

- 7.69. The Anti-Fraud and Corruption Policy and Local Anti-Bribery Policy are thorough and updated on a regular basis. The Anti-Fraud and Corruption Policy clearly outlines the responsibilities of members of staff and Councillors and details how concerns should be raised. The definition of fraud should be updated to align to the Fraud Act 2006 and the scope of the policy could be made clearer. The Council has not identified a nominated Anti-Fraud Officer, who would be able to advise on fraud allegations and concerns in confidence where individuals do not feel comfortable approaching their line manager, they should ensure oversight of fraud risks and the implementation of the awareness programme, as we see elsewhere in the public sector.
- 7.70. The Local Anti-Bribery Policy states how and to whom allegations of fraud and bribery should be raised. It makes reference to appropriate legislation, although the responsibilities of members of staff are not clearly articulated as in the Anti-Fraud and Corruption Policy. Both policies are available on the Loop but are not explicitly referenced during staff induction.
- 7.71. Members of staff demonstrated a good understanding of key fraud risks in their relevant area (including invoice fraud, procurement fraud, tenancy fraud and benefit fraud).
- 7.72. There are generally appropriate processes and controls to mitigate fraud risks, although some processes operate across several departments (for example, changing bank details operates in Finance and in the Housing Benefits departments), meaning it is important that controls operate effectively across the Council in these areas. Where responsibilities are divided between Service Leads and central services (such as the approval and monitoring of spend on procurement cards) it is important that these responsibilities are clearly defined.

### **Audit Opinion-Significant Assurance with minor improvement opportunities**

## **8. SERVICE REVIEWS**

Over the last six months Internal Audit has worked with managers on a number of lean reviews which will link into the Future Guildford Project. Although this is not traditional audit work, many of the business process re-engineering disciplines involved are closely related to audit systems analysis. This has the benefit of helping managers make efficiency savings but it also increases our understanding of the services and the business risks. We have been working on a number of reviews including:

- Bereavement Services
- Parking
- Depot Review
- Service Challenge sessions / Data Discovery – activity analysis
- Electric Theatre contract monitoring

- 8.1. These reviews look at all the business processes, structures and synergies to deliver more streamlined efficient and effective services which will feed into the Future Guildford project. The reviews are in various stages and will inform any future re-structures.

## **9. CONCLUSION**

- 9.1 The last six months have been a period of change as we are making greater use of our external contractor rather than relying on internal resources. It has worked well so far and the feedback has been positive. The Council is seeking to become more entrepreneurial and the challenge for the team is to balance the requirement for robust governance and control and helping to deliver the Council's ambitious change agenda.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 There are no financial implications.

## **11. LEGAL IMPLICATIONS**

- 11.1 The Local Government Act 1972 (S151) requires that a local council "shall make arrangements for the proper administration of their financial affairs". The 1972 Act is supported by the Accounts and Audit Regulations 2011, which state, "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". The internal audit plan is necessary to satisfy these legal obligations.

## **12. HUMAN RESOURCES**

- 12.1 There are no Human Resource implications.

## **13. Background Papers**

None

## **14. Appendices**

None