

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: Joss Bigmore

Tel: 07974 979369

Email: joss.bigmore@guildford.gov.uk

Date: 15 January 2020

Summary of Internal Audit Reports - 1 April – 1 December 2019

Recommendation

The Committee is requested to note the summary of audit reports and other associated work for the period 1 April to 1 December 2019.

Reason 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 to 1 December 2019.

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. Summary of Audit Reports – 1 April to 1 December 2019

3.1. The summaries of the audit reports that we have carried out in the period April to 1 December 2019 are set out below. Internal Audit uses a scale to categorise the findings and audit opinion under five classifications. These are:

- **Significant Assurance:** The area under review is well controlled with no problems found
- **Significant Assurance with minor improvement opportunities:** Systems are sound with a low level of risk

- **Partial Assurance with improvements required:** Controls working but inconsistently applied and increased risk of problems occurring
- **No Assurance:** Fundamental control weaknesses and/or significant problems that need immediate action
- **No Opinion** (one-off projects): Results of on-off investigations or consultancy work on which no audit opinion is given

3.2. 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.

4. **NO OPINION**

4.1. The Future Guildford project has been a factor in the audit programme in the six months to the end of September. There was a major consultation process beginning in July involving 203 posts in:

- Legal Services
- ICT
- Financial Services
- Human Resources
- Asset Management
- Planning Policy
- Corporate Programmes

4.2 We have been involved in overseeing the governance processes at all stages of the transformation programme to ensure compliance with legislation, consistency of application and overall delivery. As part of the exercise, we reviewed the applications from staff for Voluntary Compulsory Redundancy (VCR) and the rationale and governance for acceptance or refusal.

4.2 At the same time work started on the new Enterprise Resource Planning system, which will replace our current financial, and HR systems. It is still in build phase but we are working with the software specialists to ensure that the proper financial, management and hierarchical controls are embedded within the systems. This work is ongoing.

4.3 Work on Phase B has already started including workshops and business process engineering with relevant teams. An internal auditor is part of the team to ensure that the appropriate controls are incorporated in any new processes.

4.4 Due to the work on Future Guildford and the number of staff involved in Phase A the timing of some of the planned audits was changed to accommodate the consultation and transition phases. Consultation has now finished and staff are being recruited into their new roles so we can now get the audit programme back on track. The following audits, which were in progress, have now been completed.

- Budget Monitoring

- Housing Benefits
- Contractor Management (Neighbourhood & Housing Management Services)
- Lettings and Void properties (NHMS)
- Payroll
- Creditors

4.4 We have already reported to Committee the audit work that we carried out across Council services in preparation for the UK to leave the EU on 31 October 2019. From the beginning of September, we have worked closely with authorities in Surrey and other agencies to highlight the major risks and put a consistent action plan in place. This has been put on hold once again as an extension has been granted but the uncertainty regarding the way forward in the medium term may mean that plans will have to be revisited.

5. Follow Up Reviews - Progress Report

5.1 There were a number of follow up reviews from 2018-19 which we revisited in the first half of the year and progress is shown in **Appendix 1** to this report.

6. Partial Assurance with improvements required

Lettings

6.1 There is an effective process for allocating properties, which ensures that allocations are made in a robust and compliant manner. There are appropriate verification checks, authorisations and receipts where cash incentives are paid to individuals to take a property but there is no systematic control to withdraw offers as they expire. The Council relies on case officers remaining alert to expiring offers. This could result in unfair treatment between individuals and a revised monitoring process has been agreed. The process is paper based which could be made more efficient and effective with the introduction of a new software system.

Voids

6.2 The Council's processes are designed to produce safe and compliant properties and all void works are post-inspected meaning that the Council is handing back safe properties. The Council has a voids inspector who reviews all voids to identify works required. This gives a systematic approach and ensures there is a single point of contact for queries.

6.3 However, the review identified areas for improvement. The predominant issue related to communications between the re-housing and property maintenance teams. The main form of communication is a spreadsheet held on the intranet. This spreadsheet is not reliable as it does not always contain the required information for effective and real-time monitoring of the voids process. The voids inspector does not attend re-housing meetings, which could provide an effective way to give status updates.

6.4 The Council does not have a protocol between the two teams on how to work together. This contributes to communication issues, but also results in no agreed standard for a void property. This generates additional works being requested and

potential unfairness if one void property is refurbished to a different extent than another. There is no clear definition of a “major” void meaning that there may be an inappropriate split of works between the external voids contractor and the in-house property maintenance team.

6.5 Our sample testing identified the following issues:

- Four properties were handed back before works were fully completed.
- Communication between the re-housing and property maintenance team is ineffective. The voids inspector is not always aware of ongoing works, and the re-housing team receives only limited status updates on each void property, making re-housing planning difficult.
- The Council does not have a minimum standard for void works. This leads to dispute between the re-housing and property maintenance teams as to whether a property has been fully completed, and results in additional works being performed at the request of potential tenants. This could result in unfairness between tenants as some properties may have additional features compared to others.
- The Council's void inspector is a long-term agency worker, which puts the Council at risk and is expensive.
- Boiler replacements are not controlled by the voids inspector, who is often unaware of a boiler replacement status and expected date. This can cause delays.
- The Council does not perform any root cause analysis to identify what is causing delays within the voids process.
- The Council does not have a robust system for enforcing the five-day deadline for accepting offers, meaning that some individuals might be given more time to accept an offer than others.
- No Key Performance Indicator (KPI) exists to monitor how long voids take to complete, meaning that the Council is unable to assess and monitor performance. We identified instances where the Council either lost the end-of-tenancy documentation or never obtained it, which could put the Council at risk during a dispute.

Audit Note - The recommendations in the report have been agreed by the service manager and we will report progress to the Committee

7 Substantial assurance with minor Improvements

Neighbourhood and Housing Management Services

7.1 The income collection process for rents is robustly designed. Any outstanding debt is monitored fortnightly and the Income Manager receives regular reports on tenants who are in arrears. We found the following areas of good practice:

- There are good arrangements in place for performance management and reporting on income. Every six weeks the Income Manager holds a one-to-one performance management meeting to discuss current performance.
- Details regarding collection rates and arrears are provided to the Tenant Action Group every quarter. This is collated and KPIs are reported quarterly and, in

addition, the Landlord Services Manager holds meetings with the Income Manager to review performance.

- Court costs are applied in accordance with legislation. There is an appropriate authorisation process before applying to court.
- Fortnightly debt monitoring and reporting is in place and reminder letters are sent to debtors within deadlines to ensure appropriate chasing of debt.
- There is on-going review of tenant payments with regular reporting of arrears provided to the Income Manager. These reports allow for identification of high priority cases. Additionally these reports contain information about the status of each case and last action taken.

7.2 Overall, we found the system to be well controlled; however, we identified the following areas for improvement:

- The Income Manager raises repair invoices based on the schedule sent by the repair team, however there is a lack of segregation of duties as there is no secondary review to ensure that the invoice has been raised accurately in line with the schedule. Additionally, through our sample testing of controls, we found that there is a delay in the repairs schedule being sent from the repairs team to the Income Manager which can result in invoices not being raised in a timely manner.
- Validation - an Income and Expenditure (I&E) form is completed by the applicant to assess if they are eligible for a six month rent in advance loan. The Homes 4 U Team obtain tenants' bank statements and payslips to check the reliability of the I&E forms filled by tenants, however there should be some documentary evidence to support this process.
- Consistency - Every month a report of rechargeable repairs should be sent to the Income Manager to allow for recharge invoices to be raised. From our sample testing, we noted that for two months, the schedule was not submitted to the Income Manager.

Audit Note - The recommendations have been agreed and implemented.

Housing Benefits

7.3 We found that there is a well-designed process for handling new housing benefit claims and change of circumstances. Our testing demonstrated that the controls are operating effectively, with no exceptions identified in the new claims or change of circumstances sampled. There are examples of good practice in the application process with a requirement for new claims to be preceded by a completed application form including a list of documentation to be provided. This introduces standardisation into the process and creates efficiency, as it is possible for a complete application to be processed first time. In addition, to provide further assurance on the accuracy of the housing benefit claims, there is a secondary assessment by a senior member of the Housing Benefit team.

7.4 We did, however, identify areas where minor improvements can be made:

- A form to standardise and automate the change of circumstance process is planned but not yet implemented.
- For private tenancies, there is no control to mitigate the risk of housing benefits being paid inappropriately by modifying bank details, whether done fraudulently or in error. There are stringent verification checks in place that reduces the risk of fraudulent payments; however, there always remains a risk of human error, which could cause reputational damage.
- The data analytics show that on average, the Council has met its 10-day target to process new housing benefit claims and change of circumstances in each month of 2019. However, this is not reported to the wider Council, meaning that performance is not being recorded or recognised, and trends are not identified.
- The reporting software utilised contains an error which causes data to be displayed as question marks in the output generated. This creates the risk of inaccurate data being distributed to the Department for Work and Pensions and should be rectified. We could not identify any process to review the accuracy of figures manually input into statistical reports.

Budget Monitoring

- 7.5 We reviewed the process for monitoring budgets across the Council to ensure that variances are understood, explained and monitored. The monitoring process occurs five times throughout the year at regular intervals. All variances above £20,000 should be investigated with commentary provided.
- 7.6 Budget holders meet with their designated management accountants to discuss variances to agreed budgets. These monitoring meetings ensure that overspends or other issues can be identified in a timely manner. Budget holders have access to regular reports which detail actual YTD performance against budget and forecast outturn for the year.
- 7.7 Variances are reviewed by the Principal Management Accountant to identify any exceptions or variances that are not sufficiently explained; however, this control is not formally evidenced, and the monitoring meetings are not documented so agreed actions could be overlooked. The following area for improvement was identified:
- The review carried out by the Principal Management Accountant, should also include appropriate challenge and quality assurance that all significant variances are monitored and sufficiently explained.
- 7.8 Overall, there are sufficient governance arrangements around the budget monitoring process. Performance is monitored by the Corporate Management Team (CMT) and this Committee, which provides the appropriate oversight and scrutiny.

Contract Management

- 7.9 Following recommendations from previous audit reviews, we looked at the current controls and performance of our contractors who carry out the mandatory gas safety inspections on our behalf. The Council is legally bound to ensure that all of

its residential properties are serviced annually by qualified gas service engineers and have a current CP12 gas safety certificate. Failure to comply with this legal obligation could result in fines of £6,000 per occurrence or in some cases imprisonment and potentially corporate manslaughter charges.

7.10 This review found that processes had continued to improve and the procedures for managing the gas contracts are appropriate. We identified the following areas of good practice:

- There are monthly performance meetings attended by contract managers and experienced engineers from the Council.
- KPIs are built into the contracts and the outcomes are reviewed at the monthly performance meetings. This includes any penalties for breaching the KPIs.
- There is a systematic data collection and reporting process.
- Performance is reported to the Tenants' Advisory Group, which is attended by the Director of Community Services, which provides timely updates on issues and ensures that contractor performance is appraised by Council management both by internal metrics and tenants' views.

7.11 We did, however, identify the following areas for further improvement:

- The Council should reconcile its housing stock to contractor listings to minimise the risk of properties excluded from the service programme.
- Improve the documentation relating to contractor underperformance.
- Although it is not legally required, the Council does install smoke or carbon monoxide alarms but there was no evidence of a monitoring or maintenance plan.

Audit Note - The recommendations have been accepted and will be monitored and will be reported back to Committee

8 Governance, Corporate and Projects

Ombudsman

8.1 It is difficult to plan for Local Government Ombudsman complaints or know how much audit will be involved. Some complaints are more complex than others and we work with the services prior to making a response to the LGO. While it may not be traditional audit work and, in some cases, they can be time consuming and can result in a mini audit. They are, however, a valuable insight into areas of emerging risk which we then build into the audit plan. The Ombudsman complaints and decisions for the period are shown below:

GBC File Ref. No.	Service	Finding
AJ-19-0001	Planning	Premature complaint
AJ-19-0002	Corporate	Closed after initial enquiries – no further action
AJ-19-0003	Planning	Closed after initial enquiries – out of jurisdiction
AJ-19-0004	Housing Benefits	Draft Decision received – no fault by the Council
AJ-19-0005	Planning	Awaiting Decision

- 8.2 The numbers of complaints to the Ombudsman from 1 April to 1 December 2019 are lower than last year when there were eight complaints for the same period.

9. Conclusion

- 9.1 The last six months have been a period of change as we are making greater use of our external contractor rather than relying on internal resources. It has worked well so far, and the feedback has been fairly positive. The audit focus is changing as the Council is going through a significant transformation programme and this increases the risk of degradation of systems and controls. The challenge for us is to balance the requirement for robust governance and control and helping to deliver the Council's ambitious change agenda and achieve the efficiencies and financial benefits.

10. Financial Implications

- 10.1 There are no financial implications.

11 Legal Implications

- 11.1 The Local Government Act 1972 (S151) requires that a local council "shall make arrangements for the proper administration of their financial affairs". The 1972 Act is supported by the Accounts and Audit Regulations 2011, which state, "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". The internal audit plan is necessary to satisfy these legal obligations.

12 Human Resource Implications

- 12.1 There are no Human Resource implications.

13. Background Papers

None

14. Appendices

Appendix 1: Follow Up Reviews - Progress Report 2018-19