

Corporate Governance and Standards Committee Report

Report of Chief Internal Auditor

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Internal audit plan 2017-18

Recommendation

The Committee is recommended to approve the audit plan for 2017-18 set out in Appendix 1 to this report.

Reason(s) for Recommendation:

To ensure an adequate level of audit coverage

1. Purpose of Report

- 1.1 To present the draft audit plan for 2017-18 and a calculation of the resources required for the proper audit of Council services.

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 We have based the plan on a risk assessment 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.
- 3.2 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. The current audit resources are:

In-house resources	2.67 FTE
Senior Auditor (Temp) and Contractor	0.75 FTE
Total resources	3.42 FTE

- 3.3 We have to ensure that the level of audit coverage is sufficient to provide assurance on the overall standard of corporate governance. 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
 - (3) an estimate of the resources required to carry out the audits
 - (4) reviewing how we resource the plan
 - (5) producing the audit plan based on the available resources
- 3.4 The audit plan includes a certain amount of contingency to allow for unplanned work because the actual requirements will vary from year to year. We base the planned figure on records from previous years but it can only ever be an estimate.
- 3.5 Over the last few years, we have augmented in-house audit resources by employing a contractor and over the last 12 months we have used Haines Watts to supplement internal resources and carry out the technical ICT audits. The resource issue in 2016-17 was particularly acute due to the long-term absence of a senior member of staff and our involvement and support in the Police and Crime Commissioner elections (May 2016) , the EU referendum (June 2016) and the Mayoral referendum and (October 2016). This affected the timing and delivery of some audits and we have used the contractors to cover part of the shortfall to ensure that high-risk areas are covered for which we do not have the internal expertise.
- 3.6 This contract has ended and we are now implementing the new structure, which was agreed following a service review in 2016-17. The review looked at:
- 1) Outsourcing the service to an external provider
 - 2) A shared audit service with one or more authorities
 - 3) Bringing the service in-house
 - 4) Keeping the status quo
- 3.7 We considered and costed all of the options and while there was some interest in a shared service with neighbouring authorities, the timing was not right to go into a joint contract. The review found that the current co-sourcing model provided the most effective and economic solution. It provides in-house experienced staff together with the flexibility of using a contractor. However, we will continue to assess the best service model to meet the future requirements of the Council.
- 3.8 We have also reviewed the structure against the future needs of the Council to ensure that we have the right mix of resources to deliver the Council's change agenda. We have established a new Audit and Business Improvement Team, which will bring the two disciplines together within the same service unit. This will provide greater flexibility and make best use of experienced professional resources. We have already appointed a new Business Improvement Manager who is in post and the new Audit Manager joined the Council on 22 May 2017. This will provide greater resilience and audit coverage and reduce costs through less reliance on contractors.

- 3.9 The aim of the audit plan is to cover areas that support the Council's strategic priorities, governance issues 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 involved in both lean and fundamental service reviews, which are part of the overall business improvement programme. While this is not traditional audit work, 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.
- 3.10 There is always increased risk in times of change. Over the last year, there have been significant changes both within the senior management team and service structures. There are also continuing financial pressures on the Council to provide value for money. This means being more efficient and effective and looking for innovative ways of working. The challenge for audit is to help services become leaner and more effective within a controlled environment.
- 3.11 Change and uncertainty does affect 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. We also need to be sure that we have good governance arrangements to ensure that we are operating within both the legal framework and our own protocols and standards.
- 3.12 In general, the overall control framework within the Council is sound with sufficient controls in place to prevent significant loss but it would be wrong to ignore the changes that are taking place and how this affects people and systems. There is no evidence to suggest that there is a systemic problem but it would be wrong not to factor these into the risk assessments.
- 3.13 This is a challenging time for audit. We need to be proactive in helping services move forward, improve and achieve the desired outcomes of the Corporate Plan but we also need to ensure that effective systems of governance and control are in place.

4. Audit Plan 2017-2018

- 4.1 The plan is extracted from the audit planning system 2016-17 and shows a resource requirement for 660 days. We have a resource calculation of 587 days (this figure includes a pro rata calculation for the new posts). The shortfall will be covered by a contractor, and includes the specialist ICT audits.
- 4.2 The resource calculation takes into account the total available time less time for annual leave, bank holidays, sick leave, training, appraisals and other non-rechargeable work. The figure for non-rechargeable works is based on previous experience (all members of internal audit complete timesheets therefore the estimates are reasonably accurate). We try to keep non-productive time to a minimum and there is a monthly target of 90% productive time for all audit staff.

- 4.3 The full year's plan is set out in **Appendix 1**. The plan is based on the updated risk assessment. The risk ratings and frequency of audits are shown in the table below:

Risk score	Audit frequency
A	Annual audit
B	Audit every two years
C	Audit every three years
D	Audit every five years

- 4.4 The plan is ambitious and wide ranging. There are many challenges ahead for the Council. We have tried to strike a balance between reviewing the basic financial and management controls, the major governance areas that we must get right, the smaller services and the fundamental systems on which the external auditor bases his opinion.

- 4.5 In addition, the plan includes value for money audits and specific areas where there is an increasing risk of fraud. As part of our remit to identify efficiency, effectiveness and economy, we will be working with managers to help them to deliver different service options. This could include channel shift, automation or different service models with the appropriate level of control.

5. Progress against the 2016-17 plan

- 5.1 The table below summarises progress against the Audit Plan for 2016-17. Although the majority of the audits have either been completed, or are in progress, there have been a number of changes that have affected the team and which have had a knock-on effect on the work programme.
- 5.2 In 2016-17, there were 57 audits on the plan, of which 49 (85%) have been completed and eight are ongoing. There were also six unplanned reviews which accounted for the shortfall. Some were started in 2016-17 but are either still in draft or ongoing so we have not yet given an opinion. However, in the work carried out so far there is no indication of any material or significant issues arising that would give rise to concern.
- 5.3 The table below shows the assurance ratings of the work carried out in the year to 31 March 2017:

Assurance Rating on Productive Audit Work	No. of Audits	
Substantial	6	9%
Reasonable	29	46%
Limited	3	4 %
No Assurance	0	0%

Assurance Rating on Productive Audit Work	No. of Audits	
No Opinion (one-off projects)	11	18%
In Progress (inc. FSR and Lean reviews)	8	13%
Deferred to 2016-17	6	10%
Total audit coverage	63	

5.4 There have been 19 Local Government Ombudsman (LGO) complaints in 2016-17. Only one complaint was upheld but it was found that the complainant did not suffer any injustice. A summary of the cases is set out below:

Decision Date	GBC File Ref. No.	Complaint Category	Finding
07/03/16	AJ/15/0013	Corporate & Other Services	Premature
10/05/16	AJ/16/0002	Benefits & Tax	Premature
03/05/16	AJ/16/0001	Planning & Development	Closed after initial enquiries – out of jurisdiction
03/05/16	AJ/16/0003	Planning & Development	Closed after initial enquiries – no further action
17/05/16	AJ/16/0004	Housing	Premature
06/06/16	AJ/16/0005	Environmental Health & Planning	Premature
11/08/16	AJ/16/0006	Planning & Development	Closed after initial enquiries – no further action
24/08/16	AJ/16/0009	Planning & Development	Closed after initial enquiries – out of jurisdiction
02/09/16	AJ/16/0008	Housing	Premature
06/09/16	AJ/16/0010	Planning & Development	Closed after initial enquiries – out of jurisdiction
07/09/16	AJ/16/0007	Environmental Services & Public Protection & Regulation	Closed after initial enquiries – no further action
21/10/16	AJ/16/0011	Benefits & Tax	Close after initial enquiries – no further action
21/11/16	AJ/16/0014	Corporate and Other Services	Not Upheld: No maladministration
23/11/16	AJ/16/0013	Housing	Close after initial enquiries – out of jurisdiction
09/02/17	AJ/16/0018	Corporate and Other Services	Closed after initial enquiries – no further action
24/02/17	AJ/16/0012	Planning & Development	Upheld: maladministration, no injustice
03/03/17	AJ/16/0016	Highways & Transport	Closed after initial enquiries – no further action
08/03/17	AJ/16/0019	Housing	Closed after initial enquiries – no further action
28/03/17	AJ/16/0020	Private Sector Housing	Premature

5.5 In 2016-17, we also started lean projects and service reviews in areas such as Operational Services, Heritage Services, Parks and Countryside. Audit has been

supporting the newly established Business Improvement Team to provide added impetus and experience. The reviews are significant pieces of work but they are all at different stages so it would not be appropriate to go into detail at this stage. The outcomes will be reported to Committee when they are complete.

6. Conclusion

- 6.1 There has been a marked increase in the pace of change at the Council. Services and structures are evolving 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. We are also working with services not only through the traditional audit route but also through lean reviews and business process re-engineering. This is a time of change for the organisation. The audit plan for 2017-18 is structured to reflect the changing needs and priorities of the Council. We have reviewed the audit service and increased resources to ensure that we have the necessary coverage and expertise to deliver a robust audit plan in line with best practice.

7. Financial Implications

- 7.1 The financial implications of the new structure were the subject of a growth bid, which has been agreed and the structure is now in place.

8. Legal Implications

- 8.1 The Local Government Act 1972 (S151) requires that every local authority “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 in the first half of 2017-18 and this has been factored into the Plan. Any changes will be reported to Committee.

10. Background Papers

None

11. Appendices

Appendix 1: Audit Plan 2017-18

Appendix 1

	Audit Plan 2017-18	Days	Risk Rating	Audit Type
	Corporate Risk Register			
1	Performance Management	15	A	Performance Management Framework and Indicators
2	Project Management	15	A	Review Project Management and Controls
3	Elections PV and compliance x 2	25	A	Review controls PVS and best practice
	Governance			
4	Data Quality	15	A	Data Quality audits
5	Transparency	15	A	Follow-up
6	Procurement	20	A	Systems and compliance audit
7	Legionella	15	A	Systems and compliance audit
8	Asbestos	15	A	Systems and compliance audit
9	Health and Safety	15	A	Systems and compliance audit
10	Business Continuity	12	A	Systems Audit
11	Taxi Fees	10	B	Systems Audit
12	Gas Servicing	15	A	Compliance Audit
13	Risk Management	15	A	Reviewing risk registers
14	Public Health and Well-Being	15	B	C
15	Food Safety	10	B	Systems and compliance ausit
	Finance			
16	Rents	10	B	Letting and Voids performance
17	Treasury Management	10	A	Management Controls
18	Council Tax (SPD)	5	B	Follow-up
22	Payroll x2	12	B	Includes controls on new structure
23	Creditors	10	B	IDEA
24	Debtors	10	B	VFM Point of Sale
	Contract Management			
26	Housing (Term Contracts)	30	B	Governance management control and reporting
27	Contract Management	20	A	Governance management control and reporting
28	G Live	10	B	Contract compliance
29	Spectrum Open Book	10	B	Verifying reported data
30	Parking SCC contract audit	10	B	Contract compliance
	ICT			
32	Network Controls	10	A	Systems Audit
33	Application Controls	10	A	Systems Audit
34	IDEA	20	B	Identify where controls can be embedded and implement control monitoring reports
35	Homeworking	15	B	Look at options for monitoring and measure cost benefits

	Audit Plan 2017-18	Days	Risk Rating	Audit Type
	HR			
36	Annual Leave Purchase	8	B	Controls on new system
37	Payroll (IDEA Starters & Leavers)	10	A	System controls
38	IR35	10	A	Review implementation of new system
	VFM			
39	Transport	30	B	VFM
40	Agency Staff	15	B	VFM
41	Legal Services	20	A	Systems Audit
42	Commercial Services	20	A	VFM
43	Planning Enforcement	15	A	VFM
45	Parks FSR	15	A	VFM
46	Tenancy Fraud (Follow-up)	8	B	Compliance Audit
47	Property Management	15	A	Management Control
	Non-Audit Duties			
48	Ombudsman	15		
49	Lean & Projects	20		
50	FOI/SAR	10		
51	Contingency	30		
		660	Days	