

Corporate Governance and Standards Committee Report

Report of Chief Internal Auditor

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Internal audit plan 2020-21

Recommendation

The Committee is recommended to approve the audit plan for 2020-21, as set out in Appendix 1.

Reason for Recommendation:

To ensure an adequate level of audit coverage.

Is the report (or part of it) exempt from publication? No

1. Purpose of Report

1.1. To present the draft audit plan for 2020-21. This report also gives an update on the delivery of the audit plan in 2019-20.

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. In 2018-19, we decided to move to an alternative delivery model for audit and we entered into a contract with KPMG to carry out much of the audit plan for 2019-20. The Audit and Business Improvement Manager is the client-side officer and we retained a multi skilled team who have both audit and business improvement

experience. The new structure has produced 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. The structure fulfils both the governance and assurance obligations of the internal audit function but is practical and sustainable and value for money.
- 3.5. The contract with KPMG has been extended for three years and they will continue to carry out the work contained in the Audit Plan and report to this Committee. The unplanned ad hoc work and reviews will continue to be carried out and managed by the Audit and Business Improvement Manager.

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 based on strategic priorities of the Council
 3. looking at past, present and emerging risks to inform the plan
- 4.3. The overall aim of the audit plan is to cover areas that support the Council's strategic priorities, proper governance arrangements 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 closely involved in the Future Guildford Project, which is an overall change and business improvement programme. This is not traditional audit work, but 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.
- 4.4. The last 12 months have brought a number of external challenges for the Council. The UK left the EU on 31 January 2020, and negotiations are still ongoing with the overall impact still to be determined. This uncertainty has made planning for post Brexit very difficult but over the last few months we have been planning to deal with the potential risks to services both operationally and financially.
- 4.5. In the past three months, the Council, like every other organisation, was severely impacted by the COVID-19 pandemic. This meant that almost overnight staff were

required to work from home as much as possible or be redeployed to help deliver food boxes and work with Surrey County Council to co-ordinate our efforts and resources in protecting the elderly and vulnerable residents in the Borough. This is still ongoing and there is no certainty on how long this will continue.

- 4.6. The pandemic response has had an impact on the Council's finances as well as services and the need to deliver savings has become more critical. This is very much the core of the Future Guildford project which looks 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. Phase A of the project went live at the beginning of December 2019, but Phase B which was due to go into consultation at the end of March was postponed because of the COVID-19 outbreak. The work on this is being re-started with a proposed date for consultation around the middle of September 2020.
- 4.7. This has been a year of change for the Council both internally and externally and 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. 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.
- 4.9. The level of change to services over the last 12 months has increased the risk factor and as a result the audit plan for 2020-21 goes back to basics and concentrates on our base control environment and how we manage performance. We have also included work on the impact of COVID-19 on Council services to assess our ability and effectiveness in dealing with the pandemic and whether there are lessons to be learned in the event of future outbreaks. The 2020-21 plan from KPMG is set out in Appendix 1.
- 4.10. In addition to the planned work plan for 2020-21, there were three reviews carried forward from 2019-20. These are:
 - Governance review of North Downs Housing
 - Control review of new Enterprise Resource Planning Software (ERP)
 - Governance Review Burchatts Barn Lease
- 4.11. In addition, under the Future Guildford umbrella project our internal resources are continuing to work on several governance areas with service managers. These are governance reviews on:
 - Risk Management
 - Project Management

- Performance Management
- Business Continuity
- Procurement
- Potential impact of leaving the EU in January 2021

4.12. As part of the core remit of Future Guildford to identify and promote efficiency, effectiveness and economy, we are also working 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 2019-20

5.1 The table below summarises progress against the 2019-20 Audit Plan. There were 32 planned audits and we have completed 29 reviews, which represents 94 per cent of the audit plan. There were two unplanned reviews which were requested during 2019-20 and these are included in the table below. 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 2020 are shown below:

| ASSURANCE RATING | NO. OF AUDITS 2018-19 | | NO. OF AUDITS 2019-20 | |
|--|------------------------------|-----|------------------------------|-----|
| Significant Assurance | 0 | 0% | 0 | % |
| Significant Assurance with minor improvement opportunities | 18 | 47% | 21 | 62% |
| Partial assurance with improvements required | 8 | 22% | 3 | 9% |
| No Assurance | 0 | 0% | 1 | 2% |
| No Opinion (one-off projects) | 10 | 26% | 6* | 18% |
| In progress | 2 | 5% | 3 | 9% |
| | 38 | | 34 | |

Note * Two pieces of work not on the audit plan but included in the total

5.2 The internal audit team are continuing to carry out workshops and business re-engineering processes as part of Phase B of Future Guildford. 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.

- 5.3 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.

6. Conclusion

- 6.1. The last year has been one of significant change. Services have been re-structured 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 2020-21. 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 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 2020-21 is structured to reflect the changing needs and priorities of the Council at the current time.

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 2020-21 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 2020-21