

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: Michael Illman

Tel: 07742 731535

Email: michael.illman@guildford.gov.uk

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## Summary of Internal Audit Reports - April 2017 – September 2017

### Recommendation

The Committee is requested to note the summary of audit reports and other associated work for the period April 2017 to September 2017 and progress against the audit plan. (Appendix 1)

#### Reasons for Recommendation:

To ensure an adequate level of audit coverage.

### 1. Purpose of Report

- 1.1. To present a summary of audit work for the period 1 April 2017 to 30 September 2017.

### 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 to ensure that the level of audit coverage is sufficient to provide assurance on the overall standard of corporate governance. The section has undergone a fundamental service review over the last six months to identify the best service option for the Council's current needs but also looking at future developments within local government.

#### 4. Summary of Audit Reports - April 2017 to September 2017

4.1. The summaries of the audit reports that we have carried out in the period April 2017 to September 2017 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 and 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 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.

4.2. 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**

4.3. There are no reports with “No Opinion” in this period.

##### **NO ASSURANCE**

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

##### **LIMITED ASSURANCE**

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

##### **REASONABLE ASSURANCE**

##### **Fuel Management**

4.6. Internal audit undertook a review of Council Vehicle Fuel Management as part of the annual audit plan. The review looked at the administration for ordering fuel and what the controls were for dispensing fuel and the use of master keys and procurement cards.

4.7. The Council spends over £500,000 on fuel each year so it is important that there are controls in place to deter fraud and maximise efficiency to ensure the smooth and economic running of the fleet. The review found the following areas of good practice:

- the Assistant Waste Operations Manager and Fleet Co-ordinator have good systems in place for obtaining the best price for the supply of fuel.
- fuel dips are carried out on a regular basis.
- CCTV cameras overlooking the pumps are in operation 100% of the time.
- an effective form of security, although unconventional is the daily parking of a refuse freighter over the fuel tanks at the end of each day.

4.8. However, there are some areas for improvement. The main ones are listed below:

- the Cameron Forecourt Fuel System<sup>1</sup> is not being fully utilised.
- procedure notes should be written and reviewed on a regular basis.
- better administrative controls to mitigate the risk of duplicate payments.

**Audit Opinion – Reasonable Assurance**

**Recommendations were agreed and in most cases implemented immediately. Some are still in progress and will be reviewed.**

**Annual Leave Salary Sacrifice Scheme**

4.9. The Annual Leave Salary Sacrifice Scheme was first introduced in April 2016 following a staff survey in June 2015. The scheme had to have the approval of HMRC but it had to be introduced before HMRC would consider it. Initially, they would not agree to the scheme but we revised our process and it was approved by HMRC in August 2016 although in practice staff salary deductions had been taken for the first three months of the financial year. This resulted in the Payroll team refunding deductions and creating new deduction profiles.

4.10. The scheme is open to all staff but every application has to be authorised by the employee's line manager. The financial calculation and checks are carried out by the Payroll team. The calculations were checked and found to be correct; however, the review found that there was no explanation of what happens when an employee leaves the Council and this needs to be included on the Leavers Clearance sheet.

4.11. The 2016 Autumn Statement included changes to the income tax and national insurance contribution (NIC) treatment of certain benefits in kind. The changes, which took effect from 6 April 2017, will see the income tax and NIC increase on some benefits provided to employees as part of a salary sacrifice scheme and the Payroll team will need to be mindful of any implications to the Council's scheme.

**Audit Opinion – Reasonable Assurance**

**Further testing will be included in the general payroll audit**

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<sup>1</sup> Cameron are a leading company involved in the supply, installation and onward maintenance of fuel tanks, fuel pumps, diesel tanks and pumps, diesel pump repairs, web based fuel management, tank gauging and other fuel management systems and associated control systems.

## **Complaints**

- 4.12 The Council has had a formal complaints system in place for a number of years. Over the last two or three years we have reviewed how we deal with complaints and have simplified and shortened the process to make it more efficient for our customers and residents. Our review found that in the main we deal with and monitor complaints in a timely fashion, however, there have been delays in introducing the new complaints system which has resulted in complaints being collated manually on a spreadsheet which is resource intensive. The new complaints system, which forms part of the FOI system, was due to be introduced in August 2016 but as yet has not been implemented however complaints are still being monitored and the Corporate Management Team receive regular monthly reports on our performance.

## **Audit Opinion – Reasonable Assurance**

### **SUBSTANTIAL ASSURANCE**

#### **Gas Servicing**

- 4.13 In 2015-16, we carried out an audit of our controls for gas servicing and safety checks. This review found some operational and administrative issues, which left the Council open to risk from non-compliance and the result was a limited audit opinion. An action plan was put in place and the service manager introduced and implemented a more robust and better controlled system. The objectives of the review were to assess the progress since the last audit to ensure that:
- our management and administration processes were compliant with Gas Safety legislation.
  - all domestic housing stock properties hold current landlord gas safety certificates
  - there is a robust system in place to confirm that these are renewed within the statutory 12 month period.
  - there is a robust system to match invoices to individual properties
- 4.14 The audit found that there had been significant improvements since the last review. Invoicing arrangements for this contract are now electronic and this largely eliminates the risk of operator error when logging data into the system. Every order issued through the Orchard system is linked to an exclusive address and cannot be changed. Invoices are now submitted using an electronic file that includes the unique job number and the claim value from the contractor. Whilst there is no provision for holding the address in text form, the linkage on the system between a job number and an address makes it unnecessary.
- 4.15 The system runs a matching routine across every invoice file submitted – where there is a mis-match, an error report is generated and the file cannot be processed any further until the error is corrected. There is potential for three errors:
- The job number does not match that held on the Orchard system
  - The job number is a duplicate to one that has already been processed and 'invoiced'
  - The claim value does not match the order value.

- 4.16 The data cannot be loaded onto the Orchard system until the errors are corrected or removed from the file. The contractor's invoice has to be adjusted to address any errors before any payment is authorised.
- 4.17 The Business Support Manager has successfully implemented an additional module to the Orchard system. This holds the details of the last time an installation had been checked. This data is then used to trigger the issue of an order to the contractor to carry out the next annual check at the appropriate time. The completions file updates the system to the next service date.
- 4.18 The contract administrator has access to this information, which allows any outstanding orders to be identified and corrective action taken. The contractor has a parallel system that he uses to manage the delivery of his services through his workforce. The new Orchard software now allows the client team to effectively manage the contractor as demonstrated by the level of compliance now being achieved.
- 4.19 There has been a great deal of work carried out over the last 18 months which has resulted in a major improvement in the system.

#### **Audit Opinion – Substantial Assurance**

##### **Annual CRC Report Submission to Environment Agency**

- 4.20 The CRC Energy Efficiency Scheme is a mandatory carbon emissions reporting and pricing scheme which covers public and private sector organisations in the UK. The scheme is divided into a number of phases, with each phase lasting five years. Currently, the scheme is in its second phase running from April 2014 to March 2019. The UK government announced in 2016 that the CRC Energy Efficiency Scheme will be abolished following the 2018-19 compliance year.
- 4.21 Participants in the CRC need to measure and report their electricity and gas supplies annually, following a specific set of measurement rules. The CRC registry then calculates CRC emissions in tonnes of carbon dioxide (CO<sub>2</sub>) from the data submitted. In addition to reporting our electricity and gas supplies, we are required to answer a set of corporate responsibility questions and keep evidence with records of our supplies as well as other relevant information.
- 4.22 The scheme requires participants to buy allowances for every tonne of carbon they emit (relating to electricity and gas), as reported under the scheme. This means that organisations that decrease their emissions can lower their costs under the CRC.
- 4.23 We were asked to carry out an audit prior to our submission and review and verify the figures in the Annual Report. As part of the audit we tested a sample of energy consumption figures from different sites which were found to be correct. The resulting calculation of the estimated cost of emissions was checked and no problems were found.

#### **Audit Opinion – Substantial Assurance**

## 5 Corporate Work and Projects

### Local Government Ombudsman

- 5.1 There have been seven Ombudsman complaints in the first six months of 2017-18. This compares with 12 in the same period last year. All were either closed, not upheld or classed as premature.

GBC File Ref. No.	Complaint Category	Finding
AJ/17/0001	Corporate & Other Services	Closed after initial enquiries – out of jurisdiction
AJ/17/0002	Environmental Services & Public Protection & Regulation	Closed after initial enquiries – no further investigation
AJ/17/0003	Housing	Premature
AJ/16/0017	Planning & Development	Not upheld: no maladministration
AJ/17/0005	Housing	Closed after initial enquiries – no further action
AJ/17/0006	Corporate & Other Services	Closed after initial enquiries – out of jurisdiction
AJ/17/0004	Housing	Closed after initial enquiries – no further action

## 6 Governance Projects

- 6.1 Over the last 18 months we have been carrying out a rolling programme of audit reviews on our corporate governance processes. This will continue during 2017-18 but in the period April to September 2017 we carried out reviews on:

### General Data Protection Regulation

- 6.2 We carried out an initial review of the requirements of the impending GDPR legislation and how this will impact the Council. This is a significant piece of legislation which will impact most services. We have pulled together a working group with service representatives to identify what data we hold, why we hold it, how it is held and how it complies with the new legislation. It is a major project but we have made good progress. We now have:
- A project plan
  - A project sponsor - Steve White
  - A project board - with representatives from all directorates
  - Appointed a Data Protection Officer (legal requirement) – Joyce Hamilton
  - Set up processes and procedures for the individual pieces of legislation e.g. rights of access, erasure, portability
  - A testing programme for each process
  - An outline training programme which identifies required level of training for different staff
  - A Powerpoint video for staff which gives basic awareness training. This will be made available to Councillors.

- A training event for councillors scheduled for 20 March 2018
- A training programme for staff which is currently being developed

6.3 The next steps in the project are:

- To contact all suppliers to assess how prepared they and their systems are
- Contact services to start data cleansing

6.4 We have made good progress on what is a major piece of work and we will keep the Committee updated in future reports.

#### Elections

6.5 Elections by their very nature are subject to very stringent controls and legislation but in the main the highest risk area for local authorities has been the controls over postal votes. Internal audit has worked with electoral services to test the controls and identify administrative improvements. The new processes were put in place for the Surrey County Council elections in May 2017 and the results demonstrated that we have robust processes and management controls in place for the future and provide assurance that our democratic processes are sound.

#### Business Continuity and Emergency Planning

6.6 The Council has always had robust Business Continuity and Emergency Planning processes; however, our review found that while there were contingency plans both in ICT and Emergency Planning to deal with an incident, we need to review and update our procedures and records and align the ICT contingency planning to the Council's overall recovery and emergency planning. Part of the problem is that, over the last few years, there have been a number of organisational changes, which has resulted in some instances structures with different roles and reporting lines. When this happens, there is always a risk that the linkages between services are overlooked. A working group of all relevant service managers has been set up to assess the current arrangements and produce a revised joint plan to ensure that in the event of an incident the Council has identified both the priority services and the priority staff to ensure service delivery. We will report back to Committee on progress.

#### Service Plans

6.7 Service plans are an important part of our management control environment. We have had a service planning process for several years, which has developed over time. However, the background against which service plans are produced has changed with the introduction, for example, of both a comprehensive Corporate Plan and the strong leader model. As service plans have developed over time, structures and reporting lines have changed which has increased the risk that the approach from individual services has become less corporate and documents have been produced to different standards.

6.8 We reviewed the process and it was agreed that we needed to review and simplify the process. The new plans which consist of two main documents were introduced

in May. The first document contains summary information about the service and details of any significant projects and activities over the next three financial years. The second document is a spreadsheet showing progress on each of the projects/activities, which will be used in one to ones and at CMT to monitor the progress against targets. The service plans will be developed by service managers which will then be agreed by the relevant director and Portfolio Holder.

6.9 As well as being a useful tool to monitor and manage significant projects and activities, service plans also provide an opportunity to engage with colleagues, councillors and customers to improve their understanding of the scale and objectives of each service. The summary document includes information about the service:

- Position in the council
- Senior management and Portfolio Holder
- Purpose and objectives
- Financial information
- Staffing levels
- Key Performance Indicators
- Major projects and activities

6.10 The service plan requires that all projects are identified according to project type. The project types are:

- Corporate Plan – projects arising from the Council's Corporate Plan.
- Transformation – projects undertaken as part of the Transformation Programme, either Transformation Reviews or resulting from recommendations in earlier Transformation Reviews.
- Savings – Projects designed to achieve savings.
- Service Improvements – Projects undertaken to improve services, usually not identified as part of the Transformation Programme or Savings reviews (e.g. introduce new software).
- Risk mitigation – Projects undertaken to mitigate a risk identified as part of the Council's Risk Management process.
- Business as Usual (BAU) – activities that are important to the service but may not be corporately significant.

6.11 As part of the service planning process, service managers will be expected to develop meaningful Key Performance Indicators (KPIs). These will be included in the service plan and be used as the basis of a regular report to CMT. Many services will already have some KPIs but this is an area which needs further development to ensure that the KPIs capture information that is important from the customer's point of view or demonstrate the efficiency and effectiveness of the service.

6.12 There is already a monthly Corporate Plan Monitoring report which details the progress of all projects which feed into themes and aims of the Corporate Plan 2015-2020. In addition, we benchmark the corporate PIs collected with other Surrey authorities on a suite of data to assess our performance. However, there is



a risk of duplication from collecting all of the various data sets and we need to collate this information into one consistent document.

### Work in Progress

6.13 These are audits which were started in the period but are either in draft or still in progress. These will be reported to Committee at a later date:

- Fire Risk Assessment - report in draft
- Cyber security – report in draft
- Major Housing Projects – report in draft
- IR35 – report in draft
- Procurement - testing
- Legal Services - testing
- Agency and Overtime Payments – report in draft
- Asbestos and Legionella – reports in draft
- Vehicle Management - testing
- Sharepoint – Access Controls and Permissions and GDPR requirements – planning
- Taxi Licensing – report in draft

## **7 Service Reviews**

7.1 Over the last year, Internal Audit has worked with managers on lean reviews, some as stand-alone projects and some as part of their fundamental reviews. 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.

### Service and lean reviews in progress

7.2 We are currently working on a number of reviews including:

- Heritage Services
- Parks and Countryside
- Human Resources
- Operational Services

7.3 These reviews look at all the business processes, structures and synergies to deliver more streamlined efficient and effective services. The reviews listed above are now being finalised and a report with recommendations for the future will be submitted and will inform any future re-structures.

## **8 Financial Implications**

8.1 The financial implications of the new structure were the subject of a growth bid, which has been agreed.

## **9 Legal Implications**

- 9.1 The Local Government Act 1972 (S151) requires that a local council “shall make arrangements for the proper administration of their financial affairs”.
- 9.2 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”.
- 9.3 The internal audit plan is necessary to satisfy these legal obligations.

## **10 Human Resources**

- 10.1 There are no human resource implications arising from this report.

## **11 Conclusion**

- 11.1 The first half of the year has been challenging with a number of unplanned pieces of work and some staffing issues. In addition, the audit focus is changing as the Council is seeking to become more entrepreneurial. This will bring new opportunities and risks and will be factored into our audits.
- 11.2 The challenge for the team is to balance the requirement for robust governance and controls and helping to deliver the Council’s ambitious change agenda.

## **12. Background Papers**

None

## **13. Appendices**

None