



# Internal Audit Progress Report

**Guildford Borough Council**

KPMG Governance, Risk and Compliance Services

---

March 2023

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# Executive Summary

The purpose of this document is to provide the Corporate Governance and Standards Committee (CGSC) with an update on the Internal Audit plan for 2022-23. We have summarised below the key points since we last reported to you:

| Activity                          | Comments   |
|-----------------------------------|--|
| Progress against the plan         | <ul style="list-style-type: none"> <li>— We have finalised our Q4 reviews on budgetary controls, general ledger, s.106 contributions, follow up of 2021-22 reviews, journals and the additional review on the payroll budget discrepancy with actions agreed with management.</li> <li>— All reviews in our internal audit plan have been delivered, which allows us to issue our Head of Internal Audit Opinion for 2022-23 (see appendix G)</li> </ul> |
| Reports completed                 | <ul style="list-style-type: none"> <li>— We have finalised our Q4 reviews on budgetary controls, general ledger, s.106 contributions, follow up of 2021-22 reviews, journals and the additional review on the payroll budget discrepancy with actions agreed with management. A full status is set out in section 2 (page 4) of this document.</li> </ul>  |
| Significant findings to highlight | <ul style="list-style-type: none"> <li>— Since we last reported, we have raised two high priority findings in our financial controls: budgetary controls and two high priority findings in our additional payroll review.</li> </ul>   |
| Head of Internal Audit opinion    | <ul style="list-style-type: none"> <li>— Since the last meeting of the Committee, we have prepared the 2022-23 head of Internal Audit Opinion which is presented in Appendix G.</li> </ul>   |



## For information

- March 2023 internal audit progress report

## Progress of plan

Below is the status of the 2022-23 Internal Audit plan as approved by the Corporate Governance and Standards Committee (CGSC). We highlight the 'core' reviews driving our 2022/23 Head of Internal Audit Opinion.

| Internal audit  | Status   |           |              |              |                | Reporting to CMB and CGSC                                  | Results | Management actions |     |       |  |
|---|----------|-----------|--------------|--------------|----------------|--|---------|--------------------|-----|-------|--|
|   | Planning | Fieldwork | Draft Report | Final Report | Overall Rating |  | High    | Medium             | Low | Total |  |
| 01/22: IT Infrastructure for Remote Working                       | ✓        | ✓         | ✓            | ✓            | November 2022  | Significant assurance with minor improvement opportunities | -       | 1                  | 2   | 3     |  |
| 02/22: Performance Monitoring – KPI Review One <b>(Core)</b>      | ✓        | ✓         | ✓            | ✓            | July 2022      | Significant assurance with minor improvement opportunities | -       | 1                  | 2   | 3     |  |
| 03/22: Performance monitoring – KPI Review Two <b>(Core)</b>      | ✓        | ✓         | ✓            | ✓            |                |  |         |                    |     |       |  |
| 04/22: Performance monitoring – KPI Review Three <b>(Core)</b>    | ✓        | ✓         | ✓            | ✓            |                |  |         |                    |     |       |  |
| 05/22: Customer Services: Complaints Handling                     | ✓        | ✓         | ✓            | ✓            | October 2022   | Partial assurance with improvements required               | 1       | 2                  | 2   | 5     |  |
| 06/22: Corporate Programmes: Redevelopment Projects <b>(Core)</b> | ✓        | ✓         | ✓            | ✓            | January 2023   | Partial assurance with improvements required               | 1       | 3                  | 2   | 6     |  |
| 07/22: Risk management <b>(Core)</b>                              | ✓        | ✓         | ✓            | ✓            | November 2022  | Significant assurance with minor improvement opportunities | -       | 1                  | 2   | 3     |  |
| 08/22: Financial controls: budgetary controls <b>(Core)</b>       | ✓        | ✓         | ✓            | ✓            | March 2023     | Partial assurance with improvements required               | 2       | 2                  | -   | 4     |  |

## Progress of plan (cont.)

| Internal audit  | Status  |           |              |              |                           | Results  | Management actions |           |           |           |
|---|---|-----------|--------------|--------------|---------------------------|--|--------------------|-----------|-----------|-----------|
|   | Planning  | Fieldwork | Draft Report | Final Report | Reporting to CMB and CGSC | Overall Rating   | High               | Medium    | Low       | Total     |
| 09/22: Financial controls: general ledger <b>(Core)</b> | ✓   | ✓         | ✓            | ✓            | March 2023                | Significant assurance with minor improvement opportunities | -                  | 1         | -         | 1         |
| 10/22: Financial controls: payroll <b>(Core)</b>        | ✓   | ✓         | ✓            | ✓            | October 2022              | Significant assurance with minor improvement opportunities | -                  | 1         | 1         | 2         |
| 11/22: s.106 Contributions                              | ✓   | ✓         | ✓            | ✓            | March 2023                | Significant assurance with minor improvement opportunities | -                  | 3         | 2         | 5         |
| 12/22: Follow up reviews from 2021-22                   | ✓   | ✓         | ✓            | ✓            | March 2023                |  | N/A                |           |           |           |
| 13/22: Regeneration                                     | Removed from plan at Management's request as approved by Corporate Governance and Standards Committee |           |              |              |                           |  |                    |           |           |           |
| 14/22: Financial controls: journals <b>(Core)</b>       | ✓   | ✓         | ✓            | ✓            | March 2023                | Significant assurance with minor improvement opportunities | -                  | 1         | 1         | 2         |
| 15/22: Payroll Budget Discrepancy (additional review)   | ✓   | ✓         | ✓            | ✓            | March 2023                | Partial assurance with improvements required               | 2                  | 1         | 1         | 4         |
| Total   |   |           |              |              |                           |  | <b>6</b>           | <b>17</b> | <b>15</b> | <b>38</b> |

# Appendix A - financial controls: budgetary controls

## Conclusion

We reviewed the design and effectiveness of budgetary controls and provide 'partial assurance with improvements required' (**amber red**), which is in line with management's expectation. Our rating is driven by: the lack of clarity around staffing numbers at the Council leading to variances in budgets; limited challenge from Finance on in-year financial monitoring data received from Service Area Leads; use of Business World for budgetary control; and review and refresh of Financial Procedure Rules.

Budget setting at the Council follows a bottom-up approach, with Service Area Leads initiating the process by inputting upcoming year service area budget requirements into a budget spreadsheet. This is collated into the corporate budget. There are robust review and approval steps through Corporate Management Board (CMB), Executive and Corporate Governance and Standards Committee (CGSC). The budget setting process should be integrated into the finance system, Business World, to reduce administrative burden and the risk of error in data transfer.

Roles and responsibilities of Service Area Leads, Directors and the Chief Financial Officer are outlined in Financial Procedure Rules. In line with the recent restructure and collaboration with Waverley Borough Council, the processes, roles and responsibilities outlined in the Financial Procedure Rules need updating.

There is regular and timely reporting to provide CMB and CGSC with clear oversight on how budgets are performing with financial monitoring reports presented at regular intervals throughout the year. The financial data is received directly from Service Area Leads. We recommend increased Finance challenge of this data to provide assurance that it is accurate and complete.

As of October 2022, 23 out of 79 service areas identified a variance in their budget due to staffing costs. 19/23 recorded an overspend due to unbudgeted agency costs and overtime. 4/23 recorded an underspend due to budgeted staff positions not being filled. We raise a high priority finding around ensuring that staffing numbers at service area level are confirmed as accurate as part of the budget setting process and there is sufficient oversight and challenge from Finance on use of agency staff.

## Summary

|                         |   |                         |
|-------------------------|---|-------------------------|
| <b>Overall rating:</b>  | <b>Partial assurance with improvements required</b> |                         |
| <b>Priority rating:</b> | Control design                                      | Operating effectiveness |
| High                    | 1   | 1                       |
| Medium                  | 2   | 0                       |
| Low                     | 0   | 0                       |

# Appendix A – financial controls: budgetary controls

At the October 2022 meeting of the CGSC, management reported an overall projected overspend of £3.3m which included a £1.8m payroll budget discrepancy that came to light following the completion of the 2021/22 outturn. At the request of members of the CGSC and management, we have completed an additional review on the payroll budget discrepancy.

Budget overspend against the agreed annual budget identified by the Council are made up through expenditure freezes, drawing from the Council's reserves and adjusting the impact on the medium term financial plan (MFTP). There are clear adjustments made and presented through the financial monitoring reports.

## Areas of good practice

- There are consistent and regular financial monitoring reports presented to CMB and CGSC. These are outlined in a timetable document maintained by the Lead Specialist (Finance) with deadlines for reporting and documents to be presented at each committee meeting.
- Variances are categorised by the three directorate and 79 service areas level with explanation. Explanations for the variances identified are laid out with mitigating actions outlined.
- The s151 officer, line with the Local Government Act 2003, has provided commentary on the budget calculations, robustness of estimates used, adequacy of the Council's reserves and budget monitoring processes.
- Key assumptions and risks are set out in budgets and longer term financial planning documents.

## Summary of key findings

### Tighter controls on unbudgeted staff expenditure

**2.1** Review of the 2021/22 budget identified that a large proportion of variances were in relation to staff expenditure.

### Robustness of budget monitoring

**2.2** The Council should ensure that the underlying forecasted revenue and expenditure from service areas are complete and accurate, by implementing a formal process for review and challenge of forecasts.

### Budget setting on Business World

**2.3** The Council should utilise the finance system, Business World for the budget setting and monitoring process.

### Review and update of Financial Procedure Rules

**2.4** The Council should ensure that the Financial Procedure rules are reviewed regularly to ensure that it is relevant and up to date.

## Out of scope

We have not reviewed the adequacy of the underlying financial assumptions that have been used to build the individual budgets. Our work does not provide absolute assurance that material variances, error, loss or fraud does not exist.

# Appendix A – financial controls: budgetary controls

## 2.1 Tighter controls on unbudgeted staff expenditure

High

Review of the 2021/22 budget identified that a large proportion of variances were in relation to staff expenditure.

The largest unbudgeted variance (in 23 out of 79 service areas as of October 2022) besides the rise in utility costs and the Future Guildford Programme payroll discrepancy are variances in staff expenditure. This is due to recruitment challenges to fill permanent positions and agency costs exceeding budgeted salary costs. There is a risk the budgets set are not accurate or realistic to achieve, resulting in significant variances which impacts the MTFP and the Council's reserves.

We recommend that the Council finalise the HR establishment listing that outlines the total staffing numbers at the Council for the year. Where service areas are struggling to recruit to fill in a vacant position, agency costs should be considered in preparation of the budget.

**Risk:** Budgets are set that are not accurate or realistic to achieve, resulting in significant variances and failure in budgets achieving their desired purpose.

### Proposed management actions:

1. Finalise HR establishment listing for confirmed staffing numbers at the Council.
2. Ensure that use of agency staff in service areas are robustly challenged by Finance.
3. Obtain Finance sign-off on new staff hires.

### Evidence to confirm implementation:

1. Finalised HR establishment listing.
2. Finance challenge of use of agency staff at service area level.
3. Finance sign-off on new staff hires.

### Responsible person/title:

Ian Doyle, Joint Strategic Director,  
Transformation & Governance

Peter Vickers, Head of Finance and s.151  
Officer

### Target date:

30 September 2023



# Appendix A – financial controls: budgetary controls

## 2.2 Robustness of budget monitoring

High

The Council should ensure that the underlying forecasted revenue and expenditure from service areas are complete and accurate, by implementing a formal process for review and challenge of forecasts.

There is reliance on the Service Area Leads' input of forecasted revenue and expenditure for the in-year financial position. There is limited challenge from Finance to the forecasting provided. These figures are fed into the in-year financial monitoring reports presented at various committees. There is a risk that where large variances are not identified in a timely manner, budget shortfalls occur.

The Finance team should have regular in-year meetings with Service Area Leads to discuss service area performance against the budget and for assurance that the figures input into the system are accurate and complete. This should include a periodic, review and challenge of assumptions used in forecasts provided.

**Risk:** Budgets are not monitored consistently on a routine basis to enable the Council to identify any significant variances in a timely manner.

### Agreed management actions:

1. Hold regular in-year meetings between Finance Specialists and Service Area Leads.
2. Ensure a formal periodic review and challenge of the assumptions used by Service Leads in forecasts.

### Evidence to confirm implementation:

1. Evidence of meetings.
2. Evidence of the challenge to assumptions used.

### Responsible person/title:

Ian Doyle, Joint Strategic Director, Transformation & Governance

Peter Vickers, Head of Finance and s.151 Officer

### Target date:

30 September 2023

# Appendix B – financial controls: general ledger

## Conclusion

We reviewed controls over the general ledger at Guildford Borough Council ('the Council') and provide 'significant assurance with minor improvement opportunities' (**amber green**). Our rating is driven by a well designed control environment and broadly robust operation of key controls. We raise one medium priority finding relating to the consistency of performing key reconciliations and ensuring that there is segregation of duties between the individuals performing and reviewing / approving reconciliations.

The Council's finance and ledger system is Business World. There is a well-designed process ensuring that new users are added, changes are actioned and leavers are removed from Business World in a timely manner. We reviewed user access at the time of our fieldwork and confirmed that the individuals in the system had appropriate access rights to perform the tasks relevant to their roles.

All users are required to reset passwords to access the system every 72 days – if this is not actioned then system access is automatically revoked. A walkthrough of the system confirmed that a password is required to access Business World and that users are prompted to reset passwords after 72 days.

Holding accounts and key systems are reconciled to Business World monthly with an ongoing work monitor used to track the frequency and completion of reconciliations. For a sample of these monthly reconciliations, we found that two months of cash holding account reconciliations and one month of income reconciliation to the Orchard housing system had not been fully completed. We identified that the reconciliations are not subject to segregation of duties between the individual performing and reviewing / approving.

## Summary

|                         |   |                         |
|-------------------------|---|-------------------------|
| <b>Overall rating:</b>  | <b>Significant assurance with minor improvement opportunities</b> |                         |
| <b>Priority rating:</b> | Control design  | Operating effectiveness |
| High                    | 0   | 0                       |
| Medium                  | 0   | 1                       |
| Low                     | 0   | 0                       |

# Appendix B – financial controls: general ledger

## Areas of good practice

- Training was provided as part of the Business World onboarding process in 2021.
- Modules available to an individual on Business World depends on the access rights they are provided with as part of the onboarding process.
- Automatic password resets ensure that no individual retains access after leaving the Council.
- Users are segregated into users with access to enter journals, approve journals and users with full system access.
- Subledgers are reconciled to the general ledger on a monthly basis.
- Close down tasks ensures that all accounts are reconciled prior to the annual financial reporting process.
- We reviewed the 44 users with access to enter journals, 7 users with full system access and 14 users with journal approval rights and confirm that they had appropriate access for their roles.
- We conducted a walkthrough of Business World and confirmed that a password is required to access the system. Where passwords are not reset after 72 days, access to the system is automatically revoked.

## Summary of key findings

### Reconciliations

- 2.1** Through testing a sample of monthly reconciliations we found that not all reconciliations between the ledger and key subledger, accounts and systems had been consistently performed. We also note that there is no segregation of duties ensuring that reconciliations are performed and reviewed and approved by separate individuals.

### Out of scope

Our work is limited to the design and testing of processes as set out within our scope section. We have not considered processes and controls relating to posting and approving journals – this forms part of the scope of the separate 2022/23 review on journals.

# Appendix C – s.106 contributions

## Conclusion

We reviewed processes and controls over receipt and expenditure of s.106 contributions and provide ‘significant assurance with minor improvement opportunities’ (**amber green**), which is in line with management’s expectations. Our rating is driven by broadly well designed and operating controls, with findings around exceptions in our testing of the review of agreements, reconciling the system used to finance systems and formally recording s.106 update meetings.

S106 contributions are governed by policies and procedure documents issued by the Council and central government. Government issued regulations and procedures are used as guidance tools. Council policies are not updated on a regular basis with a number of these requiring reviews and updates, with previous updates as far back as 2017.

A well designed control framework is in place to effectively manage and oversee s106 receipts and contributions including review of planning applications, preparation of legal instructions, draft agreement review, index adjustments by Finance and controls over contributions and spend through invoices and purchase orders. We tested a sample of 10 cases for compliance with identified controls. We identified one case where there was no evidence of review of the agreement by the s.106 officer and one case where there is no evidence of the officer’s report. The purpose of s.106 fund is communicated to the s.106 officer by the spending authority which cross checks it with the underlying s.106 agreements. The s.106 risks are managed through documentation in the planning development service risk register. The risks and remedial measures are owned for implementation and minimisation of s.106 fund risks.

Reconciliation between Acolaid (the system through which contributions are managed) and Business World (ledger) is carried out annually. The Council could not provide evidence that this is completed. Reconciling the data more frequently and maintaining a corporate record could promote improved monitoring and reporting. Governance is provided through Corporate Governance and Standards Committee (CGSC). A s.106 report is presented to the Committee six monthly. It contains details of all s.106 contributions available, spent and expired. There are regular s.106 update meetings between the s.106 officer and Finance to monitor s.106 funds.

## Summary

|                         |   |                         |
|-------------------------|---|-------------------------|
| <b>Overall rating:</b>  | <b>Significant assurance with minor improvement opportunities</b> |                         |
| <b>Priority rating:</b> | Control design  | Operating effectiveness |
| High                    | -   | -                       |
| Medium                  | 2   | 2                       |
| Low                     | -   | 1                       |

# Appendix C – s.106 contributions

## Areas of good practice

- The policies documents related to s.106 agreements are comprehensive and provide guidance to users and are easily accessible on the Council website.
- Well designed control framework to oversee receipt and expenditure of s106 contributions. Coordination between relevant teams, i.e s.106, legal and planning make sure that the terms and conditions of the final agreement are in line with s.106 regulations.
- Regular meetings between s.106 officer and other teams to monitor and oversee s.106 receipt and expenditure.
- Review the purpose of spend by the s.106 officer before disbursement of funds to ensure that these are used only for specified purposes in the s.106 agreements.
- S.106 report is presented to the Corporate Governance and Standards Committee every six months to provide oversight and monitor the available funds, expired funds, funds nearing expiry and details of Spend during the period.
- Risk management and monitoring through documentation of s.106 risk in the planning development service risk register. The risk is owned and remedial measures are documented.
- A dedicated s.106 officer for review of s.106 planning agreements, maintenance of appropriate records and overseeing the receipt and expenditure of s.106 agreements.

## Summary of key findings

### Corporate record of review controls

**2.1** Through testing a sample of agreements, we found one instance where the draft agreement was not reviewed by the s.106 officer.

### Reconciliation between Acolaid and Finance

**2.2** The annual reconciliation between Acolaid and Finance should be performed more frequently, with a formal corporate record of each reconciliation and the investigations in to reconciling items.

### S106 update meetings

**2.3** The Council was unable to provide evidence that s106 update meetings were conducted sufficiently regularly to monitor the receipt and utilisation of funds.

### Review of policies

**2.4** We found that Council policies and procedure documents relating to s.106 contributions have not been reviewed, updated and approved in several years.

### Interest payments

**2.5** Through our sample testing, we have identified instances where there were delays in the receipt of contributions from developers but no interest was charged. We identified instances where there were delays in issuance of invoices to developers.

# Appendix D – 2021/22 follow up

## Conclusion

As part of our 2022-23 internal audit plan we have followed up actions in previously audited areas. We prioritised looking at the 2021-22 reviews which received 'no assurance' or 'partial assurance with improvements required', alongside a sample of reviews which received 'significant assurance with minor improvement opportunities.

We followed up on actions raised in reports on: Safeguarding; Income and Accounts Receivable; Housing Revenue Account (HRA) Right to Buy Receipts; Audit Committee Effectiveness; and Expenditure and Accounts Payable. At the time of reporting, 19 of the 23 actions reviewed have been fully implemented.

### **Safeguarding follow up: 5 out of 7 actions implemented**

The **amber-red** rating of the Safeguarding review included five medium priority management actions and two low priority management actions. During our follow up review, we assessed that these management actions are:

- Safeguarding Policy and Procedure: Implemented
- Safeguarding Policy - Content: Implemented
- Draft Strategic Action Plan: Implemented
- Safeguarding Training: Overdue
- Recording Safeguarding Referrals: Overdue
- Strategic and Operational Safeguarding Groups: Implemented
- Sharing Best Practices and lessons learned: Implemented

### **Income and Accounts Receivable follow up: 2 out of 2 actions implemented**

The **amber-red** rating of the Income and Accounts Receivable review included one high and one low priority management action. During our follow up review, we have assessed that these management actions are:

- Debt collection processes: Implemented
- Reviewing recurring payments: Implemented



# Appendix D – 2021/22 follow up

## **Housing Revenue Account (HRA) Right to Buy Receipts follow up: 7 out of 7 actions implemented**

The **amber-red** rating of the HRA Right to Buy Receipts review included one high and six medium priority management actions. We assessed them as:

- Formal 'Use of Right to Buy receipts' Policy: Implemented
- Finance – Monitoring of RTB Receipts: Implemented
- RTB Working Group management actions: Implemented
- Housing – Monitoring of RTB Receipts: Implemented
- Housing – Reporting of RTB Receipts/project slippage: Implemented
- Training and Guidance: Implemented
- Use of Risk Registers: Implemented

## **Audit Committee Effectiveness follow up: 4 out of 5 actions implemented**

The **amber-green** rating of the Audit Committee Effectiveness review included three medium and two low priority management actions. We assessed them as:

- Capturing action points from discussions at CGSC meetings: Implemented
- Oversight of CGSC activities: Implemented
- Skills and knowledge assessment of CGSC members: Overdue
- Inclusion of accountability arrangements in CGSC terms of reference: Implemented
- Inclusion of Statement of Purpose in the CGSC terms of reference: Implemented

## **Expenditure and Accounts Payable Compliance follow up: 1 out of 2 actions implemented**

The **amber-green** rating of the Expenditure and Accounts Payable Compliance review included two medium priority management actions. We assessed them as:

- Formal controls – documentation and audit trail: Implemented
- Supplier amendments: Overdue



# Appendix E – financial controls: journals

## Conclusion

We reviewed controls around the preparation and posting of journals and provide ‘significant assurance with minor improvement opportunities’ (**amber green**). Our rating is driven by a broadly well designed control environment. We raise one medium priority finding relating to setting up approval limits to ensure that journals of significant monetary value are approved by appropriate staff.

Journals are posted to the Council’s finance and ledger system, Business World. All users with access to post and approve journals sit within the Finance Specialist Team and Resources Case Team, ensuring that no individuals have inappropriate access. Council policy requires segregation of duties between the preparer and approver of journal entries and Business World is set up to mitigate against the risk of journals being posted and approved by the same individual. We tested a sample of 25 journals and were provided with evidence to support segregation of duties as well as evidence and explanations for each journal’s purpose.

We confirmed that staff with access to submit journals in Business World received the necessary training for using the system when it was introduced in 2021.

Whilst appropriate staff have access to post journals, there are no approval limits set out in the Council Standing Financial instructions (SFIs) to ensure that journals of significant monetary value are appropriately approved by senior management.

Our analysis over all journals posted in the period 01 January – 31 December 2022 showed no journals with negative balances or any that did not balance or any instances of individuals posting infrequently. Our analysis found 11 instances of journals with no descriptions or user IDs. We raise a low priority finding around ensuring that Business World is set up to require this information.

## Summary

|                         |   |                                |
|-------------------------|---|--------------------------------|
| <b>Overall rating:</b>  | <b>Significant assurance with minor improvement opportunities</b> |                                |
| <b>Priority rating:</b> | <b>Control design</b>   | <b>Operating effectiveness</b> |
| High                    | 0   | 0                              |
| Medium                  | 1   | 0                              |
| Low                     | 1   | 0                              |



# Appendix E – financial controls: journals

## Areas of good practice

- Business World has hard coded the requirement for journal entries to be approved by a separate individual, ensuring that there is segregation of duties.
- Staff with access to Business World to post journals received training as part of onboarding to the system when it was introduced in 2021.
- Our analysis found no exceptions when reviewing for unbalanced journals, negative balances, and individuals posting infrequently.
- Our sample testing for 25 journals showed evidence of segregation of duties between individuals posting and approving journals as well as supporting evidence and explanations for all journals.

## Summary of key findings

### Updated SFIs – approval limits

- 2.1** The SFIs do not set out approval limits based on the sign off required for journals of significant monetary value.

### Journals with no description or user ID

- 2.2** Our analysis found that 11 journals had been posted without descriptions or user IDs.

## Out of scope

Our work was limited to the design and testing of processes and controls as set out within our scope section.

# Appendix F – additional payroll review

## Conclusion

We reviewed the payroll budget discrepancy against the expected control environment and provide 'partial assurance with improvements required' (**amber red**), which is in line Management's anticipated assurance. Our rating is driven by gaps identified in the control environment including finalising the Council's establishment, Finance oversight of corporate programmes and Finance sign-off on new hires.

At the October 2022 meeting of the Corporate Governance and Standards Committee (CGSC), Management reported a potential pay budget discrepancy of £1.8m that came to light following completion of the 2021/22 outturn due to partial implementation of the budgeted Future Guildford Programme (FGP) savings. After analysis, the Council confirmed that the discrepancy amounts to £1.577m.

FGP was a Council-wide transformation programme which included restructuring of service areas to drive efficiencies. The programme was split into two phases, A and B, with projected savings from reduced / modified staff costs provided by the project team to Finance for input into the annual budget. From our review, in 2022/23, after the completion of FGP, Finance was unable to determine the actual savings from the programme and rolled over the 2020/21 and 2021/22 figures which led to the discrepancy. We recommend a review of the Council's establishment to ensure that it is complete and accurate and implementation of regular monitoring processes to ensure that it remains up to date. New hires are approved at service area level. We recommend that the Council formalises Finance sign-off for assurance that the payroll budget is being met.

FGP was mainly outsourced to Ignite, a third party contractor. Based on our review of the information flow between the project team and Finance, we recommend that the Council formalises Finance oversight of corporate programmes to ensure that Finance has appropriate oversight of financial implications to the Council.

## Summary

|                         |   |                         |
|-------------------------|---|-------------------------|
| <b>Overall rating:</b>  | <b>Partial assurance with improvements required</b> |                         |
| <b>Priority rating:</b> | Control design                                      | Operating effectiveness |
| High                    | 2   | 0                       |
| Medium                  | 1   | 0                       |
| Low                     | 1   | 0                       |

# Appendix F - additional payroll review

We have raised a low priority finding around exploring effective use of built-in Business World functionalities to help produce more accurate future salary projections.

Updates on the payroll discrepancy have been reported in every financial monitoring report since the issue was identified, with the shortfall being addressed in the 2023/24 budget and the Medium Term Financial Plan (MTFP). From our review, Finance has actioned lessons learnt which included an overall service area challenge to finalise the establishment and savings bids and introducing a designated Finance owner for salary monitoring.

## Areas of good practice

- There is a recognition of the failures of the control environment and drawing up of lessons learned.
- Updates on the payroll discrepancy are regularly presented at CMB and CGSC.

## Summary of key findings

### Finalising Council's establishment

**2.1** There is a lack of clarity of the total number of employees across the Council, as well as the allocation of FTEs to each cost centre.

### Finance oversight of Corporate Programmes

**2.2** Corporate programmes, such as FGP, are often outsourced to external consultants or contractors, who may not have a direct connection into Finance.

### Finance sign-off on new hires

**2.3** The Council should ensure that new hires are signed off by Finance for assurance that hiring practices are in line with the available budget.

### Business World for payroll projections

**2.4** The payroll projection functionality on Business World could be utilised at the Council.

## Out of Scope

Our work has been limited to the design and testing of processes and controls as set out within our scope section.

# Appendix F – additional payroll review

## 2.1 Finalising Council's establishment

High

There is a lack of clarity of the total number of employees across the Council, as well as the allocation of FTEs to each cost centre.

In the 2022/23 budget setting process, the payroll figure was based on the previous year's budget due to a lack of information on the total number of employees within the Council. This creates the risk of budgetary shortfalls where there is an increase in the total number of employees or changes in salaries and benefits.

We recommend that the Council undertakes a review and finalises its establishment. Once that is finalised, the Council should formally implement a regular payroll monitoring and reconciliation process to ensure that it is accurate and up to date.

**Risk:** There is no clear control environment setting out responsibilities for formal monitoring of budgets.

### Agreed management actions:

1. Review and finalise the establishment.
2. Implement a formalised and regular payroll monitoring and reconciliation process.

### Evidence to confirm implementation:

1. Finalised establishment.
2. A regular payroll monitoring and reconciliation process implemented.

### Responsible person/title:

Joint Strategic Director, Transformation & Governance

Executive Head of Organisational Development

### Target date:

30 September 2023

## 2.2 Finance oversight of Corporate Programmes

High

Corporate programmes, like the FGP, are often outsourced to external consultants or contractors, who may not have a direct connection to the Finance department.

As a result, there is often a lack of direct information flow between the project team and Finance. Without direct access to project financial data, the Finance team may not have visibility of the financial implications of the project decisions made by the project team, there is a risk of budget overruns.

We recommend that management implements a formalised, clear and consistent process of Finance oversight of corporate programmes. This may include clear Finance reporting requirements, a designated Finance team member to each corporate programme to act as a liaison between the project team and Finance or a regular project financial review process between Finance and project teams.

**Risk:** There is no clear control environment setting out responsibilities for formal monitoring of budgets.

### Agreed management action:

Implement a formalised, clear and consistent process of Finance oversight of corporate programmes.

### Evidence to confirm implementation:

A formalised, clear and consistent process of Finance oversight of corporate programmes.

### Responsible person/title:

Joint Strategic Director, Transformation & Governance

Head of Finance and s.151 Officer

### Target date:

30 September 2023



# Appendix G - Head of Internal Audit Opinion 2022/23

## *Basis of opinion for the period 01 April 2022 to 31 March 2023*

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.



# Appendix G - Head of Internal Audit Opinion 2022/23

## *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.

## *Overall opinion*

**‘Significant assurance with minor improvement opportunities’** can be given on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control.

# Appendix G - Head of Internal Audit Opinion 2022/23

## *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 2022 to 31 March 2023 inclusive, and is based on the fourteen internal audits completed in the period.

During 2022/23, we issued 'significant assurance with minor improvement opportunities' ratings for our core internal audits on performance monitoring, risk management, payroll, general ledger and journals. This covers core areas of financial controls, risk management and data quality which support our opinion. We also issued 'significant assurance with minor improvement opportunities' for our non-core reviews on IT infrastructure for remote working and s.106 contributions. During 2022/23, we issued four 'partial assurance with improvements required' reports: budgetary controls, additional payroll discrepancy review, corporate programmes and customer services: complaints handling. Whilst we recognise improvements in core areas such as finance and governance, we are comfortable that the overall control environment is robust. Our partial assurance rating for corporate programmes covered a discrete area of governance. We agreed six high priority actions during the year:

- One high priority action relates to our customer services: complaints handling review. This action relates to meeting agreed timescales for acknowledging and responding to customer complaints.
- One high priority action relates to our corporate programmes redevelopment projects review. This relates to tracking procurement activity on Weyside Urban Village.
- Two high priority actions relate to our budgetary controls review. The actions relate to tighter controls on unbudgeted staff expenditure and the robustness of budget monitoring.
- Two high priority actions relate to our additional review on the payroll budget discrepancy. The actions relate to finalising the Council's establishment and finance team oversight of corporate programmes.

We followed up on a sample of actions raised in 2021-22 including those from all reviews with 'partial assurance with improvements required' ratings. Of the 23 actions we reviewed, 19 were implemented and 4 were overdue.



KPMG LLP

Chartered Accountants, London

March 2023



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This report has been prepared solely for Guildford Borough Council in accordance with the terms and conditions set out in our engagement letter dated 12 April 2018. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This terms of reference should not be disclosed to any third party, quoted or referred to without our prior written consent.

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