

Corporate Governance and Standards Committee Report

Report of Chief Internal Auditor

Author: Joan Poole

Tel: 01483 444854

Email: joan.poole@guildford.gov.uk

Lead Councillor responsible: Nigel Manning

Tel: 01252-665999

Email: nigel.manning@guildford.gov.uk

Date: 4 June 2015

Summary of Internal Audit Reports October 2014 – March 2015

Recommendations

The Committee is requested to note the contents of this report.

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

Purpose of Report

- 1.1. This report provides a summary of audit work carried out in the period October 2014 to March 2015.

Strategic Priorities

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

Background

- 1.3. The summaries of the audit reports that we have carried out in the period October 2014 to March 2015 are set out below. Internal Audit uses a scale to categorise the findings and audit opinion under five classifications. These are:

No Opinion – Results of one-off investigations or consultancy work ranging from investigations into potential fraud or misappropriation or other projects such as value for money reviews on which no audit opinion is given.

No Assurance – Fundamental control weaknesses that need immediate action. The area reviewed has significant control weaknesses and, or significant problems were found in the course of the audit.

Limited Assurance – Some assurance that the controls are suitably designed, effective but inconsistently applied, and action needs to be taken to ensure risks are managed. The area reviewed has some control weaknesses and there is a risk of loss or, problems were identified in the course of the audit.

Reasonable Assurance - Assurance that the controls are suitably designed consistently applied and effective but we have identified issues that if not addressed, increase the likelihood of risk materialising in this area. This rating reflects audits where the systems are sound and there are only low-level risks.

Substantial Assurance – Assurance that the controls are suitably designed consistently applied and effective. The area reviewed is well controlled and no material problems were found.

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.

NO OPINION

There have been no investigations within the period.

NO ASSURANCE

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

2. LIMITED ASSURANCE

2.1 CCTV

The Council operates CCTV cameras across a range of locations. These are installed in Parking (car park monitoring), Neighbourhood and Housing Management (at various housing locations) in addition to Economic Development (museum).

Their use has spread organically and service areas have not always sought advice from the Information Rights Officer or ICT. Consequently, work is currently being undertaken to put a governance structure in place and assess the CCTV systems in operation across the Council. The review found the following areas of good practice:

- We have an adequate suite of policies, which govern the use of CCTV cameras.
- The policies reflect the current best practice guidelines and comply with statutory requirements.
- Committee structures are in place to consider the issue of information security.
- The CCTV Procedure Rules are comprehensive and considers organisational requirements in addition to the privacy requirements.
- Council staff viewing CCTV footage receive DBS checks prior to employment and these checks are repeated every three years.

However, the following weaknesses were identified.

- We do not have a full inventory of CCTV devices

- Privacy Impact Assessments for pre-existing CCTV systems had not been completed.
- Copies of requests for information from third parties had not been properly referenced and kept as evidence that the Data Protection Principles have been met.
- Hard drives were not located in controlled environments and the date stamps were not accurate.
- The hardware and software was in poor repair and required updating.
- Training in the use of CCTV systems and information security was inconsistent.
- It was unclear whether the contract staff viewing CCTV footage had the necessary Security Industry Authority licenses.
- Signage was not visible enough increasing the risk that people are not aware that CCTV is in operation.

Audit Opinion – Limited Assurance - Management Response – The recommendations have been agreed and an action plan has been drawn up to address all the issues raised in the report. Progress against the action plan will be monitored.

2.3 ICT Project Management

The Council operates under increasing pressure to maintain or improve its service delivery whilst dealing with reduced budgets and staffing constraints. This has led to changes in service delivery models and technology facilitates many of these changes.

Our ICT project management system has been developed in-house and loosely based on Prince 2 project management methodology. We have been using a Sharepoint document repository to capture all documentation relating to ICT project activities. The site also contains workflow processes to ensure that there were adequate review and approval systems.

During 2014, the Corporate Management Team identified a need for a corporate programme management system, which would capture the diverse range of activities, and projects that feed into the Corporate Plan objectives. We subsequently purchased a new web based Programme and Project Management system which went live in January 2015 and which will be used for all projects within the Council.

The review of ICT project management found the following areas of good practice:

- Project Management activity is aligned to the overall ICT Strategy.
- There is a Project Management Handbook and Project Management Guide available on the intranet, for staff to use.
- Testing highlighted that Business Cases were submitted prior to projects initiation.

- It was evident that in-house solutions were considered as part of Business Case submissions.
- The capital bidding process to obtain funding from the ICT Renewals Fund, provides ICT with an overview of what the customer require and they are able to ensure that the solution aligns with the ICT Strategy.

However, the audit also identified the following control issues:

- The Council's project approach, based on Prince 2 methodology, was not being applied.
- There was an inconsistent approach to costs in the Business Cases.
- Backing documentation was not always uploaded to the Project Management portal.
- Key Performance Indicators were not being captured.
- Key documents such as the Project Plan and Risk Assessments were not evident in the sample of projects reviewed.
- No Highlight Reports were available for the projects sampled.
- There was no evidence of any Quality Assurance processes.
- Key milestones were not identified and reported against.
- There were no Post Implementation Reviews in the sample of projects viewed.

Audit Opinion – Limited Assurance- Management Response – A new corporate programme management system went live at the end of 2014-15. Training on the system and project management in general is being rolled out across the Council.

2.4 Access Controls

The Council introduced Microsoft Sharepoint 2007 to store its electronic documentation in a structured way, which would enable users to search for the documents they required quickly and easily.

In addition, it was hoped that the system would provide the platform for more collaborative working, with various users being able to share and work on the same documents. Furthermore, the Council used the system as its basis for The Loop, which is their Intranet service.

Sharepoint is used by different services to varying degrees. Some of the bigger users of the system include Human Resources, ICT, Planning and Financial Services.

Workflows have been created within the Sharepoint environment to automate tasks such as staff Performance Reviews and Project Management work. These workflows are designed to move documents between users in a pre-defined order, so they can add comments before the document moves to the next user.

The control of Sharepoint and its users is shared between ICT (Information Systems Team), who deal with technical issues and Site Administrators, who are non-IT staff based in each Service Area and deal with the issues which are 'local' to their area.

Sharepoint 2007 is one of the earlier versions of the application and has less well-developed identity and access management tools. Consequently, many early adopters of this software, tended to invest in separate software to run alongside Sharepoint, which provided a mechanism to capture information regarding the users and their access levels. Guildford Borough Council has not chosen to do this and there is a risk that the access to Sharepoint documents is not adequately controlled.

Areas of good practice

- Logical access controls ensure that only users with a valid User ID and Password can access the network where Sharepoint resides.
- The design of the Sharepoint Workflows enforces segregation of duties.

Areas of Weakness

- There is no over-arching policy or governance structure to manage Sharepoint.
- The key functions within Sharepoint have not been clearly documented and assigned to specific roles.
- Training has not been consistently applied.
- The permissions have been rolled out in an organic manner, being assigned to both users and documents. This is leading to inconsistent access controls to individual documents and areas.
- There is no overview of which users have access to which areas and documents.
- The data contained within Sharepoint has not been subject to data classification.
- Testing confirmed that the Sharepoint Workflows are not operating as intended.
- Site Administrators of Service Area sites have no contingency arrangements in place e.g. what would happen in the event of their absence - and their knowledge is not being captured.
- The network topography provided did not show where the servers sit in relation to the overall network, making it difficult to assess if they were suitably located.
- There is no Audit Log to track data and sites that had been accessed and changed.

Audit Opinion – Limited Assurance- Management Response – We will be migrating to a new system File 360 which will have a governance and hierarchical framework based on posts rather than individual members of staff. There will also be a clear security permissions with an audit trail of any changes and details of sites accessed.

2.5 Taxable Benefits

The Payroll and Insurance Manager is responsible for compiling and the submission of the annual Taxable Benefits return on behalf of the Council to HMRC. Taxable benefits guidance notes and the timetable of key stages and submission deadlines are available on the HMRC website.

Currently, one of the payroll officers is being trained to undertake the duties relating to Taxable Benefits. The audit found that the 2013/14 taxable benefit annual return was submitted on time and in accordance with HMRC deadline. However, the review found that there were areas for improvement. These were:

- Completion of year end procedures guidance notes but it should be noted that staff within payroll use the HMRC guidance booklet;
- Transfer the responsibility for collating, reviewing and reporting process to HR so that all staff information is held in one place as although Payroll reports on taxable benefits outside the payroll it does not monitor usage of taxable equipment across the Council;
- Improve the documentation on the classification of benefits (either taxable, exempt or areas relating to private use).
- The Payroll Manager relies on services to provide the data. This should be held as part of staff contracts and if this responsibility is transferred to HR this issue will be resolved;
- During the course of the audit emails could not be located to confirm whether employees had been informed of their P11d information. These have now been produced and staff have received proper notification.

Audit Opinion – Limited Assurance - Management Response – The recommendations have been discussed with managers and progress on the recommendations will be reviewed during the year.

3 REASONABLE ASSURANCE

3.1 Network Controls

The Council operates with approximately 600 PC's and half of these are thin client devices (known as IGEL devices). There is a strategy of moving towards more flexible ways of working and thin client supports this strategy, so the number of thin client users is rising and will continue to do so. There are also provisions made for staff, members and contractors to access the network remotely, under specific controlled conditions.

As a public sector organisation, the Council has to comply with the Public Sector Network requirements and they were last assessed in May 2014. There is an imminent move towards a shared platform and data centre at Redhill, which will change the network infrastructure. Therefore, no major decisions or investments are being made in the network until this has been completed.

Areas of good practice

- Firewalls and other dynamic content filtering tools ensure that inbound and outbound traffic is monitored and rule sets are updated as required.
- The Council operates with up to date anti-virus software, updates are performed automatically and no user can connect to the network without the latest version of anti-virus software.
- Patching activity is regularly performed.
- Physical access to key network equipment is appropriately controlled.
- Access to the network by third parties/contractors is well controlled with access being blocked until it is required.
- Password and lockout periods are appropriate.
- Remote access controls use two-factor authentication and all devices are checked to ensure that the device meets corporate standards before connection is allowed.
- Wi-fi access is controlled via a login and password credential supplied by ICT. Accessing wi-fi does not provide the user with access to the corporate network.

Weaknesses in controls:

- The ICT Security Policy requires updating, it was last reviewed in March 2013.
- Evidence of remedial actions is required to prove that high risk areas identified in the penetration testing have been addressed.
- There were instances where the starter and leaver process was not being correctly followed. This increases the risk that unauthorised access to the network could occur.
- The review of Active Directory accounts does not extend to third party suppliers/contractors. Whilst the default is to block access until required, there could be accounts that are no longer required and could therefore be removed.

The recommendations have been agreed and an action plan is in place.

Audit Opinion- Reasonable Assurance

3.2 Cash Receipting

The Council processed £278 million through its cash receipting system in 2014-15. In September 2014 we replaced the Civica system with Adelante. There have been snagging problems with the new system and the payments team have encountered numerous issues. At the time of the audit, the key issues facing the payments team have been around the Veriphones and the manual allocation of monies from the suspense account. The review found that:

- Daily reconciliations between Connect Pay and Adelante were not always signed and dated and reasons for variances were not recorded.
- The User Summary report is not reviewed periodically;
- Refunds are not being checked promptly and checks usually take place after the refund has been made; and

- There are issues with payments processed through Adelante which have failed to go through the system.

The issues have been raised with Adelante who have developed a solution but has not yet been tested by the Creditor Section due to year end processes taking priority.

The recommendations have been agreed and an action plan is in place.

Audit Opinion- Reasonable Assurance

3.3 Debtors

The Debtors team consists of a Debtors Supervisor and three Debtor Assistants. The staff raise invoices at the request of the services within the Council. The team also administers debt chasing, recovery actions and write-offs in accordance with the established policies when all possible routes of recovery have been exhausted. In 2014-15 the team processed 29,000 invoices requests and collected £23 million. This review found that the controls in place were well designed but that there were issues that needed to be addressed in relation to:

- Invoice requests in some instances do not contain the relevant information or have been authorised by officers who do not appear on the authorised signatory list; and
- There has been a minor change in the Write-Off process which is not reflected in the Council's Financial Regulations. This will be reviewed in May 2015.

The recommendations have been agreed and an action plan is in place.

Audit Opinion- Reasonable Assurance

3.4 Creditors

The Creditors team consists of the Payments Manager; an Assistant Payments Manager; a Senior e-Payments Officer and four Purchasing and Payments Officers. The Creditors team makes payments of invoices and other payment requests at the request of the departments within the Council in accordance with the established policies. The Council's accounting package is e-Financial, but we also use a purchase to pay system to process invoices. In 2014-15 the team processed 24,761 invoices, totalling £59 million. Eighty per cent were processed via the automated system and 20 per cent via the original manual system. The review found many areas of good practice but identified the following issues:

- Testing of invoices and credit notes identified that there were instances where forms were not being signed or electronically certified by two officers as required by the constitution. Segregation of duties is being compromised.
- The Creditors team have not been restricted in who can amend and create supplier accounts on the system.

The recommendations have been agreed and an action plan is in place.

Audit Opinion – Reasonable Assurance

3.5 Council Tax

The Council has approximately 56,000 residential properties and is responsible for collecting Council Tax from these properties. Council Tax is administered through the 'Civica Open Revenues System', for processing and recording Council Tax bills, amendments and payments. The Council Tax team consists of a Manager and a team of 15 staff who deal with all aspects of the Council Tax service from bill queries to recovery of outstanding debts. In 2014-15 the collection rate was 99.13% totalling £87.3million. The review found significant areas of good practice but there were some areas for improvement relating to:

- Manual calculations are not retained to validate that the annual bills contain the correct figures;
- Annual declaration forms (declaring any personal interest) are not completed by the Revenues team;
- Council Tax write offs have not been processed during the year; and
- Annual declarations/reviews are not conducted for Single Persons Discounts; Disregards; Disabled Persons Discount; and Exemptions although there many mitigating activities which are carried out by the Council Tax team

The recommendations have been agreed and an action plan is in place.

Audit Opinion – Reasonable Assurance

3.6 Rents

The section is responsible for the administration and rents for 5028 residential properties; approximately 1600 garages and 35 traveller pitches. The properties are divided into five geographical areas -each area has an Area Manager allocated.

There are five levels of tenancies ranging from homeless to secure which depend on the length of time of the Tenancy and the reliability of rents being paid. The Housing Rents Team consists of the Housing Income Manager, five Area Managers; a Housing Rent Officer; a Housing Rent Assistant; a Business Support Officer and a Money Advisor. The total income for the year 2014-15 was £29.3 million with a collection rate of 99.73%. In the main there are sound and consistent controls in place but the following control issues were identified

- Checks are not performed for In-Year changes to rent accounts;
- Annual Declaration forms are not completed by the Housing Rents team;
- Direct debit batches are created by the same Housing Officer who also enters the information onto the rent reconciling spreadsheet.

The recommendations have been agreed and an action plan is in place.

Audit Opinion – Reasonable Assurance

3.7 NNDR

The Council is responsible for collecting NNDR from approximately 4,500 business properties collecting £81.4 Million in 2014-15 with a collection rate of 99.23%. The audit found many areas of good practice within the service but there were recommendations on the need for:

- Annual declaration forms are not completed by the Revenues team;
- There is a segregation of duties issue with regards the monthly cash payments reconciliation where the same officer prepares and reconciles the cash reconciliation report. This is a temporary measure following the introduction of the new payments system. No errors were found in the testing,
- Additionally, the reconciliation is not signed or dated by the preparing and reviewing officer;

The recommendations have been agreed and an action plan is in place.

Audit Opinion – Reasonable Assurance

3.8 Payroll

The Payroll Section comprises of the Payroll and Insurance Manager and two Payroll Officers. It is responsible for the administration and processing of the salary payments (including making compulsory and volunteer deductions from salaries) for the employees at Guildford Borough Council.

The Payroll Section uses the Selima system and processes payroll for approximately 800 employees per month. There are many areas of good practice

Areas of good practice

- Formal authorisation is given to the Payroll and Insurance Manager in order to load the new pay scales onto the payroll system. An email was sent to the Payroll and Insurance Manager dated 21 February 2014 from the Executive Head of Financial Services to instruct for the 2014 pay award to be loaded.
- The Selima system automatically calculates correct pay using pre input parameters.
- The pay file is transmitted securely each month as payments by BACS transmission and reconciled to total values expected. The files are transmitted via BACS and totals checked prior to release of the payroll run.
- Testing of leavers identified that appropriate adjustments were made to final salaries for employees where the Urgent Clearance Sheet stated an outstanding amount due to the council or owed to the employee.

But the following issues were identified:

- Testing of a sample of 10 leavers identified one instance where HMRC was notified over a month after the date of the employee leaving.

- Testing of a sample of ten starters identified one instance where the starter declaration form was not held on the employee's personal file.
- An extension to the period that an honorarium payment was paid was made on verbal authorisation.

The recommendations have been agreed and an action plan is in place.

Audit Opinion – Reasonable Assurance

3.9 Pest Control

This was a follow-up review after the Council outsourced the service to an external contractor. Although there were no issues raised on the level of service there was still a significant administrative burden on the service. A new system has been agreed to route all calls through Customer Service Centre which will provide more robust and consistent reporting and reconciliation.

The recommendations have been agreed and an action plan is in place.

Audit Opinion – Reasonable Assurance

4 SUBSTANTIAL ASSURANCE

4.1 Housing Benefit

The review found that the controls in place for the management of housing benefit claims were sound, consistently applied and effective

Audit Opinion – Substantial Assurance

4.2 Main Accounting

The review found that the controls in place were sound, consistently applied and effective. There were no recommendations arising from this review.

Audit Opinion – Substantial Assurance

4.3 Treasury Management

The review found that the controls in place for our Treasury Management function were sound, consistently applied and effective.

Audit Opinion – Substantial Assurance

4.4 Guildford House and Tourist Information Centre

These services share the same building but have different managers. We reviewed them jointly as there were many synergies. There is evidence of good customer service in both teams and sound financial and asset controls which has resulted in the substantial audit opinion. However, the review identified some issues with accommodation and equipment which need to be addressed and this has been brought to the attention of senior management.

Audit Opinion – Substantial Assurance

4.5 Outstanding Work

There are six reviews which were outstanding at the end of March. These were reviews that were just starting or had been delayed at the request of managers for operational reasons. These are:

1. Homelessness – Planning started
2. Food Safety – Planning started
3. Electric Theatre – Testing complete
4. Dog Warden – Testing in progress
5. Gas Servicing – Testing in progress
6. Glive – Draft report out for agreement

These will be included in the report to Committee on the work of the section for first half of 2015-16.

5. CORPORATE PROJECTS

5.1 Ombudsman

There have been eight Local Government Ombudsman (LGO) complaints in the year and four to the Housing Ombudsman. The number of complaints is lower than previous years and there have been no local settlements in 2014-15.

5.2 Project Management

We have been working with a multi-disciplinary team to introduce a new corporate programme/project management system. There was a soft launch of the new system in January 2015 concentrating on all the projects linked to the Corporate Plan. We are now launching this across the Council together with a number of training initiatives.

5.3 Freedom of Information and Subject Access Requests

We are involved in many FOI and SAR requests. We cannot plan for this type of work, as we do not know how complex a search will be. The Council has to respond within specific timescales or face possible censure from the Information Commissioner so when a request comes in we have to respond quickly which can impact on other work

5.4 Fundamental Service Reviews

There have been fundamental service reviews on two major services in the last year, Planning and Car Parks. This entails looking at each function and working with staff on the processes to identify efficiency savings. The reviews have now been concluded and there are implementation plans in place.

6. GOVERNANCE PROJECTS

6.1 Governance Review

Each year we carry out a governance review based on the six principles of the CIPFA/SOLACE framework. The recommendations arising from the 2014-15 review were:

- to maintain and deliver customer focused services in an economic and effective way through consultation, robust and innovative service planning and meaningful performance data
- to develop our links with the community and look for opportunities for joint ventures through a variety of channels including social enterprise and Guildford Philanthropy
- to continue the work that has been done to embed the Council's corporate values and competencies framework so that we have staff with the right skills to deliver the service changes that will be required over the next five years
- to improve and standardise our business planning, performance and risk management processes through Verto
- to roll out the new programme management framework
- to continue to work with staff on data protection issues

Many of the areas for improvement are already underway and work on these projects will continue in 2015-16.

7. SERVICE REVIEWS

7.1 Over the last year, Internal Audit has worked with managers on lean reviews in Parking, Planning and Operational Services. 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.

The reviews have identified opportunities for more efficient working and potential income generation. This is on-going and is part of an overall corporate project.

8. Financial Implications

No financial implications apply.

9. Legal Implications

No legal implications apply.

10. Human Resources

No Human Resource implications

11. Conclusion

- 11.1 Any audit plan and subsequent work has to be seen in the context of the organisation as a whole and our defined corporate objectives. In a Council of Guildford's size and complexity, with its significant change agenda and focus on improvement and innovation there is a greater risk of breakdown of control particularly where roles and systems are changing and the expectations for the pace of change are high.
- 11.2 We have worked and continue to work with management to identify and examine these areas of potential or emerging risk. Where audit work has highlighted areas for improvement recommendations have been made to address any control implications. These will be monitored and progress reported to Committee.
- 11.3 We recognise that change increases the risk factor but there is no evidence that where changes have taken place or are planned there are any material control issues. In fact during the service reviews we have been involved to ensure that this does not happen.
- 11.4 We are not complacent but overall, we consider that appropriate actions are being taken to address recommendations but we will continue to monitor and report progress. Overall, the standards of internal control remain good and follow-up reviews are planned for areas where there have been control weaknesses.