



Progress Report

Guildford Borough Council
Internal Audit 2020-21

25 March 2021

Section One

Internal Audit Progress Report – March 2021

Since the last meeting of the Corporate Governance and Standards Committee on 14 January 2021 we have...

- Finalised our reports on Income and Accounts Receivable, Expenditure and Accounts Payable, Performance Monitoring, Local Risk Management and 2019/20 Follow Up;
- Agreed with Management to defer our Capital Management and Key Learnings from COVID-19 reviews into 2021/22;
- Prepared our 2020/21 Head of Internal Audit Opinion (see section three);
- Drafted our 2021/22 internal audit plan (attached); and
- Commenced scoping of our planned 2021/22 HRA Right to Buy Receipts review.

Ahead of the next meeting of the Corporate Governance and Standards Committee on 22 April 2021 we will...

- Finalise our Commence our 2021/22 HRA Right to Buy Receipts review;
- Commence scoping of our 2021/22 Financial Controls reviews including Capital management, Income and Accounts Receivable and Expenditure and Accounts Payable.

Status of our 2020/21 internal audit programme

#	Review	CGSC	Assurance rating given	Status
2020/21 reviews				
1	Treasury Management	November 2020	Partial assurance with improvements required	Complete
2	Payroll	November 2020	Significant assurance with minor improvement opportunities	Complete
3	Income & Accounts Receivable	March 2021	Partial assurance with improvements required	Complete
4	Expenditure & accounts payable	March 2021	Partial assurance with improvements required	Complete
5-7	Performance Monitoring: KPIs	March 2021	Partial assurance with improvements required	Complete
8	Local Risk Management	March 2021	Partial assurance with improvements required	Complete
9	Capital Management	Deferred	N/A	Deferred to 2021/22
10	Follow up Reviews	March 2021	N/A	Complete
11	Key Learnings from Covid-19	Deferred	N/A	Deferred to 2021/22

Section Two

Summary of reviews – March 2021

Summary of completed reviews:

Income & accounts receivable	Recommendations		
	High	Medium	Low
	1	0	0

Summary of key findings

We reviewed the operation of income and debtor processes at Guildford Borough Council (“the Council”) and provide partial assurance with improvements required ’ (amber red). This is in line with management’s expectations. This year has brought many challenges as a result of COVID-19 which has caused constraints on normal operations. The systems used by the accounts receivable team were updated from Selima to Business World in August 2020. We acknowledge the challenges that system migrations bring, however, there were difficulties in obtaining basic listings such as aged debtors and trade receivables as at the end of August 2020. Through discussions with relevant personnel, we confirmed that debt collection procedures had not been followed since lockdown began in March 2020. In light of the pandemic the Council has made a conscious decision around debt collection resulting in debts not being chased. Debts had not been monitored and reported regularly and the outstanding debtors balance has continued to grow with unresolved month on month discrepancies. We selected a sample of 25 income items to test whether invoices had been authorised prior to being sent to customers and to see that income received had been matched to invoices. For controls 1-3 in the process (see appendix one for details), around the use of debtors input forms which have segregation of duties between the individuals preparing and authorising, the Council could not provide appropriate evidence (specific to the operation of these controls) for 16 out of our sample of 25. For controls 4 and 5, around the production and circulation of daily suspense reports and monthly reconciliations, the Council did not provide us with any supporting evidence for our samples. We received an aged debtors listing as at the end of July 2020 and selected the top ten customers with the greatest outstanding balances to determine if debt collection procedures had been followed. These include templated debt collection letters sent after a set number of days as defined by the Council’s policy. The Council provided us with the supporting evidence for this sample to show that controls 6 and 7 were in operation for 8 out of 10 of our sample. For two of our sample, the Council informed us in March 2021 that these had been paid by July 2020 and therefore should not have been included on the aged debtors report to July 2020. The Council was unable to provide aged debtors listings for August 2020 due to technical difficulties with Business World. We note that these debt collection processes were picked up around September 2020 since the pause in March 2020 due to COVID pressures. We selected a sample of write offs to assess whether approval had been given by an individual with appropriate authority to approve the writing off of the debt in accordance with the scheme of delegation. The Council was able to evidence appropriate approvals of all of these write offs.

Due to the implementation of Business World and the compounding difficulties that have arisen due to the Covid-19 pandemic, there has been difficulty accessing the required documentation to facilitate completion of our compliance testing and our review has broadly been limited to reviewing the design of controls. Financial records with relevant supporting evidence must be available to demonstrate that the Council have maintained a robust control environment. We agreed with management that these review areas will be revisited in our 2021/22 audit plan to complete compliance testing in these areas. Implementation of Business World coupled with COVID has impacted the availability of the required documentation. Documentation provided against our debtors sample, including invoices, contracts, rent agreements, payment schedules etc. do not provide evidence of the required segregation of duties control. As such our review has effectively been limited to assessing the design of the control environment. Financial records with relevant supporting evidence must be available to demonstrate that the Council has maintained a robust control environment at all times. We recommend that the Council investigates the issues arising with access to and retention of the required evidence. We have agreed with Management that this review will be revisited in 2021/22 to complete compliance testing of the controls in operation.



Section Two

Summary of reviews – March 2021

Expenditure and Creditors	Recommendations		
	High	Medium	Low
	1	0	0

Summary of key findings

We reviewed the operation of expenditure and creditor processes at Guildford Borough Council (“the Council”) and provide partial assurance with improvements required’ (**amber red**). This is in line with management’s expectations. This year has brought many challenges as a result of COVID-19 which has caused constraints on normal operations. The systems used by the accounts payable team were updated from Selima to Business World in August 2020. We acknowledge the challenges that system migrations bring, however, this presented difficulties in obtaining listings which were foreseen by Management.

The process around raising purchase invoices is in a state of transition due to the implementation of the new system, Business World, which went live for accounts payable in August 2020. We tested the design and operating effectiveness of controls before and after the transition. We found the new process to be well-designed and as such addressed weaknesses in old processes, for example, the lack of a three-way match and the need to raise and authorise payments requisitions. The Council is implementing a ‘no purchase order, no pay’ policy which should further strengthen the control environment and facilitate more accurate budget monitoring.

We found for controls 1 and 2 (see appendix one for details) around the segregation of duties of inputting and approving invoices in the workflow, we were able to evidence controls operating effectively for all of our sample of 20. The Council was unable to provide listings from August 2020 onwards due to issues with the transition to Business World.

We identified issues with the availability of evidence to support the operation of controls in line with their design, as outlined in appendix one. For controls 3, 4 and 5, the Council could not provide any evidence of the operation of the controls for all of our sample of 20. For the controls 6, 7 and 8 (those identified in the process of payment runs) the Council was unable to provide a listing of these covering the entire period to August 2020, including those within Business World, hence we have not been able to select samples for testing. For controls 9, 10 and 11, we selected a sample of one-off payments for the period. The Council was unable to provide supporting evidence for our sample. For controls 12 and 13, around the setting up of new suppliers, the Council was only able to evidence control 13 for 23 of our sample of 25 and it could not evidence the operation of control 12 for any of our samples.

Implementation of Business World coupled with COVID has impacted the availability of the required documentation. As such our review has effectively been limited to assessing the design of the control environment. Financial records with relevant supporting evidence must be available to demonstrate that the Council has maintained a robust control environment at all times. We recommend that the Council investigates the issues arising with access to and retention of the required evidence. We have agreed with Management that this review will be revisited in 2021/22 to complete compliance testing of the controls in operation.

Section Two

Summary of reviews – March 2021

Follow up reviews	Recommendations		
	High	Medium	Low
	N/A		
Summary of key findings			
<p>We reviewed all accepted recommendations in our 2019/20 reviews of Housing Benefits (HB), Voids and Lettings, Neighbourhood and Housing Management Services (NHMS) and Budget Monitoring. Of a total of 22 recommendations, 11 recommendations (50%) are implemented, 3 recommendations (14%) are partially implemented and 8 recommendations (36%) had not yet been implemented. A breakdown against the four individual reviews is set out below:</p>			
<p>Housing Benefits: This amber green rated report included one medium and two low priority agreed recommendations. One has implemented, but two including the medium priority recommendation have not been completed.</p> <p>Medium priority: one (not implemented)</p> <p>Low priority: two (one implemented, one not implemented)</p>			
<p>Lettings and Voids: This review within the community services directorate received an amber red rating. This was primarily driven by ineffective communication and monitoring between the re-housing and property maintenance teams and a lack of minimum standards for void works. We raised a total of 11 recommendations: two high; eight medium; and one low priority, all of which were accepted by management. Five are implemented, two are partially implemented, and four are not implemented.</p> <p>High priority: two (one implemented, one partially implemented)</p> <p>Medium priority: eight (four implemented, one partially implemented, three not implemented)</p> <p>Low priority: one (not implemented)</p>			
<p>NHMS: This amber green rated report included three medium and one low priority recommendation. All four recommendations were accepted by management. This review has identified that two have been implemented, one partially implemented and one not implemented.</p> <p>Medium priority: three (one implemented, one partially implemented, one not implemented)</p> <p>Low priority: one (implemented)</p>			
<p>Budget Monitoring: This amber green rated report included two medium priority and two low priority recommendations, all four recommendations were accepted by management. This review has identified that three are implemented and one has not been not implemented.</p> <p>Medium priority: two (two implemented)</p> <p>Low priority: two (one implemented, two not implemented)</p>			

Section Two

Summary of reviews – March 2021

Local risk management	Recommendations		
	High	Medium	Low
	2	4	2

Summary of key findings

We reviewed processes and controls over risk management and provided 'partial assurance with improvements required' (**amber red**), in line with Management's forecast. Our rating is driven by inconsistencies in the Council-wide risk approach including the use of local risk registers and the escalation and governance of local risk within the wider risk management framework.

The Council has designed a new risk management framework, but this is not yet implemented at the time of this review. As set out within the Strategy and Communications Service Plan, dated November 2020, significant updates to the risk management process were due to be made in the final quarter of 2020/21. We assessed the proposed design of these newly updated processes and found it provides a clear and robust approach to corporate and local risk management and a clear escalation route between the two.

The proposed approach includes the introduction of a consistent approach to local risk management at a project level, including project risk registers and quarterly project Boards. Each risk on the corporate risk register will have a Service Leader assigned who is best placed to define risks and the associated controls and mitigations, reflecting an appropriately senior level of accountability. Service Leaders will propose changes/updates to the corporate risk register to ensure its accuracy prior to publication in the Corporate Governance and Standards Committee papers. Project risk registers will be updated by Project Leaders through regular update meetings, such as with contractors for capital projects, or through risk workshops with key stakeholders. Updated project risk registers will be presented to the relevant Project Board meetings, who meet quarterly and will be attended by the relevant Service Leader, providing a clear link between corporate and local risk management. There are no specific deadlines, milestones or review controls in place for monitoring the implementation of this new approach. Without the implementation of these significantly updated processes, the Council does not have a clear robust framework in place to monitor and manage risk at corporate and local levels, including a clear escalation process between the two. It is vital that this is now implemented and that a robust plan for rolling out the revised risk management framework is put in place which brings together and unifies the various risk management documents, processes and required actions at a corporate and local risk level.

No central process or specific guidance exists mandating how risk should be managed at a local or project level. As such, the creation of project risk registers is dependent on the individual project leader's approach. There is not one centrally established process or written procedure to be followed for risk management and clear minimum documentation requirements, e.g. the existence of a risk register. The Council's 'Risk Management Strategy and Framework' was last updated in September 2017, a clear deadline for review was not included in the original framework however our benchmarking against the wider sector would indicate that similar documents should be reviewed as a minimum on an annual basis. Local Project teams are not familiar with this document and do not have an understanding of how to access to it, instead employing their own independent risk management processes that differ across projects. The corporate risk register should be presented at every Corporate Governance and Standards Committee meeting. However, review of meeting minutes indicated the corporate risk register has not been presented to the Corporate Governance and Standards Committee since September 2020 and is not taken on a regular basis.

Our review of the corporate risk register and local risk registered identified elements of good design, for example each risk across the corporate and local risk registers that we reviewed had an action owner assigned. Risks had been allocated to relevant individuals with an appropriately senior level of accountability. However, we identified inconsistencies in the approach to risk scoring, the identification of mitigating actions, and the level of detail recorded for each risk and have identified opportunities to improve clarity and consistency of these key documents across the Council.

Section Two

Summary of reviews – March 2021

Performance monitoring: KPI data quality	Recommendations		
	High	Medium	Low
	2	5	0

Summary of key findings

We reviewed the design and effectiveness of the performance management framework, with specific review of three KPIs selected by Management. We provide ‘partial assurance with improvements required’ (**amber red**). Our rating is driven by a need for more formal processes for internal reporting, systems issues preventing the reporting of agreed KPIs and a lack of documentation to support KPIs reported.

The Council is in the process of developing a formal and consistent structure for reporting KPIs, including to the Corporate Management Team and Corporate Governance and Standards Committee. We recommend that as this is developed, it should include a clear schedule of KPIs to be reported, definitions, frequency of reporting and responsible owners. The Council plans to take the first performance indicator report to the Corporate Governance and Standards Committee in March 2020. We considered controls around the collation of data and reporting of the three agreed KPIs, and set out below our findings for each:

Major applications KPI: Figure for each quarter (as per the Combined Development Control PS1 and PS2 form) of the percentage of decisions on applications made within 13 weeks. There is a robust process and set of controls around the collation of data regarding major planning applications. This involves the use of system controls within Acolaid and logs to evidence quality checks undertaken over data entry. The definition of the KPI is taken from MHCLG guidance. Further clarity should be provided to support the internal reporting of the KPI to be clear over the calculation methodology, for example, including how extensions of time are applied, and that the decision date is recorded as the date the decision is communicated. We tested the data that sits behind the KPI for the period July -September 2020. This consisted of 14 major applications where a decision was communicated in the period and we tested the entire population. Our testing showed that both the dates used for applications and the classification as major were all accurate. We obtained assurance over completeness of the calculation by searching the planning portal for major applications in this period and checking they were included in the KPI calculation.

Sickness absence KPI: Rolling year to date number of working days/shifts lost due to sickness absence. This is calculated by the number of long and short term sickness absence days divided by the number of FTE of staff. The definition and calculation of this KPI is well defined. Further clarity should be sought over responsibilities for entering sickness absence data into Business World. Since implementation of Business World in July 2020, there has been no reporting of this KPI due to identified data weaknesses and action is needed to ensure that these issues are rectified so that reporting can resume. The Council was unable to provide supporting data for the KPI calculation for the period April-June 2020 due to the aforementioned challenges and therefore we sample tested the KPI data for the preceding period, April 2019–March 2020. Our testing for a sample of 25 cases found that for each instance the sickness absence had been recorded in the relevant system, however, there were challenges in obtaining supporting documentation including first day forms, self certification forms and signed return to work forms both to support the sickness absences recorded on the systems but also presenting a challenge for future verification of compliance with required procedures across the Council. Requirements for storing and retaining such documentation should be established and communicated to relevant colleagues.

Waste collection KPI: Rolling 12-month total of the number of kilograms of residual household waste collected per household, using the Defra definition of residual household waste. There are well defined processes for collating data to submit to DEFRA and reconciling that data to waste collection tickets to ensure completeness and accuracy. We were unable to undertake testing to assess the quality of the data reported during the period April-September 2020 as a result of a lack of supporting data. The Council was unable to evidence whether there had been review of the data prior to submission to WasteDataFlow.

Section Three

Head of Internal Audit Opinion 2020/21

Basis of opinion for the period 1 April 2020 to 31 March 2021

Our internal audit service has been performed in accordance with KPMG's internal audit methodology which conforms to Public Sector Internal Audit Standards (PSIAS). As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) or International Standard on Assurance Engagements (ISAE) 3000. PSIAS require that we comply with applicable ethical requirements, including independence requirements, and that we plan and perform our work to obtain sufficient, appropriate evidence on which to base our conclusion.

Roles and responsibilities

The Council is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system. The Governance Statement (AGS) is an annual statement by the Accountable Officer, on behalf of the Council, setting out:

- how the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- the purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the Assurance Framework process; and
- the conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

The Assurance Framework should bring together all of the evidence required to support the AGS.

The Head of Internal Audit (HoIA) is required to provide an annual opinion in accordance with PSIAS, based upon and limited to the work performed, on the overall adequacy and effectiveness of the Council's risk management, control and governance processes (i.e. the system of internal control). This is achieved through a risk-based programme of work, agreed with Management and approved by the Corporate Governance and Standards Committee, which can provide assurance, subject to the inherent limitations described below.

The purpose of our HoIA Opinion is to contribute to the assurances available to the Accountable Officer and the Council which underpin the Council's own assessment of the effectiveness of the system of internal control. This Opinion will in turn assist the Council in the completion of its AGS and may be taken into account by regulators to inform their conclusions.

The opinion does not imply that the HoIA has covered all risks and assurances relating to the Council. The opinion is derived from the conduct of risk-based plans generated from a robust and Management-led Assurance Framework. As such it is one component that the Council takes into account in making its AGS.

Opinion

Our opinion is set out as follows:

- Basis for the opinion;
- Overall opinion; and
- Commentary.

Basis for the opinion

The basis for forming our opinion is as follows:

- An assessment of the design and operation of the underpinning aspects of the risk and assurance framework and supporting processes; and
- An assessment of the range of individual assurances arising from our risk-based internal audit assignments that have been reported throughout the period. This assessment has taken account of the relative materiality of these areas.

Section Three

Head of Internal Audit Opinion 2020/21

Overall opinion

'Partial assurance with improvements required' can be given on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Commentary

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety. Our opinion covers the period 1 April 2020 to 31 March 2021 inclusive, and is based on the nine internal audits completed in the period.

During 2020/21 the Council faced unprecedented challenges from COVID, with significant and varied operational pressures. In addition, the Guildford First programme of transformation and re-organisation remains ongoing and as part of this the Council has further system implementations. Against this challenging backdrop of the pandemic alongside organisational transformation, during 2020/21 we issued seven 'partial assurance with improvements required' reports, including in the areas of core financial control, risk management and data quality. We agreed 6 high priority recommendations during the year:

- Local risk management: introduction of a consistent council-wide risk management framework. We found that there are no central processes or specific guidance mandating how risk should be managed at a local or project level. Our recommendation centres around updating the existing 'Risk management strategy and framework' on a more regular basis and communicating this to relevant staff so that there is a clear, consistent approach to risk management;
- Local risk management: implementing the newly designed risk management framework. This recommendation is around the implementation of the revised risk management framework; formally devising a plan that unifies the risk management documents, processes and required actions at a corporate and local risk level;
- Performance monitoring: internal performance reporting framework. This recommendation is intended to support the Council through development of the new performance reporting framework – ensuring that there is a clear schedule of KPIs to be reported, including definitions of KPIs, roles and responsibilities for preparation and frequency of reporting; and
- Performance monitoring: staff sickness absence KPI – system integration. We found that the Council had not calculated the sickness absence KPI since the implementation of the new Business World system in July 2020 as a result of identified weaknesses in the recording of data. The recommendation centres around the Council taking steps to address and rectify these identified weaknesses.
- Income and Accounts Receivable and Expenditure and Accounts Payable reviews. We raised two high priority recommendations related to the availability of evidence to support controls operating. Implementation of Business World coupled with COVID has impacted the availability of the required documentation. Financial records with relevant supporting evidence must be available to demonstrate that the Council has maintained a robust control environment at all times.

Despite the challenging backdrop and these high priority recommendations, we are pleased to note that Management has agreed actions in place with named owners and deadlines such that these matters can be addressed. In addition, during 2021/22 we will revisit these key areas to provide independent assurance that actions are being completed and progress is being made.



KPMG LLP
Chartered Accountants
London
16 March 2021



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