



Internal Audit Progress report

Guildford Borough Council

KPMG Governance, Risk and Compliance Services

January 2022

Content

● — ○ 01	Executive summary	3
● — ○ 02	Progress of plan	4
	Appendix A – Capital Management	7
	Appendix B – Income and Accounts Receivable Compliance	9
	Appendix C – Expenditure and Accounts Payable Compliance	13
	Appendix D – Procurement	15

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Executive Summary

The purpose of this document is to provide the Corporate Governance and Standards Committee with an update on the Internal Audit plan for 2021-22. We have summarised below the key points to draw your attention in the period since we last reported to you:

Activity	Comments
Progress against the plan	<ul style="list-style-type: none"> — Commenced fieldwork for our Q4 reviews: 2020-21 recommendation follow-ups, CIPFA FM Compliance and Audit Committee Effectiveness. — Our Q4 reviews on CIPFA FM Compliance and Audit Committee Effectiveness have replaced our planned review on Risk Management, as agreed with management. In order to issue a Head of Internal Audit Opinion, we are required to sufficiently cover risk management through our work. Our reviews on Safeguarding, Key Learnings from Covid and Future Guildford Programme cover risk management sufficiently.
Reports completed	<ul style="list-style-type: none"> — Finalised our Core Financial Controls reports: Capital Management, Income and Accounts Receivable Compliance, Expenditure and Accounts Payable Compliance and Procurement. See appendices A-D for the executive summaries of these reports. — We have agreed with management to include in this report the management responses to agreed actions where the overall assurance rating of the review is partial assurance with improvements required or no assurance. Therefore we have included the detailed actions and management responses for our review on Core Financial Controls: Income and Accounts Receivable Compliance
Significant findings to highlight	<ul style="list-style-type: none"> — Our review on Core Financial Controls: Income and Accounts Receivable Compliance has an overall rating of partial assurance with improvements required. We raised one high priority finding around the formal processes needed for chasing overdue debts.



For information

- January 2022 internal audit progress report

Progress of plan

Below is the full status of the 2021-22 Internal Audit plan as approved by the Corporate Governance and Standards Committee.

Internal audit	Status					Reporting to CGSC	Results	Recommendations			
	Planning	Fieldwork	Draft Report	Final Report	Overall Rating		High	Medium	Low	Total	
01/22: HRA / RTB receipts	✓	✓	✓	✓	June 2021	Partial assurance with improvement required	1	6	-	7	
02/22: Performance Monitoring – KPI review one	✓	✓	✓	✓	August 2021	Significant assurance with minor improvement opportunities					
03/22: Performance monitoring – KPI review two	✓	✓	✓	✓	August 2021	Significant assurance with minor improvement opportunities	-	3	1	4	
04/22: Performance monitoring – KPI review two	✓	✓	✓	✓	August 2021	Significant assurance with minor improvement opportunities					
05/22: Safeguarding	✓	✓	✓	✓	November 2021	Partial assurance with improvement required	-	5	2	7	

Progress of plan (cont.)

Internal audit	Status				Reporting to CGSC	Results	Recommendations			
	Planning	Fieldwork	Draft Report	Final Report		Overall Rating	High	Medium	Low	Total
06/22: Key Learnings from Covid	✓	✓	✓	✓	November 2021	Significant assurance with minor improvement opportunities	-	2	4	6
07/22: Future Guildford Programme	✓	✓	✓	✓	November 2021	Significant assurance with minor improvement opportunities	-	1	1	2
08/22: Financial controls: capital management	✓	✓	✓	✓	January 2022	Significant assurance with minor improvement opportunities	-	2	-	2
09/22; Financial controls: income and accounts receivable compliance	✓	✓	✓	✓	January 2022	Partial assurance with improvement required	1	-	1	2
10/22: Financial controls: expenditure and accounts payable compliance	✓	✓	✓	✓	January 2022	Significant assurance with minor improvement opportunities	-	2	-	2
11/22: Financial controls: procurement	✓	✓	✓	✓	January 2022	Significant assurance with minor improvement opportunities	-	2	-	2

Progress of plan (cont.)

Internal audit	Status			Results			Recommendations			
	Planning	Fieldwork	Draft Report	Final Report	Reporting to CGSC	Overall Rating	High	Medium	Low	Total
12/22: Follow up reviews from 2020-21	✓	In progress	Not due	Not due	March 2022	Not due	-	-	-	-
13/22: CIPFA Financial Management	✓	In progress	Not due	Not due	March 2022	Not due	-	-	-	-
14/22: Audit Committee Effectiveness	✓	In progress	Not due	Not due	March 2022	Not due	-	-	-	-
						Total	2	23	9	34

Appendix A – Core Financial Controls: Capital Management

Conclusion

We reviewed the design and effectiveness of processes and controls for capital management at Guildford Borough Council ('the Council') and provide 'significant assurance with minor improvement opportunities (amber-green)'. This is in line with management's anticipated assurance rating. Our rating is driven by good practice around the review and approval of capital bids, expenditure and programmes through the Council governance structure, the use of the Asset Manager system to automate processes and the streamlined processes as part of the Project and Programme Governance Framework. Our findings are around the frequency of robust review and updates to the fixed asset register (FAR), including formalising the process for depreciation review and introducing a review process that ensures information on assets held is regularly reviewed for accuracy and completeness and that depreciation journals are reviewed prior to posting. We also raise low priority actions around retaining evidence for the operation of key controls.

The Council has a well designed and newly-implemented process for submitting, reviewing and approving capital programme bids. This is supported by review of programmes through the governance structure including the Capital Monitoring Group (CMG), Corporate Management Team (CMT) and Corporate Governance and Standards Committee (CGSC).

There are controls to ensure high value asset additions are appropriately approved by senior staff and committees. However, the FAR is not subject to regular reviews. Asset disposals are authorised by appropriate senior staff following identification of the need for disposal by service leaders.

We found that depreciation journals are automatically produced by Asset Managers when new assets are logged. However, we found there to be no formal controls to ensure that asset values are reviewed and approved when being added. There is no formal review and approval of the automatic depreciation journals from the system prior to being posted.

Summary

Overall rating:	Significant assurance with minor improvement opportunities	
Priority rating:	Control design	Operating effectiveness
High	0	0
Medium	2	0
Low	0	0

Acknowledgements

We thank the following individuals for their contribution during this internal audit:

- Director of Resources (Executive Sponsor)
- Lead Specialist (Finance) & Deputy s151 Officer

Appendix A – Core Financial Controls: Capital Management

Areas of good practice

- ✓ Capital bids are collated and presented at the Budget Council annually for full oversight of the Council’s annual capital expenditure against budgetary provisions.
- ✓ Capital programmes are presented at Corporate Governance and Standards Committee (CGSC) which ensures broad Councillor scrutiny.
- ✓ The Capital and Investment Strategy 20/21 to 24/25 highlights Prudential Indicators which ensures capital expenditure plans are affordable, prudent and sustainable.
- ✓ The Council utilises technology like Asset Manager to automate processes.

Summary of key findings

Monitoring and updating the FAR

2.1 The FAR is only updated annually in line with the annual reporting process.

Review of depreciation

2.2 The automated depreciation journals generated by Asset Manager are not reviewed. There is no formalised review of the underlying asset information when entered on to the system.

Appendix B - Core Financial Controls: Income and Accounts Receivable Compliance

Conclusion

We reviewed the operating effectiveness of controls identified in our 2020-21 review of income and accounts receivable (AR) and provide 'Partial assurance with improvements required' (amber-red), which is in line with management's anticipated assurance. This is driven by a lack of process for the review and follow-up of outstanding customer debts. As a result of this we are unable to test the operating effectiveness of any controls relating to debt collection and chasing. We also raise findings around the lack of regular review for older recurring payments.

Through our sample testing of controls compliance, there is improvement compared to 2020-21; the Council is able to provide evidence for all of our samples that showed controls operating effectively or mitigating controls where samples pre-dated the implementation of BW. We note improvement in areas such as segregation of duties and the increased use of Business World (BW) workflows to evidence approvals and maintain appropriate corporate records.

The Council is yet to use the functionality in BW to regularly monitor and chase individuals with outstanding and overdue debts. As a result, there are no formal processes and controls to ensure that customer debts are regularly reviewed and followed-up. We do note there have been ongoing technical issues limiting the ability to use this functionality. However, we found processes in place are ad-hoc and the Council could not evidence debt collection processes.

We also raise an action around the regular review of recurring payments. Our sample included 2 subscriptions set up in 2013-14, which we were able to review original documentation for. The Council does not regularly review these older recurring payments to ensure that they remain accurate.

Summary

Overall rating:	Partial assurance with improvements required	
Priority rating:	Control design	Operating effectiveness
High	1	0
Medium	0	0
Low	1	0

Acknowledgements

We thank the following individuals for their contribution during this internal audit:

- Director of Resources (Executive Sponsor)
- Finance Specialist (AR and AP)
- Assistant Finance Specialist (AR and AP)

Appendix B - Core Financial Controls: Income and Accounts Receivable Compliance

Areas of good practice

- ✓ The Council has made a marked improvement in the use of BW workflows to document the stages of initiations and approvals throughout AR processes.
- ✓ For our compliance testing of samples, The Council was able to provide evidence that all of the formal controls throughout the process were operating effectively, or that mitigating controls were in place prior to the implementation of BW.
- ✓ The Council provided evidence of the operation of controls in a number of areas we could not review in 2020-21, including approving sales orders prior to issuing invoices, control and ledger account reconciliation, and debt write-offs.

Summary of key findings

Debt collection processes

2.1 In 2020-21, we documented that BW has the functionality to automatically issue letters to customers, based on the value of their outstanding debts. However, in 2021-22, whilst we note that there have been issues with this functionality in BW that the Council has been working on there have been no formal procedures and controls to ensure regular monitoring of outstanding debt and subsequent chasing of customers. These processes have been ad hoc and the Council have not been able to provide evidence of this process in operation.

Reviewing recurring payments

2.2 For our sample of 20 recurring payments, 2 of these were set up in 2013-14 and the Council could not provide evidence that they had been reviewed in 2020-21 to ensure that they remained accurate and appropriate.

Appendix B – Core Financial Controls: Income and Accounts Receivable Compliance

2.1 Debt collection processes

High

In 2020-21, we documented that BW has the functionality to automatically issue letters to customers, based on the value of their outstanding debts. However, in 2021-22, whilst we note that there have been issues with this functionality in BW that the Council has been working on there have been no formal procedures and controls to ensure regular monitoring of outstanding debt and subsequent chasing of customers. These processes have been ad hoc and the Council have not been able to provide evidence of this process in operation.

We understood from our 2020-21 work that BW has the functionality to automatically chase customers based on parameters that aligned to the Council's debt collection policy. At the time the Council was unable to evidence that this was operating. Through this compliance testing, it was confirmed that during 2021-22, this functionality had not been operating because of ongoing technical issues with BW that the Council have been working to fix. We confirmed with management that there are no mitigating, formal processes and controls for regularly monitoring and chasing outstanding customer debts in place of using this BW functionality. We did not select a sample of outstanding debts as there are no formal controls to test a sample against.

The Council's outstanding debt position has increased from £7.4m in June 2021 to £9m in October 2021. Over the same period, the proportion of this debt overdue by 120+ days has increased from 13% to 26%.

We do recognise that the Council has had staff charged with reviewing overdue debts on an a-hoc basis and the payment of sundry debtors within 30 days is one of the corporate performance measures reported on to CGSC. However, with no processes in place for regularly following up on overdue debts, monitoring this locally and holding staff to account, the Council is at risk of not having sufficient and appropriate oversight of customers' debt positions.

Risk: The Council do not have oversight of outstanding and overdue customer debts.

Evidence to confirm implementation:

Agreed management actions:

1. Review and update debt collection policy to codify the debt collection process.
2. Communicate the newly formalised process and ensure relevant staff are trained on this.
3. Ensure the functionality within BW is utilised where possible.
4. Formalise monitoring and reporting of outstanding and overdue debts at the operational level.
5. Where monitoring and reporting identifies staff are not complying with the new process, ensure they are held accountable.

Updated debt collection policy and evidence of the use of BW where possible for debt collecting/chasing.

Responsible person/title:

Finance Specialist (AR and AP)

Target date:

30 June 2022

Appendix B – Core Financial Controls: Income and Accounts Receivable Compliance

2.2 Reviewing recurring payments

Low

For our sample of 20 recurring payments, 2 of these were set up in 2013-14 and the Council could not provide evidence that they had been reviewed in 2020-21 to ensure that they remained accurate and appropriate.

We note that it is not Council policy to regularly review older recurring payments that were set up before the implementation of BW. There is a risk that older subscriptions are inaccurate without a regular review.

Risk: Incorrect or inappropriate recurring payments to the Council.

Agreed management actions:

1. Implement regular reviews of the recurring payments received to ensure they remain accurate and appropriate.
2. Use BW where possible to prompt staff to review recurring payments.

Evidence to confirm implementation:

Updated policies and procedures confirming the requirement to regularly review recurring payments. Updated functionality in BW.

Responsible person/title:

Finance Specialist (AR and AP)

Target date:

30 June 2022

Appendix C – Core Financial Controls: Expenditure and Accounts Payable Compliance

Conclusion

We reviewed the operating effectiveness of controls identified in our 2020-21 review of expenditure and accounts payable (AP) and provide 'significant assurance with minor improvement opportunities (amber-green)', which is in line with management's forecast. This is driven by the improved and more consistent use of the Council's financial system, Business World (BW). The functionality of BW's workflows is used more consistently, ensuring that the Council were able to evidence that all formal controls identified were operating effectively through our sample testing.

Having identified processes and controls in place through our 2020-21 review, we met with management to understand any changes made during 2021-22, to ensure that we tested compliance of all relevant controls. We noted changes in the process and controls since 2020-21, broadly due to the continued implementation of BW workflows for the majority of AP processes.

Through sample testing, we reviewed evidence to assess the compliance of identified controls. We reviewed evidence to support the operation of these controls and this confirmed that they had all been operating effectively. We did note that for our sample of 20 supplier amendments, 11 were changes to supplier details that the Council does not require approval for. This includes name change, change in payment terms, closure of account, change in company registration and VAT number and addition of description of company. We recommend that the Council reviews the appropriateness of this list of exceptions.

We found that, with the number of changes to the process and controls over the year, there are still controls that are not formally in place as well as those that the Council is unable to evidence as there is no appropriate corporate record maintained to show they are operating. We raise a recommendation for the Council to ensure that all controls are set out in processes and procedures and that they are consistently evidenced so that an appropriate corporate record is maintained.

Summary

Overall rating:	Significant assurance with minor improvement opportunities	
Priority rating:	Control design	Operating effectiveness
High	0	0
Medium	2	0
Low	0	0

Acknowledgements

We thank the following individuals for their contribution during this internal audit:

- Director of Resources (Executive Sponsor)
- Finance Specialist (AR and AP)
- Assistant Finance Specialist (AR and AP)

Appendix C – Core Financial Controls: Expenditure and Accounts Payable Compliance

Areas of good practice

- ✓ The Council has made a marked improvement in the use of BW workflows to document the stages of initiations and approvals throughout AP processes.
- ✓ For our compliance testing of samples, The Council were able to provide evidence that all of the formal controls throughout the process were operating effectively.
- ✓ The Council provided evidence of the operation of controls in a number of areas we could not review in 2020-21, including approving and paying supplier invoices, control and ledger account reconciliations and new supplier additions.

Summary of key findings

Formal controls

2.1 There are stages in the process without formal controls operating. There are controls identified in the process that are not documented and the Council was unable to evidence them operating effectively.

Supplier amendments

2.2 There are exceptions to the supplier amendment approval rules, meaning that supplier amendments can be made without any approvals.

Appendix D – Core Financial Controls: Procurement

Conclusion

We reviewed the design and effectiveness of processes and controls for procurement at Guildford Borough Council ('the Council') and provide 'significant assurance with minor improvement opportunities (amber-green)'. This is in line with management's anticipated assurance rating. Our rating is driven by good practice in areas such as governance with the Corporate Procurement Board, newly introduced electronic template forms and the clear categories for exempt good and services being outlined in the procurement procedure rules documentation. Our findings are around formalising the process for updating service plans and the contracts register and introducing review controls and ensuring that there is regular monitoring and reporting on the strategic objectives outlined in the Procurement Service Strategy 2020-23.

The Council has implemented and approved a Procurement Service Strategy 2020-23, outlining the procurement strategic objectives around key areas. This drives the procurement processes, with the procurement procedure rules being updated, to bring them in line with the strategy. However, the Council could not evidence that the strategic objectives outlined in the Procurement Strategy 2020-23 have been subject to consistent and regular monitoring and reporting throughout the Council governance structure.

The Council's processes for identifying the need for procurement activity and updating service plans and the contracts register accordingly are not formally documented with clear review and approval controls.

The Council has broadly well designed procurement and tendering processes, with clear rules to follow regarding specific thresholds for purchases and contract amounts.

We selected samples to test the operating effectiveness of the formal controls identified throughout the procurement process. Our testing found no issues and for the samples selected the Council provided evidence of the formal controls operating as designed.

Summary

Overall rating:	Significant assurance with minor improvement opportunities	
Priority rating:	Control design	Operating effectiveness
High	0	0
Medium	2	0
Low	0	0

Acknowledgements

We thank the following individuals for their contribution during this internal audit:

- Director of Resources (Executive Sponsor)
- Senior Specialist Procurement

Appendix D – Core Financial Controls: Procurement

Areas of good practice

- ✓ The Corporate Procurement Board is well represented with officers from Legal, Procurement and Finance to provide a complete overview of tenders being awarded.
- ✓ Template electronic forms have been introduced for Procurement Instruction, Exemptions, Direct Awards and Procurement Award Recommendation Report.
- ✓ Categories for exempt goods and services are clearly outlined within the Procurement Procedure Rules.
- ✓ Procurement Service Strategy 2020-2023 outlines strategic priorities for the Council for the coming years including training and making use of technology.
- ✓ Threshold for engaging with Procurement has been reduced from £10,000 to £1,500.
- ✓ Threshold for mandatory e-advertisement on Contracts Finder has been reduced from £100,000 to £25,000.

Summary of key findings

Identifying need for procurement activity

- 2.1** There are no formal review and approval controls for the quarterly update to the Council's contracts register. The process for procurement officers updating the register and also for service plan monitoring and updates is not formally documented.

Monitoring and reporting on strategic procurement objectives

- 2.2** The Council could not evidence that the strategic objectives outlined in the Procurement Strategy 2020-23 have been subject to consistent and regular monitoring and reporting throughout the Council governance structure.



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