



Audit and Governance Committee

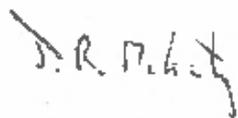
Meeting: Monday, 17th September 2018 at 6.30 pm in Civic Suite - North Warehouse, The Docks, Gloucester, GL1 2EP

Membership:	Cllrs. Gravells (Chair), Melvin (Vice-Chair), H. Norman, Brooker, Smith, Stephens and Wilson
Contact:	Democratic and Electoral Services 01452 396126 democratic.services@gloucester.gov.uk

AGENDA

1.	APOLOGIES To receive any apologies for absence.
2.	DECLARATIONS OF INTEREST To receive from Members, declarations of the existence of any disclosable pecuniary, or non-pecuniary, interests and the nature of those interests in relation to any agenda item. Please see Agenda Notes.
3.	MINUTES (Pages 5 - 12) To approve as a correct record the minutes of the meeting held on 23 rd July 2018.
4.	PUBLIC QUESTION TIME (15 MINUTES) To receive any questions from members of the public provided that a question does not relate to: <ul style="list-style-type: none"> • Matters which are the subject of current or pending legal proceedings, or • Matters relating to employees or former employees of the Council or comments in respect of individual Council Officers
5.	PETITIONS AND DEPUTATIONS (15 MINUTES) To receive any petitions and deputations provided that no such petition or deputation is in relation to: <ul style="list-style-type: none"> • Matters relating to individual Council Officers, or • Matters relating to current or pending legal proceedings
6.	AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN (Pages 13 - 16) To consider the Action Plan.
7.	INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2018/19 (Pages 17 - 42)

	To consider the report of the Head of Audit Risk Assurance informing the Committee of the Internal Audit Risk activity progress in relation to the approved Internal Audit Plan 2018/19.		
8.	BUSINESS RATES POOLING UPDATE REPORT FOR 2017/18 (Pages 43 - 44) To consider the report summarising the Business Rates Pool outturn position for the 2017/18 financial year.		
9.	ANNUAL AUDIT LETTER 2017/18 (Pages 45 - 54) To consider the Annual Audit Letter from KPMG presented by the Head of Policy and Resources.		
10.	AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME (Pages 55 - 56) To consider the Work Programme.		
11.	DATE OF NEXT MEETING 19 th November at 6:30pm in the Civic Suite, North Warehouse.		
12.	EXCLUSION OF THE PRESS AND PUBLIC To resolve: "That the press and public be excluded from the meeting during the following items of business on the grounds that it is likely, in the nature of business to be transacted or the nature of proceedings, that if members of the press and public are present during consideration of this item there will be disclosure to them of exempt information as defined in Schedule 12A of the Local Government Act 1972 as amended" <table border="0"> <tr> <td style="vertical-align: top;">Agenda Item no. 13</td> <td style="vertical-align: top;">Description of Exempt Information Paragraph 3: Information relating to the financial or business affairs of any particular person (Including the Authority holding that information).</td> </tr> </table>	Agenda Item no. 13	Description of Exempt Information Paragraph 3: Information relating to the financial or business affairs of any particular person (Including the Authority holding that information).
Agenda Item no. 13	Description of Exempt Information Paragraph 3: Information relating to the financial or business affairs of any particular person (Including the Authority holding that information).		
13.	AMEY STREET CARE CONTRACT UPDATE (Pages 57 - 58) To receive an update from the Corporate Director on the latest position regarding the Amey Street Scene contract.		



Jon McGinty
Managing Director

Date of Publication: Friday, 7 September 2018

NOTES

Disclosable Pecuniary Interests

The duties to register, disclose and not to participate in respect of any matter in which a member has a Disclosable Pecuniary Interest are set out in Chapter 7 of the Localism Act 2011.

Disclosable pecuniary interests are defined in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 as follows –

<u>Interest</u>	<u>Prescribed description</u>
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the Council) made or provided within the previous 12 months (up to and including the date of notification of the interest) in respect of any expenses incurred by you carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between you, your spouse or civil partner or person with whom you are living as a spouse or civil partner (or a body in which you or they have a beneficial interest) and the Council (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged
Land	Any beneficial interest in land which is within the Council's area. For this purpose "land" includes an easement, servitude, interest or right in or over land which does not carry with it a right for you, your spouse, civil partner or person with whom you are living as a spouse or civil partner (alone or jointly with another) to occupy the land or to receive income.
Licences	Any licence (alone or jointly with others) to occupy land in the Council's area for a month or longer.
Corporate tenancies	Any tenancy where (to your knowledge) – (a) the landlord is the Council; and (b) the tenant is a body in which you, your spouse or civil partner or a person you are living with as a spouse or civil partner has a beneficial interest
Securities	Any beneficial interest in securities of a body where – (a) that body (to your knowledge) has a place of business or land in the Council's area and (b) either – i. The total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or ii. If the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, your spouse or civil partner or person with

whom you are living as a spouse or civil partner has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

For this purpose, "securities" means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

NOTE: the requirements in respect of the registration and disclosure of Disclosable Pecuniary Interests and withdrawing from participating in respect of any matter where you have a Disclosable Pecuniary Interest apply to your interests and those of your spouse or civil partner or person with whom you are living as a spouse or civil partner where you are aware of their interest.

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- You should proceed calmly; do not run and do not use the lifts;
- Do not stop to collect personal belongings;
- Once you are outside, please do not wait immediately next to the building; gather at the assembly point in the car park and await further instructions;
- Do not re-enter the building until told by a member of staff or the fire brigade that it is safe to do so.



AUDIT AND GOVERNANCE COMMITTEE

MEETING : Monday, 23rd July 2018

PRESENT : Cllrs. Gravells (Chair), H. Norman, Smith, Stephens, Wilson and Lewis

Others in Attendance

Corporate Director
Head of Policy and Resources
Accountancy Manager
Head of Audit Risk Assurance
KPMG Representative

Democratic and Electoral Services Team Leader
Democratic and Electoral Services Officer

APOLOGIES : Cllrs. Melvin and Brooker

1. DECLARATIONS OF INTEREST

1.1 There were no declarations of interest.

2. MINUTES

2.1 The minutes of the meeting held on the 12th March 2018 were approved as a correct record and signed by the Chair.

3. PUBLIC QUESTION TIME (15 MINUTES)

3.1 There were no public questions.

4. PETITIONS AND DEPUTATIONS (15 MINUTES)

4.1 There were no petitions or deputations.

5. AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN

5.1 The Committee considered the Action Plan.

AUDIT AND GOVERNANCE COMMITTEE
23.07.18

- 5.2 In relation to minute 68, Councillor Stephens queried One Legal's response to the question regarding the possibility of the release of bank statements being inserted into the Gloucester Lottery contract. The Head of Policy and Resources advised that, as the bank account used for the Lottery was one that served many other local authorities it would be difficult to obtain bank statements solely for Gloucester Lottery. He further advised that the Council received a breakdown of both monies and the rolling prize fund each week.
- 5.3 Councillor Stephens noted that in relation to the DHP allocation, Gloucester City Council was not spending as much of their budget as other neighbouring Councils. He queried why the Council was not spending a higher proportion of their budget. The Chair asked for clarification on whether the previous recommendation for improvements to the housing section on the website had been carried out.
- 5.4 The Head of Policy and Resources stated that a Benefits Officer was now in place and that Civica had increased the number of staff working on DHP allocations. He further stated they were ahead of budget at present and most of the budget for DHP would be spent by yearend. In relation to neighbouring districts, the Head of Policy and Resources stated that many differed significantly from Gloucester in their needs which explained the difference in proportion spent. When comparing Gloucester and Cheltenham the percentage spent was similar as Cheltenham's needs in this area were very similar to Gloucester's.
- 5.5 Councillor Stephens further questioned the number of residents who reapply for DHP after the 13 week period and whether there was a mechanism in place to help those who reapply. The Head of Policy and Resources replied that DHP were not designed to be a reoccurring benefit thus he was unsure whether a mechanism was in place. He stated, however, that he would look into the statistics of those reapplying and report back to the Committee.
- 5.6 Councillor Stephens queried whether the Head of Policy and Resources was happy with the current spending of DHP and its projected spend, to which he replied that he was happy with the current position.
- 5.7 Councillor Stephens and the Chair requested a future update regarding DHP figures, to which the Head of Policy and Resources agreed to bring the figures for Quarter 2 before the Committee.
- 5.8 **RESOLVED:-**
- (1) That the Audit and Governance Committee note the Action Plan,
 - (2) That the statistics regarding the DHP reapplication rate be made available to the Committee, and;
 - (3) That a further update regarding DHP figures for Quarter 2 be brought before the Committee.

6. KPMG EXTERNAL AUDIT REPORT 2017/18 (ISA 260 TO THOSE CHARGED WITH GOVERNANCE)

It was agreed by the Chair that this item would be discussed prior to agenda item 7.

AUDIT AND GOVERNANCE COMMITTEE
23.07.18

- 6.1 The KPMG representative presented the report to Members. He summarised the main outcomes of the audit work, focusing on asset valuation, pension liability and major capital transactions of the past year, in particular the King's Walk transaction. He reported that the audit was nearing completion with only small areas outstanding and would be completed by the deadline of 31st July 2018. He stated that the Statement of Accounts were positive and commended the Finance team for their hard work with meeting the faster close deadline. There were small adjustments regarding the King's Walk lease repayments and the revised Statement of Accounts reflected this.
- 6.2 Given the Finance team had sought external advice, Councillor Wilson questioned why the King's Walk transaction was included as a risk in the Audit report. The KPMG representative advised that the purpose of the report was to assess accountancy activity that had taken place in 2017-18 and put forward recommendations for the future, hence the recommendation for the Council to seek external accounting advice if it enters into another complex arrangement.
- 6.3 In response to a question by Councillor Stephens regarding seeking advice in the future, the Head of Policy and Resources stated that the Finance team would ensure they sought the appropriate advice when dealing with similarly complex transactions. Councillor Stephens also commended the finance team on their positive audit report and Statement of Accounts.
- 6.4 The Chair commented that there was a continual improvement in respect of the Finance team and congratulated them on their positive performance throughout the year.
- 6.5 The Committee were informed that the King's Walk redevelopment transaction was very complex to account for and to audit due to the multifaceted nature of the transaction. After receiving external accounting advice and changing aspects of the transaction, in particular spreading the initial rent and sinking fund over the life of the lease, KPMG were satisfied that management's judgement was reasonable.
- 6.6 The Chair questioned whether the recent developments regarding recycling income and performance by Amey had been considered in KPMG's audit. The KPMG representative stated that it did not come under the remit of the audit review. However the performance of the Finance team with regard to that situation demonstrated positive management of active contracts.
- 6.7 The Chair thanked the KPMG representative for his report.
- 6.8 **RESOLVED:-** The KPMG External Audit Report 2017/18 be approved.

7. STATEMENT OF ACCOUNTS

- 7.1 Members considered the Statement of Accounts. The Head of Policy and Resources stated that he was pleased that the Finance team had met the faster close deadline regarding the Statement of Accounts.

AUDIT AND GOVERNANCE COMMITTEE
23.07.18

- 7.2 Councillor Stephens noted the overspend in the Culture and Leisure Portfolio. He queried whether the new draft money plan would include more realistic targets for this portfolio. The Head of Policy and Resources advised that the targets were being re-evaluated by the Head of Service and the first draft of the money plan would take into account the new targets.
- 7.3 **RESOLVED:-** That the Statement of Accounts are approved and signed by the Chair and the Head of Policy and Resources.

8. ANNUAL GOVERNANCE STATEMENT 2017/18

- 8.1 The Head of Audit Risk Assurance presented the Annual Governance Statement, detailing the assurance framework and practices of good governance that the Council followed.
- 8.2 The Committee were informed of the new CIPFA Audit Committee Guidance for 2018 and the Chief Internal Auditor would work with the Audit and Governance Committee to implement the guidance once it was published.
- 8.3 The Head of Audit Risk Assurance drew the Committee's attention to Appendix 3 to the report, stating that the Council Wide Assurance Map provided open communication and a high level overview of individual service area performance against the seven principles of good governance.
- 8.4 Councillor Stephens asked for clarification regarding the indicators on the Assurance Map. The Head of Audit Risk Assurance advised that there could never be 100 percent assurance and the purpose of the Assurance Map was to highlight areas that need improvement. She further stated that she was pleased with the response from service areas regarding the Assurance Map.
- 8.5 The Chair requested that in the next Annual Governance Statement, there was a comparison between the data year on year in relation to the Assurance Map to highlight the direction of travel and to provide the relevant assurances that the improvement areas identified had been addressed.
- 8.6 **RESOLVED:-** That the Audit and Governance Committee approve the Annual Governance Statement.

9. TREASURY MANAGEMENT SIX MONTHLY UPDATE 2017/18

- 9.1 The Committee considered the report of the Accountancy Manager which detailed the borrowing and investments made by the Council. The Accountancy Manager noted the positive yield on investment, particularly the King's Walk transaction and noted there had been no new long term borrowing. The Committee were informed of new EU regulations being introduced under MIFID II which would govern the relationship between financial institutions and local authorities. The Accountancy Manager also stated that the Council continued to maintain an under-borrowing position in 2017/18 which was positive.

AUDIT AND GOVERNANCE COMMITTEE
23.07.18

9.2 **RESOLVED:-** The Audit and Governance Committee note the Treasury Management Update.

10. INTERNAL AUDIT/EXTERNAL AUDIT JOINT WORKING PROTOCOL

10.1 The Head of Audit Risk Assurance provided an overview of the Internal/External Audit Working Protocol detailing the joint working arrangements between internal audit and the new external auditors, Deloitte.

10.2 **RESOLVED:-** That the Audit and Governance Committee note the report.

11. BENEFIT ACCURACY REPORT

11.1 The Committee considered the report which detailed the accuracy rate of Housing Benefit and Council Tax Support assessments. The Head of Policy and Resources drew the Committee's attention to paragraph 3.7 of the report which indicated a continued decrease in the financial error rate.

11.2 Councillor Stephens thanked the Head of Policy and Resources for the report and commented that it was positive to see a decline in the error rate. He stated that it would be beneficial for the Committee to see comparable error rate statistics from other Councils to give an indication of whether the Council's error rates were average.

11.3 **RESOLVED:-**

- (1) That the Audit and Governance Committee note the Benefit Accuracy Report, and;
- (2) Information on other Council's benefit accuracy be made available to the Committee.

12. AMEY STREET SCENE CONTRACT

12.1 The Committee considered the report from the Corporate Director regarding the update on the Amey Street Care contract.

12.2 The Corporate Director gave an overview of the current position regarding Amey's failure to obtain market average prices for recycling and a failure to sell on a proportion of recycling. The Committee were informed that the Council had calculated that the value of Amey's underperformance was £297,031 and the Council, therefore, continued to withhold this amount.

12.3 The Corporate Director further stated that three meetings had taken place between Amey and Council Officers, where Amey provided the Council with Appendix 1, the waste flow in and out of the Eastern Avenue depot. These figures, however, did not address all of the concerns that the Council had and were subsequently described by Amey as illustrative only.

12.4 The Committee were informed that due to new information arising regarding the continuing situation it was likely that the sum in dispute could rise to approximately £315,000. There was also concern regarding the significant amount of recycling being contaminated, totalling close to 11% of all

AUDIT AND GOVERNANCE COMMITTEE
23.07.18

recycling being collected, and concerns regarding the possibility that the County Council could seek repayment in relation to recycling credits where recycled material had been sent to landfill.

- 12.5 The Corporate Director further stated that the Council had placed all reasonable pressure on Amey with regard to their performance. Service failure notices had been issued where appropriate, a first quarter performance penalty report was being compiled and two fixed penalty notices had been issued in respect of recent fly-tipping incidents in Matson.
- 12.6 The Chair thanked the Corporate Director and the Finance team for their hard work and report. He further thanked Councillor Cook, Cabinet Member for Environment, for all of his hard work in seeking a resolution and the Finance team for their diligence in noticing the issue.
- 12.7 Councillor Wilson queried the process for managing the contract and the performance of Amey and whether the Council were auditing the figures that Amey provided. In response, the Corporate Director stated that the Council received regular updates from Amey regarding their performance and returns which was how the discrepancy regarding recycling was flagged. He further stated that Council officers had been continuing to check stock levels at the depot.
- 12.8 Councillor Stephens stated that the contract was not fit for purpose and questioned whether there was an arbitration clause in the contract. In response the Corporate Director stated that that there was a contractual dispute clause in the contract, however he stated that he could not discuss this matter further while in public session.
- 12.9 Councillor Stephens shared his view that since the dispute regarding the recycling tonnage, the quality of Amey's work had decreased and that he was receiving an increasing number of complaints from his constituents.
- 12.10 In response from a query from the Chair regarding the sum in dispute, the Corporate Director stated that as of the 18th July the outstanding amount was approximately £315,000.
- 12.11 The Chair questioned whether the Council's external auditors would be able to act as arbitrators in the dispute. The Corporate Director advised that this would not be possible as they would not be seen by both parties as being sufficiently independent or expert in the issue under dispute.
- 12.12 The Chair sought reassurance that the situation be resolved as swiftly as possible. The Corporate Director replied that he could not guarantee that the matter would be quickly resolved. He also indicated that any contract transfer would be complex, disruptive and resource-intensive and could trigger possibly a lengthy legal challenge.
- 12.13 Councillor Stephens stated that he was pleased that the report had been made public. The Chair concurred stating that it was important that the Committee be able to discuss this issue in the public arena.

AUDIT AND GOVERNANCE COMMITTEE
23.07.18

12.14 A number of questions were asked and the Corporate Director advised that the answers could not be provided in the public part of the meeting as the matters were exempt from publication. The Committee agreed to defer further discussions to the end of the meeting with press and public excluded by virtue of Paragraph 3 of Schedule 12A the Local Government Act 1972.

13. AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME

13.1 The Committee considered the work programme.

13.2 **RESOLVED:-** That the Audit and Governance Committee note the work programme.

14. INTERNAL AUDIT ACTIVITY ANNUAL REPORT 2017/18

14.1 The Committee considered the report on Internal Audit Activity for 2017/18. The Head of Audit Risk Assurance summarised the key findings of the report and stated all relevant requirements of the Public Sector Internal Auditing Standards had been met. She further commented that during 2017/18 ARA had provided a dividend to the Council in the sum of £10,762.69.

14.2 **RESOLVED:-**

- (1) That the performance of Audit Risk Assurance meeting the required standards be noted, and;
- (2) That reasonable assurance be taken that the internal control environment at the City Council is operating effectively.

15. DATE OF NEXT MEETING

15.1 17th September 2018 at 6:30pm in the Civic Suite, North Warehouse.

16. EXCLUSION OF THE PRESS AND PUBLIC

16.1 **RESOLVED:-** That the press and public be excluded from the meeting during the following items of business on the grounds that it is likely, in view of the nature of business to be transacted or the nature of proceedings, that if members of the press and public are present during the consideration of the item there will be disclosure to them of exempt information as defined in Paragraph 3 of Schedule 12A of the Local Government Act 1972 as amended.

17. AMEY STREET SCENE CONTRACT CONTINUED

17.1 The discussion regarding the Amey Street Scene Contract continued.

17.2 **RESOLVED:-** That the Audit and Governance Committee note the report.

Time of commencement: 6.30 pm hours

AUDIT AND GOVERNANCE COMMITTEE
23.07.18

Time of conclusion: 8.10 pm hours

Chair

AUDIT AND GOVERNANCE COMMITTEE – 17 September 2018

ACTION PLAN

MINUTE NO.	MATTER	CURRENT STATUS	RAG	TARGET DATE	OWNER
<u>Actions arising from meeting held on 23 July 2018:</u>					
5	Circulate the DHP reapplication rate and reapplication process.	Complete	G	Prior to September 2018 meeting.	JT
5	Circulate the figures for DHP allocation spent in Quarter 1 and Quarter 2	Complete	G	Prior to September 2018 meeting.	JT
11	Circulate information from other districts regarding their benefit accuracy rates	Complete, will be disturbed at the September Committee meeting	A	Prior to September 2018 meeting.	JT

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Audit and Governance

Action points from the July Committee:

- Discretionary Housing Payment (DHP) reapplication rate –
YTD from 01.04.2018 to 30.08.2018, 114 customers have reapplied for DHP
- Reapplication process – the reapplication process for DHP is the same as the initial application process, a form is to be completed detailing income and outgoings and reasons why the DHP is being applied for
- Q1 of 2018 – DHP spend was £72,399.12
Q2 of 2018 – DHP spend is £43,063.44 (n.b. data is to 30.08.2018)
- Benefit accuracy rates in other Local Authorities

To be distributed at Audit & Governance Meeting

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Meeting:	Audit and Governance Committee	Date:	17th September 2018
Subject:	Internal Audit Activity Progress Report 2018/19		
Report Of:	Head of Audit Risk Assurance (Chief Internal Auditor)		
Wards Affected:	Not applicable		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Theresa Mortimer - Head of Audit Risk Assurance		
	Email:	Tel: 01452 326338	
	Theresa.Mortimer@gloucester.gov.uk		
Appendices:	A: Internal Audit Activity Progress Report 2018/19		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2018/19.

2.0 Recommendations

- 2.1 Audit and Governance Committee is asked to **RESOLVE** to:

- (1) Accept the progress against the Internal Audit Plan 2018/19;
- (2) Accept the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date; and
- (3) Confirm that senior management attendance at the next meeting of the Committee (to provide an update on the actions taken in relation to the Network Access Controls limited assurance report recommendations) is not required based on assurance received to date, and agree that an audit follow up on Network Access Controls is added to the Internal Audit Plan 2019/20.

3.0 Background and Key Issues

- 3.1 Members approved the Internal Audit Plan 2018/19 at 12th March 2018 Audit and Governance Committee meeting. In accordance with the Public Sector Internal Audit Standards 2017 (PSIAS), this report (through **Appendix A**) details the outcomes of Internal Audit work carried out in accordance with the approved Plan.
- 3.2 The Internal Audit Activity Progress Report 2018/19 at **Appendix A** summarises:

- The progress against the 2018/19 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period July 2018 to September 2018; and
- Special investigations/counter fraud activity.

3.3 The report is the first progress report in relation to the Internal Audit Plan 2018/19.

4.0 Asset Based Community Development (ABCD) Considerations

4.1 There are no ABCD implications as a result of the recommendation made in this report.

5.0 Alternative Options Considered

5.1 No other options have been considered as the purpose of this report is to inform the Committee of the Internal Audit work undertaken to date, and the assurances given on the adequacy and effectiveness of the Council's control environment operating in the areas audited. Non completion of Internal Audit Activity Progress Reports would lead to non compliance with the PSIAS and the Council Constitution (see report section 6.2 and 6.3).

6.0 Reasons for Recommendations

6.1 The role of the Audit Risk Assurance shared service is to examine, evaluate and provide an independent, objective opinion on the adequacy and effectiveness of the Council's internal control environment, comprising risk management, control and governance. Where weaknesses have been identified, recommendations have been made to improve the control environment.

6.2 The PSIAS state that the Chief Internal Auditor should report on the outcomes of Internal Audit work, in sufficient detail, to allow the Committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address.

6.3 Consideration of reports from the Chief Internal Auditor on Internal Audit's performance during the year, including updates on the work of Internal Audit, is also a requirement of the Audit and Governance Committee's terms of reference (part of the Council Constitution).

7.0 Future Work and Conclusions

7.1 In accordance with the PSIAS, and reflected within the Audit and Governance Committee work programme, Internal Audit Activity Progress Reports against the approved Internal Audit Plan 2018/19 are scheduled to be presented to the Audit and Governance Committee at the November 2018, January, March and July 2019 meetings.

8.0 Financial Implications

8.1 There are no direct financial costs arising out of this report.

(Financial Services have been consulted in the preparation this report).

9.0 Legal Implications

9.1 Nothing specific arising from the report recommendations.

(One Legal have been consulted in the preparation this report).

10.0 Risk and Opportunity Management Implications

10.1 Failure to deliver an effective Internal Audit Service will prevent an independent, objective assurance opinion from being provided to those charged with governance that the key risks associated with the achievement of the Council's objectives are being adequately controlled.

11.0 People Impact Assessment (PIA):

11.1 A requirement of the Accounts and Audit Regulations 2015 is for the Council to *'undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'*. The Internal Audit Service is delivered by Audit Risk Assurance which is an internal audit and risk management shared service between Gloucester City Council, Stroud District Council and Gloucestershire County Council. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.

11.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

12.0 Other Corporate Implications

Community Safety

12.1 There are no 'Community Safety' implications arising out of the recommendations in this report.

Sustainability

12.2 There are no 'Sustainability' implications arising out of the recommendations in this report.

Staffing & Trade Union

12.3 There are no 'Staffing and Trade Union' implications arising out of the recommendations in this report.

Background Documents: Internal Audit Plan 2018/19
PSIAS
CIPFA Local Government Application Note for the UK PSIAS

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Internal Audit Activity Progress Report

2018-2019



(1) Introduction

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that a relevant authority “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. The Internal Audit Service is provided by Audit Risk Assurance under a Shared Service agreement between Gloucester City Council, Stroud District Council and Gloucestershire County Council and carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

The guidance accompanying the Regulations recognises the Public Sector Internal Audit Standards 2017 (PSIAS) as representing “proper internal audit practices”. The standards define the way in which the Internal Audit Service should be established and undertake its functions.

(2) Responsibilities

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements.

Internal Audit plays a key role in providing independent assurance and advising the organisation that these arrangements are in place and operating effectively.

Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance and these are set out in the Council’s Code of Corporate Governance and its Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the standards is that the Chief Internal Auditor should provide progress reports on internal audit activity to those charged with governance. This report summarises:

- The progress against the 2018/19 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period July 2018 to September 2018; and
- Special investigations/counter fraud activity.

(4) Progress against the 2018/19 Internal Audit Plan, including the assurance opinions on risk and control

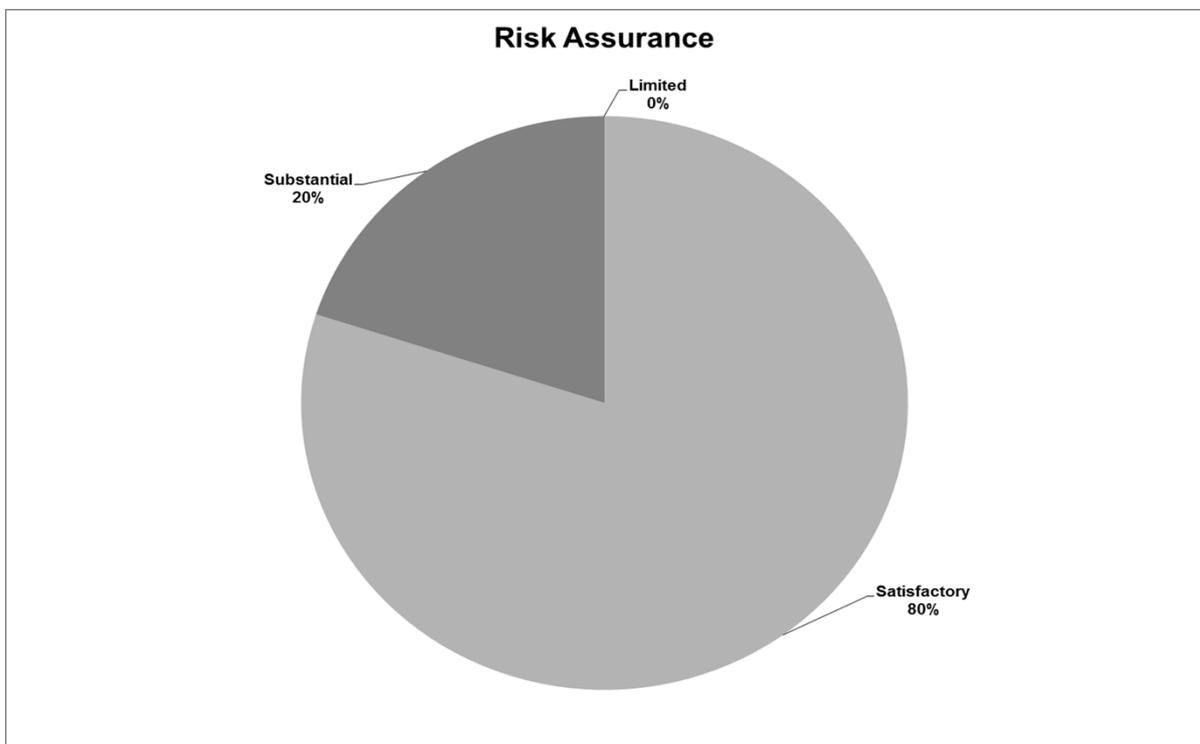
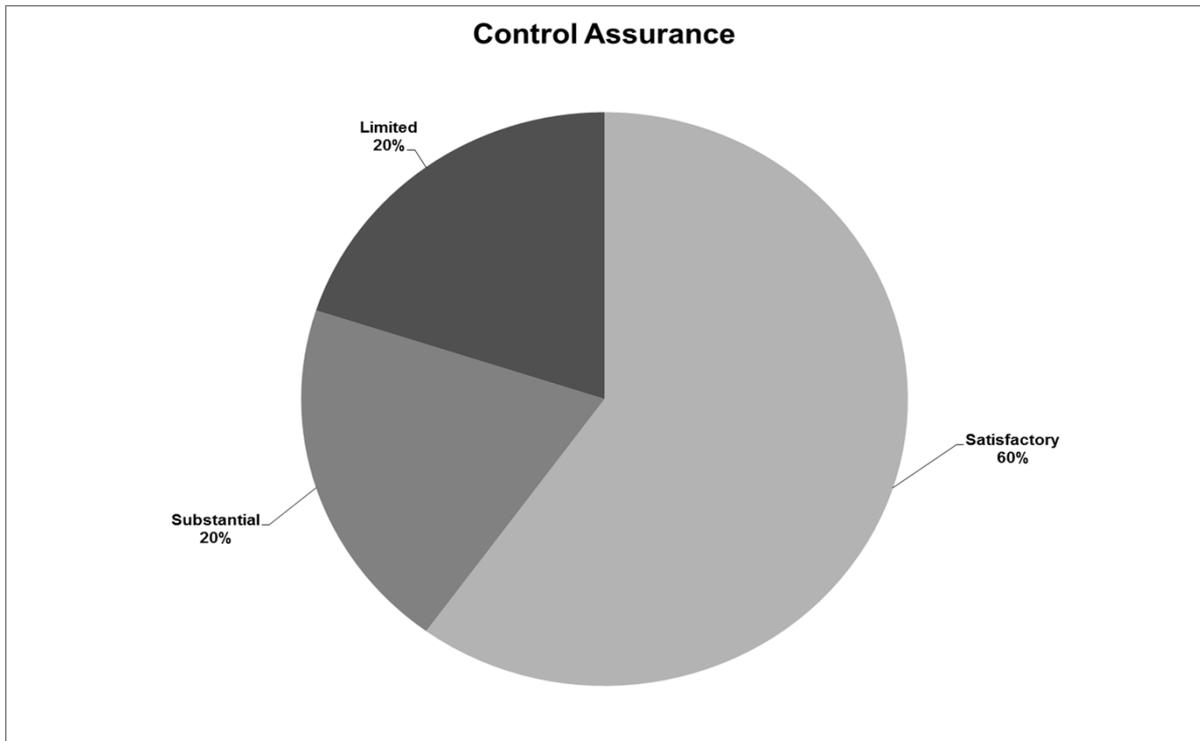
The schedule provided at **Attachment 1** provides the summary of 2018/19 audits which have not previously been reported to the Audit and Governance Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2018/19 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Governance Committee. Explanations of the meaning of these opinions are shown in the below table.

Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	<p>Risk Managed Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Strategy.</p>	<ul style="list-style-type: none"> • System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved • Control Application – Controls are applied continuously or with minor lapses
Satisfactory	<p>Risk Aware Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff, however some key risks are not being accurately reported and monitored in line with the Council's Risk Management Strategy.</p>	<ul style="list-style-type: none"> • System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger • Control Application – Controls are applied but with some lapses
Limited	<p>Risk Naïve Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council's Risk Management Strategy, the service area has not demonstrated an satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.</p>	<ul style="list-style-type: none"> • System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls • Control Application – Significant breakdown in the application of control

(4a) Summary of Internal Audit Assurance Opinions on Risk and Control

The pie charts provided below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the 2018/19 audit activity undertaken up to September 2018.



(4b) Limited Control Assurance Opinions

Where audit activities record that a limited assurance opinion on control has been provided, the Audit and Governance Committee may request Senior Management attendance at the next meeting of the Committee to provide an update as to their actions taken to address the risks and associated recommendations identified by Internal Audit.

(4c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During the period July 2018 to September 2018, one audit review has been provided with a limited assurance opinion on control which relates to Network Access Controls.

It is important to note that whilst a limited assurance opinion has been provided in this instance, management have responded positively to the recommendations made and have provided assurance to Internal Audit (through management response to the recommendations raised within the report and verbal assurance) that all recommendations have now been implemented.

(4d) Satisfactory Control Assurance Opinions

Where audit activities record that a satisfactory assurance opinion on control has been provided, where recommendations have been made to reflect some improvements in control, the Committee can take assurance that improvement actions have been agreed with management to address these.

(4e) Internal Audit Recommendations

During the period July 2018 to September 2018 Internal Audit made, in total, **11** recommendations to improve the control environment, **2** of these being high priority recommendations i.e. **9** being medium priority recommendations (**100%** accepted by management).

The Committee can take assurance that all high priority recommendations will remain under review by Internal Audit, by obtaining regular management updates, until the required action has been fully completed.

(4f) Risk Assurance Opinions

During the period July 2018 to September 2018, it is pleasing to report that no limited assurance opinions on risk have been provided on completed audits from the 2018/19 Internal Audit Plan.

Where a limited assurance opinion is given, the Shared Service Senior Risk Management Advisor will be informed to enable the prioritisation of risk management support.

Completed Internal Audit Activity during the period July 2018 to September 2018

Summary of Limited Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: Network Access Controls

Background

As part of the 2017/18 internal audit plan approved by the Gloucester City Council Audit and Governance Committee, a review of Network Access Controls was undertaken.

Scope

The scope of this review encompassed:

- Active Directory logical security settings have been invoked including password policies, account lockout policies and audit policies;
- Active Directory access requests are documented and authorised for all new starters, access is restricted to valid and uniquely identifiable user-ids and leaver accounts are promptly disabled;
- Management of superuser access rights across the Active Directory domain;
- No unnecessary or potentially insecure services are running on the live server estate; and
- Follow up of all recommendations arising from the 2016/17 Network Access Controls report.

Risk Assurance – Satisfactory

Control Assurance – Limited

Key Findings

The 2016/17 Network Access Controls audit review made a total of eight audit recommendations. At the point of the 2017/18 review, five were found to be fully implemented and three confirmed as outstanding.

The audit found that there had been a complete review of all ICT policies which included policies related to this audit scope, for example IT Secure Network Usage and the Password Policy.

The audit also identified that the process for admitting new users onto the network, by ICT following the request for a user account, was satisfactory.

Password complexity settings were enabled invoking a stronger password function.

It should be noted that this review had a stronger technical element to it than that which was applied in 2016/17, predominantly due to the use of computer assisted audit techniques (CAATs). For example the 2017/18 review included Microsoft Baseline Security Analyzer (MBSA) and Power Shell reports which provided an analysis of the whole Active Directory population, rather than a smaller selection as was the case previously. This has resulted in additional audit findings.

In addition, some of the 2017/18 findings relate to the processes that take place outside the ICT area of responsibility; such as notification of a new user, or more importantly, leavers or changes within the user population. ICT is reliant on timely information provision from within Council processes to process these requests.

Consolidation of the audit findings has identified a number of Network Access Controls improvement actions. The main areas that require attention are:

- The existence of accounts where the Password Not Required is set to TRUE;
- 314 Active Directory accounts with non-expiring passwords;
- No review of user access rights and the lack of a documented process to promptly disable leaver access rights; and
- Failure to rename and/or disable the default Administrator account.

The audit raised five recommendations (one High priority and four Medium priority) to strengthen controls on the identified areas.

Conclusion

The matters identified and outlined in the key findings section above limit the assurance that can be given about the effectiveness of the control activities, in particular the ability to set up user accounts with blank passwords and lack of a process to identify and promptly disable leavers access rights on the Gloucester City Active Directory domain.

Management Actions

Management have responded positively to the Internal Audit recommendations made and have provided assurance to Internal Audit (through management response to the recommendations raised within the report and verbal assurance) that all recommendations have been immediately progressed and resolved.

Due to management assurance received at the point of Internal Audit Progress Report (i.e. that all recommendations have been actioned), it is recommended that a follow up internal audit is scheduled during 2019/20 to confirm recommendation implementation and provide relevant assurance to Audit and Governance Committee.

Summary of Satisfactory Assurance Opinions on Control

Service Area: Communities

Audit Activity: Licensing (Hackney Carriage and Private Hire)

Background

The Licensing Service supports the local economy by ensuring that businesses providing licensable services are regulated to protect the public or others from harm. Licences are generally subject to a fee designed to cover service costs. The indicative budgeted income for 2018/19 totals £120,800. Business licensing transferred from the former Food Safety, Licensing and Markets team to the City Improvement and Environment Team in June 2017. This team is responsible for managing licensable activities for taxis and private hire vehicles.

Scope

The audit objective was to provide assurance that:

- Licences issued to regulate Hackney Carriages and Private Hire business activities, are managed in accordance with the law, and protect the public;
- Fees are paid in advance of issue or renewal of licence; and
- The fee setting arrangements are appropriate to cover the costs of service provision and are in compliance with legislative requirements.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- The administration of licensing arrangements for Hackney Carriage and Private Hire is substantially operating in compliance with the Rule Book approved by the Licensing and Enforcement Committee.
- Licensing fees are correctly calculated and paid in advance of issue of the licence issued. However, the fee model for 2018/19 has been carried forward from 2017/18, due to the impact of restructuring of services and staff during 2017 and the 1st quarter of 2018.
- The existence of licensing registers would enable the Council to meet its responsibilities under the Licensing Act 2003 and Local Government Transparency Code 2015 and fundamentally allows members of the public access to the record of issued taxi, private hire and operator licences. The audit highlighted that these registers are not accessible to members of the public.

Conclusion

Overall effective controls are in place resulting in the audit outcome of satisfactory assurance for both risk identification maturity and control environment. The control environment could be further enhanced by; providing members of the public access to licence registers; the inspection and control review of licensing staff note books; and re-developing the licence fee setting model for 2019/20. As a result, the audit report has raised three recommendations (one High priority and two Medium priority).

Management Actions

Management has responded positively to the audit findings and a plan of action has been agreed, that when implemented, will address the issues highlighted by this review.

Service Area: Communities

Audit Activity: Solace – Follow Up

Background

Anti-Social Behaviour (ASB) covers a wide range of activity that can have a significant negative impact on people's lives on a daily basis, affecting them as an individual, their community or their environment.

In Gloucester, a multi-agency team between Gloucester City Council and Gloucestershire Constabulary brings agencies together to deal with ASB involving

homeowners, private landlords and tenants, and in public places. Solace has been through a period of transition with the City Council taking over (from Gloucester City Homes) the operational day-to-day running in 2016 and also from the beginning of 2018 it was extended when Cheltenham Borough Council joined.

The 2017/18 audit identified a number of improvement actions and Internal Audit concluded that whilst enhancement of the control environment is planned, the ongoing delays and an absence of corporate oversight and performance monitoring resulted in only a limited assurance opinion that the risks are adequately managed and controlled.

Scope

The Audit and Governance Committee considered the audit findings in January 2018 and a progress report from management in March 2018. Whilst members fully acknowledged and appreciated the positive action taken by management to that point in time it was agreed that Internal Audit would undertake a follow-up review as part of the 2018/19 Internal Audit work-plan. This follow-up review would provide assurance to members that the subsequent remedial actions agreed with management have been implemented.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- The Governance arrangements for Solace have been formalised with the Governance Group meeting every month. The City Council is represented on this group by the Community and Wellbeing Manager.
- Solace is pro-actively engaged with other agencies, partnerships and ASB related initiatives taking place within Gloucester and Cheltenham.
- A Specific Information Sharing Agreement has been prepared for Solace which was signed by representatives of Gloucestershire Constabulary, Cheltenham Borough Council and Gloucester City Council on 29th January 2018.
- A number of KPIs have been provisionally agreed by the Governance Group. To enable this information to be easily accessible, the provider of the case management system for Solace has been requested to develop an enhanced reporting functionality.

Once available this will enable the Team Leader to monitor both an

individuals and/or overall team performance across the whole process.

Conclusion

Overall, positive action to enhance the management and oversight of Solace has been taken and this has been effective.

Internal Audit's principal conclusion is that the management oversight of Solace has been significantly strengthened during the previous seven months with the current findings now supporting an upgrade from the previous 'limited' assurance audit opinion on control given in 2017/18. Consequently, based upon the findings from this follow-up review Internal Audit is now able to conclude that satisfactory assurance can be provided that the risks which are considered to be material to the achievement of the service objectives for this area under review are adequately managed and controlled.

The completion of the remaining actions will further strengthen the management and governance arrangements and these should be continued to be progressed by management to their completion. In particular:

- Development of a bespoke reporting functionality for the case management system to monitor KPIs and performance; and
- The signing of a Service Level Agreement between the three parties (which has been developed and subject to some minor tweaks is anticipated to be signed by the end of August 2018).

Management Actions

Management have given assurance to Internal Audit that the outstanding actions will continue to be progressed.

Service Area: Policy and Resources

Audit Activity: Payroll

Background

Payroll is a key financial system for any organisation, responsible for making payments for employee salaries. This includes management of wage deductions, compliance with tax law and pension requirements, and any reimbursements such as leave, sickness, overtime or expenses.

The payroll service for Gloucester City Council is provided by Gloucestershire

County Council's Business Service Centre (BSC).

Scope

The objectives of the audit were to ensure:

- Data entered into the payroll system is accurate and justified to support the payment of new starters, removal of leavers, and any changes to ongoing employment;
- Salary payments are made accurately, following appropriate approval and in accordance with an agreed schedule;
- Reconciliations between the payroll and finance system demonstrate that finance system records are accurate; and
- Any previously agreed actions to improve the control environment have been completed satisfactorily.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

A draft contract is currently with the City Council Legal team for review, to ensure the terms and conditions define the responsibilities for both parties and the governance arrangements for oversight and performance.

The City Pay Policy does not state the authorisation required to place a new appointment on a column point above the minimum of a given grade. This was raised with the HR Business Partner who confirmed that this would be reviewed as well as the consideration for the need of a starting salaries policy.

The City Council has an agreed starter process to ensure that information on new employees is passed to the BSC. This process is currently being reviewed by the HR Business Partner aiming to streamline the process of enrolling a new starter for service managers including information for use outside of the payroll process.

Appropriate and timely information for new starters and changes to individuals' payroll data is being provided to the BSC and input accurately into the payroll system.

In relation to leavers a number of instances were highlighted where City Council managers had not notified the BSC within the agreed time schedules, resulting in overpayments being made to the employee.

Internal Audit confirmed the majority of these overpayments had been recovered. In

addition one redundancy payment had been paid twice due to an administration error within the BSC resulting in an overpayment. The error was spotted and the overpayment has been reclaimed. The BSC have confirmed that they have adjusted the controls in place for processing these payments to mitigate the risk of this occurring again.

Reconciliations between the payroll and expenditure account records within the general ledger are completed on a monthly basis by the City Council, with reliance placed on bank reconciliations (completed by Malvern Hills District Council) to confirm the expenditure account is accurate.

Conclusion

Overall the City Council can take positive assurance that the controls in place at the County Council for the preparation and processing of the payroll payment file are appropriate and operating effectively.

Good progress has been made on implementing the recommendations from the 2016/17 audit review which has strengthened the overall control environment for this area.

The revised contractual documentation, once finalised, will further enhance the governance arrangements and clarify the responsibilities and authority of both parties in relation to the operation of the payroll system (including key financial controls and authorisation for salary changes).

Management Actions

Management responded positively to the recommendation in the report, regarding updating the Pay Policy for City Council employees.

Summary of Substantial Assurance Opinions on Control

Service Area: Policy and Resources

Audit Activity: Members' Allowances and Expenses

Background

Gloucester City Council currently has 39 elected Councillors (Members). Each Member is eligible to receive an annual Basic Allowance and where appropriate, Councillors who hold special responsibilities in relation to the authority are eligible to receive a Special Responsibility Allowance. Members are also entitled to claim expenses associated with their 'approved duties' as detailed within the Scheme. The details of the Scheme can be found in the Council's Constitution which is available on the Council's website. All payments made to Members should meet the requirements of this Scheme.

Scope

To provide assurance that the payments (i.e. Allowances and Expenses) made to Members in 2017/18 were in accordance with the approved Members' Scheme of Allowances.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- Payment of allowances and reimbursement of appropriate expenses is completed via the payroll provider. This enables the correct treatment of taxation and national insurance contributions in relation to the payments received.
- The Scheme was reviewed by an Independent Remuneration Panel and the recommended changes for 2017/18 were approved by Cabinet on 23rd March 2017. The principal change being the introduction of a Special Responsibility Allowance of £1,714.00 per annum for the Chair of the General Purposes Committee.
- There were no bi-elections during 2017/18 and consequently all 39 Members were in place for the full period and entitled to receive a full Basic Allowance of £5,713.00.

- Following the Council meeting on 22nd May 2017 a number of changes affected the Special Responsibility Allowances that were paid to certain Members as they left or took up a new position within the Council and/or Political Party structure. Any adjustments affecting the payment of allowances to a councillor as a consequence of these changes were accounted for under the June 2017 payroll period.
- To receive an allowance there is an expectation that a councillor will attend two thirds of the Council meetings plus the meetings of any committee the member has been appointed to. Internal Audit review of the attendance records for the meetings held in 2017/18 confirmed an appropriate level of attendance by all councillors.
- The allowances paid to 38/39 (97%) of councillors during 2017/18 was as expected and in accordance with the Members Scheme of Allowances. The review also highlighted that one councillor had been underpaid by £57.04 due to an administrative error and non- application of the 1% increase from 1st April 2017. The Democratic Services Unit (DSU) are arranging for a one-off payment to be made via the Payroll Provider.
- The value of expenses claimed by Members within 2017/18 was £428. Internal Audit review confirmed that the underlying expenditure was reasonable and in line with the Members Scheme of Allowances 2017/18. All claims processed showed evidence of being scrutinised and challenged where appropriate (by the DSU) before approval at appropriate officer level. No errors were identified in the amounts processed and reimbursed to the claimant (via payroll).

Conclusion

The Members' Scheme of Allowances 2017/18 operated as expected and this has been appropriately managed and controlled by the DSU. However, the absence of checks on the validity of vehicle documentation and licenses relating to the personal vehicles driven by Members may expose the Council to a risk of potential claims for vicarious liability, which if materialise could damage the Council's reputation and impact upon the Council's finances due to the risk of a claim and increased insurance premiums. Internal Audit recommended that management undertakes an evaluation (in consultation with the insurance providers) of this inherent risk in order to decide whether the current driver checks as expected for employees under the HR policy should now be extended to Members.

Management Actions

The Management Accountant contacted the Council's Insurance Provider. It has been confirmed that in the event of such an incident occurring (if such a claim is received) this should be covered by the Council's motor policy. Consequently it has been decided that no additional preventative controls will be introduced and physical verification checks on documentation will not be undertaken.

Summary of Consulting Activity and/or Support where no Opinions are Provided

Service Area: Policy and Resources

Audit Activity: Blackfriars Priory Turnover Certificate

Background

In March 2012 the Council entered into a lease with English Heritage to use the Blackfriars Priory site and open it as a visitor attraction, provide educational visits, develop an events programme, run and facilitate workshops and develop a meetings and conference trade. It is also now an established wedding venue. The lease allowed a peppercorn rent for the first two years of operation, with the following years' rental to be a percentage of Gross Turnover, as defined in the lease agreement. On an annual basis, the Council is required to provide English Heritage with a Turnover Certificate (signed by a professionally competent auditor), certifying the amount of Gross Turnover for the relevant year.

Scope

To provide assurance that:

- In all significant respects, the Gross Turnover values for 2017/18 provided to English Heritage are accurate and in accordance with the requirements of the lease agreement; and
- A certificate confirming the Gross Turnover for the Turnover Period may be signed.

Risk Assurance – N/A (Certification)

Control Assurance – N/A (Certification)

Key Findings

The provisional Gross Turnover figures identified income of £115,126 in 2017/18 across the two designated cost centres in use for Blackfriars Priory.

Detailed review identified a minor adjustment was necessary in order to align the recorded figures to the requirements of the lease agreement. This has resulted in a Revised Gross Turnover figure of £113,126.

Conclusion

Following acceptance of the Revised Gross Turnover figures Internal Audit is able to provide assurance that the requirements of the lease agreement have been met. As a result, the Turnover Certificate has been appropriately signed and submitted.

Management Actions

Not applicable.

Summary of Special Investigations/Counter Fraud Activities

Current Status

One referral has been received by Internal Audit for investigation during 2018/19 to date, and the team continued to work with one referral brought forward from 2017/18. Both cases have now been closed and in respect of the in-year referral a report with recommendations has been provided to management. The referral related to possible missing cash although the person(s) responsible could not be identified and therefore recommendations to management centred on improving and strengthening financial systems, procedures and controls within the specific area (Cultural and Trading). In respect of the 2017/18 referral within Place, management was provided with a report of findings which resulted in the dismissal of a member of staff and another receiving a written warning.

Any fraud alerts received by Internal Audit from National Anti-Fraud Network (NAFN) are passed onto the relevant service areas within the Council, to alert staff to the potential fraud.

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The next data collections are due to be collected in October 2018 and reports are due to be received from January 2019 for review. Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol.

Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

In addition, there is an annual data matching exercise undertaken relating to matching the electoral register data to the single person discount (SPD) data held within the City Council.

Current outstanding matches from the 2016/17 exercise are due to be reviewed in September/October 2018, and findings will be reported to the Audit and Governance Committee on completion.

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Progress Report including Assurance Opinions

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Governance Committee	Comments
Council Wide	Business Continuity Planning	High	Planned				
Council Wide	General Data Protection Regulations (GDPR)	High	Planned				
Council Wide	Health and Safety	High	Planned				
Council Wide	Purchasing: Low and Intermediate Value Transactions	High	Planned				
Council Wide	IT Disaster Recovery and Business Continuity	High	Planned				
Council Wide	Ongoing Cyber Resilience	High	Planned				
Council Wide	Key ICT Project Governance	High	Planned				
Council Wide	Code of Conduct for Employees - Follow Up	High	Planned				
Council Wide	Scheme of Delegation	High	Planned				
Council Wide	Network Access Controls	High	Final Report Issued	Satisfactory	Limited	17/09/2018	Brought Forward from 17/18 plan
Communities	Licensing	High	Final Report Issued	Satisfactory	Satisfactory	17/09/2018	
Communities	Houses Multiple Occupation (HMOs) - Licensing and Enforcement	Medium	Planned				
Communities	Disabled Facilities Grants	Medium	Draft Report Issued				
Communities	Solace - Follow Up	High	Final Report Issued	Satisfactory	Satisfactory	17/09/2018	
Communities	Homelessness	High	Planned				
Cultural and Trading	Gloucestershire Airport Limited	High	Audit in Progress				
Cultural and Trading	Markets	Medium	Planned				
Cultural and Trading	Great Place Funding	High	Audit in Progress				
Place	Planning - Processing and Performance	High	Planned				
Policy and Resources	Blackfriars Priory Turnover Certification	High	Final Report Issued	Not Applicable	Not Applicable	17/09/2018	
Policy and Resources	Leavers Processes	Medium	Planned				
Policy and Resources	Treasury Management	High	Audit in Progress				
Policy and Resources	Service Planning and Performance Reporting	High	Planned				
Policy and Resources	Cash and Bank - Follow Up	High	Planned				
Policy and Resources	Civil Parking Enforcement	Medium	Planned				
Policy and Resources	Local Taxation	High	Planned				
Policy and Resources	Members' Allowances and Expenses	Medium	Final Report Issued	Substantial	Substantial	17/09/2018	
Policy and Resources	Accounts Receivable	High	Audit in Progress				
Policy and Resources	Capital Accounting	High	Planned				
Policy and Resources	Payroll	High	Final Report Issued	Satisfactory	Satisfactory	17/09/2018	Brought Forward from 17/18 plan

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Gloucester City Council

Meeting:	Audit & Governance	Date:	September 2018
Subject:	Business Rates Pooling Report 2017-18		
Report Of:	Cabinet Member for Performance and Resources		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Jon Topping, Head of Policy & Resources		
	Email: jon.topping@gloucester.gov.uk	Tel:	396242
Appendices:	None		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 The Gloucestershire Business Rates Pool was set up to maximise the business rate income retained within the County and to support economic growth within the area of the Local Enterprise Partnership.
- 1.2 2017/18 was the fifth year of operation of the Pool and this report sets out the outturn position for the year.

2.0 Recommendations

- 2.1 Audit & Governance is asked to **RESOLVE** that the 2017/18 outturn position and performance of the Gloucestershire Business Rates Pool be noted.

3.0 Background and Key Issues

- 3.1 The Business Rates Retention Scheme was introduced on 1st April 2013. Under the Scheme, the Council retains some of the business rates raised locally.
- 3.2 The Gloucestershire Business Rates Pool governance arrangements determine how surpluses and deficits are distributed or recovered.
- 3.3 Gloucester City Council has been a member of the Gloucestershire Business Rates Pool since the inception of the retained Business Rates scheme in April 2013. Pool governance arrangements were put in place and the scheme commenced in the 2013/14 financial year.
- 3.4 The outturn for 2017/18 was positive, with £3.992m of additional business rates income retained in Gloucestershire. This was allocated in accordance with the Pool Governance arrangements, with 20% of the surplus being set aside for the Strategic Economic Development Fund that supports the work of the Gloucestershire Economic Growth Joint Committee, being £0.798m. The cumulative amount of funding generated by the pool for the committee since 2013/14 is £1.134m.

3.5 A distribution of £0.639m was made to Gloucestershire County Council (20% of the remaining balance), with £2.555m being distributed to the 5 Districts within the Pool (80% of the remaining balance). The surplus returned to Gloucester City Council was £650k and was included as part of the sums being transferred to/from the Business rates reserve as part of the Councils outturn for 2017-18.

3.6 Look forward for 2018/19 Gloucestershire was successful with its application to be a 100% Business Rates Pilot for 2018/19. The pilot will include all 7 Gloucestershire Councils, and will result in member authorities forgoing Revenue Support Grant and Rural Services Delivery Grant in return for a greater proportion of business rates income being retained. The Pilot is formally in place for 2018/19 only.

4.0 Asset Based Community Development (ABCD) Considerations

4.1 There are no ABCD implications as a result of this report.

5.0 Alternative Options Considered

5.1 There are no alternative options

6.0 Reasons for Recommendations

6.1 To review the performance of the Gloucestershire Business Rates Pool in 2017/18.

7.0 Financial Implications

7.1 Contained in the body of the report.

8.0 Legal Implications

8.1 There are no legal implications from this report

9.0 Risk & Opportunity Management Implications

9.1 Contained in the body of the report

10.0 People Impact Assessment (PIA):

10.1 The PIA Screening Stage was completed a full PIA was not required.

11.0 Other Corporate Implications Community Safety

11.1 Nil

Sustainability

11.2 Nil

Staffing & Trade Union

11.3 Nil

Background Documents: None



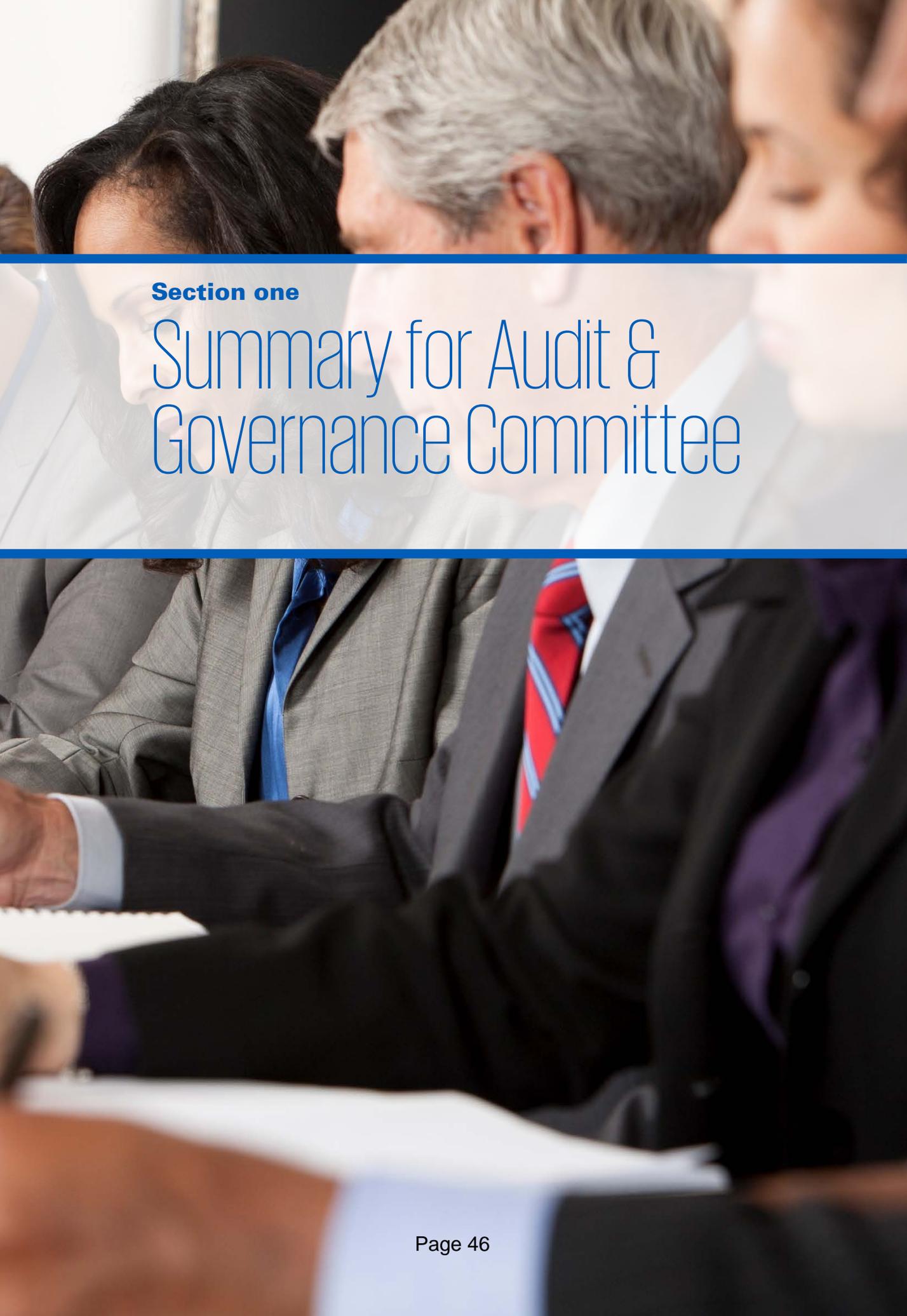
Annual Audit Letter 2017/18

**Gloucester City
Council**

—

31 July 2018



A group of business professionals in a meeting, looking at documents. The image is split into two horizontal sections by a blue line. The top section shows the heads and shoulders of several people, including a woman with dark hair and a man with grey hair. The bottom section shows a man in a dark suit and red tie pointing at a document, with another man in a grey suit and blue tie looking on. The background is blurred, suggesting an office setting.

Section one

Summary for Audit & Governance Committee

Section one:

Summary for Audit & Governance Committee

This Annual Audit Letter summarises the outcome from our audit work at Gloucester City Council ("the Authority") in relation to the 2017-18 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 26 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include the consolidated financial statements for Authority's Group, which consists of the Authority itself and its share of Gloucestershire Airport Limited.

Financial statements audit

Our audit identified four audit adjustments with a total value of £32 million. These adjustments resulted in a net increase of £32 million in the reported deficit on provision of services and a net increase of £0.5 million in the general fund.

Our audit work was designed to specifically address the following significant risks:

- **Management Override of Controls** – We carried out appropriate controls testing and substantive procedures included over journal entries, accounting estimates and significant transactions that are outside the normal course of business or otherwise unusual. There were no matter arising from this work that we need to bring to your attention.
- **Valuation of Property Plant & Equipment (PPE)** – We determined that the year-end valuations of PPE are reasonable;
- **Pensions Liabilities** – We determined that the assumptions and methodology used by the scheme actuary were in totality appropriate and the asset valuation and allocation was reasonable;
- **Faster Close** – New legislation required the timetable for the production of the financial statements to be significantly advanced this year with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). This faster close deadline was successfully achieved;
- **Major capital transactions** – During 2017/18, the Council entered into a significant transaction to dispose of its freehold interest in the majority of the King's Walk shopping centre and enter into a finance lease for the wider asset. This was a highly complex transaction with unclear accounting requirements so significant research was required by the finance and audit teams prior to and after the preparation of the Authority's financial statements to identify the required accounting treatment. Some aspects of the accounting treatment were not settled when the draft accounts were prepared which has meant that material changes have been made which are reflected in the final version of the accounts. The Council had not considered the detailed accounting implications of the transaction or sought external accounting advice at the time it was entered into, so we have made a recommendation about the importance of doing so on major complex transactions in the future.

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

Section one:

Summary for Audit & Governance Committee (cont.)

Whole of Government Accounts

The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.

Value for Money conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017-18 on 26 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

Value for Money risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified the following significant matters:

- **Delivery of Budgets** – The Authority delivered a small overspend against the 2017/18 budget and made good progress in developing medium term savings plans. While the Council has suitable arrangements in place currently, there remains uncertainty over the years following the plan, and it is likely that the Council will need to continue to make difficult decisions in order to identify and deliver future savings to deliver services and meet ongoing debt and lease servicing costs.
- **Performance management** – The Pentana performance measurement system is now active and Key Performance Indicators are to be published annually.
- **Major Capital Transactions** – King's Walk Shopping Centre deal was conducted with a strong focus on the long term commercial considerations and demonstrated sound principles of governance in decision making. However, as noted above, the absence of any consideration of the accounting treatment of the transaction was a notable omission, with the ultimate accounting treatment impacting on the timing through which the financial incentives of the deal are to be recognised.

High priority recommendations

We raised one high priority recommendation as a result of our 2017-18 work:

- Seek appropriate accounting advice in a timely manner for complex transactions.

This is detailed in Appendix 1 together with the action plan agreed by management.

Section one:

Summary for Audit & Governance Committee (cont.)

Certificate

We issued our certificate on 26 July 2018. The certificate confirms that we have concluded the audit for 2017-18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Audit fee

Our estimated fee for 2017-18 was £74,205, excluding VAT (2017: £70,490). This includes an additional fee which for the additional work performed over the King's Walk shopping centre transaction. The fee will be subject to PSAA's final determination. Further detail is contained in Appendix 3.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.



Appendices

Appendix 1:

High risk recommendations

This appendix summarises the high risk recommendations raised as a result of our audit.

High risk recommendations are defined as those issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

Details of lower risk recommendations can be found in our *ISA260 Report 2017-18*.

No.	Risk	Issue & Recommendation	Management Response
1	1	<p>The King's Walk shopping centre development was entered into without seeking external accounting advice, which resulted in material differences between the initial proposed treatment and the final accounts.</p> <p>It also meant that the decision to proceed with the transaction was made without a full and correct understanding of the financial implications, notably that all of the £19.8m of lease incentive payments were expected to be accounted for as income in 2017/18, whereas the final position is that £4.78m will be recognised over the first five years with a further £9.87m over the 45 year term of the lease agreements.</p> <p>Risk</p> <p>Incorrect consideration of accounting impact of complex transactions may result in misstatement of the Council's accounts, as well as increasing the risk of misinformed decision making should decisions be based on an incorrect accounting treatment.</p> <p>Recommendation</p> <p>Seek appropriate accounting advice in a timely manner for complex transactions.</p>	<p>The Council follows a comprehensive process of due-diligence in relation to all matters of significant capital acquisition. In future, where such acquisitions are likely to include accounting treatments outside of typical day to day activities, this will include consideration of the accounting treatment.</p> <p>Responsible Officer</p> <p>Jon Topping</p> <p>Implementation Deadline</p> <p>01/08/2018</p>

Follow up of previous recommendations

As part of our audit work we followed up on the Authority's progress against previous audit recommendations. We are pleased to report that the Authority has taken appropriate action to address the issues that we have previously highlighted through high priority recommendations.

Appendix 2:

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter. These reports can be accessed via the Audit & Governance Committee pages on the Authority's website at www.gloucester.gov.uk.

Certification of Grants and Returns

This letter summarised the outcome of our certification work on the Authority's 2016-17 grants and returns.

External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to support the VFM conclusion.

Interim Audit Letter

The Interim Audit Letter summarised the results from the preliminary stages of our audit, including testing of financial and other controls.

Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2017-18 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor's Report

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2017-18.

2018

January

February

March

April

May

June

July

August

September

October

Appendix 1:

Audit fees

This appendix provides information on our final fees for the 2017-18 audit.

External audit

Our final fee for the 2017-18 audit was £74,205. This compares to a planned fee of £63,450. This is as a result of an additional fee of £10,755 for the additional work performed over the King's Walk shopping centre transaction.

Our fees in relation to this additional fee are still subject to final determination by Public Sector Audit Appointments.

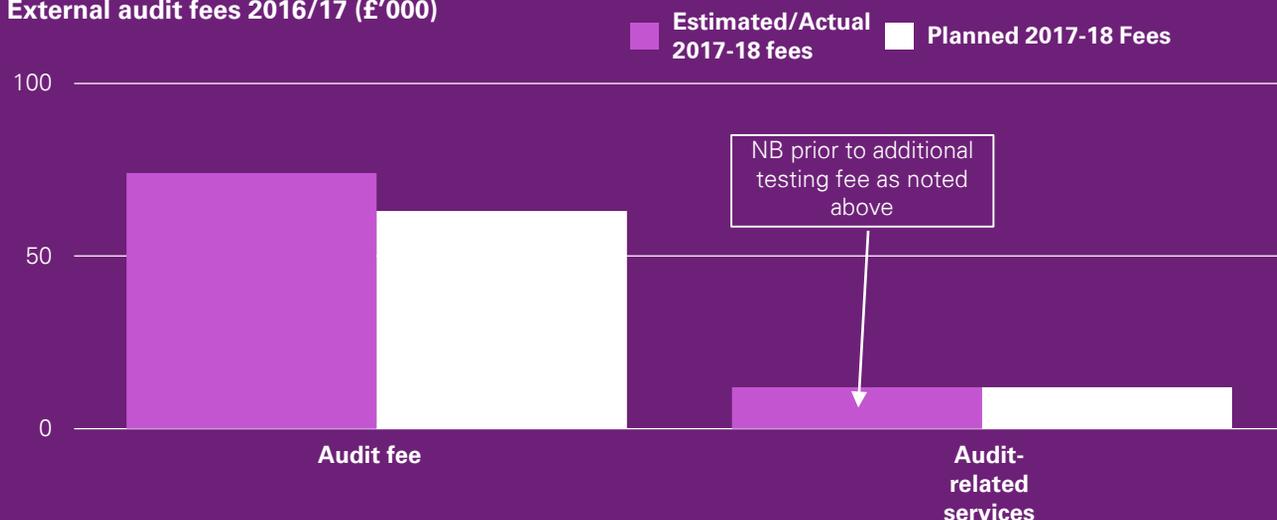
Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The scale fee for this work is £11,863, although we expect the final fee to be higher as a result of additional testing to follow up issues identified in previous years. The final fee is still to be determined and will be confirmed through our reporting on the outcome of that work in January 2019.

Other services

We did not charge any additional fees for other services.

External audit fees 2016/17 (£'000)





The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact [...], the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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Gloucester City Council
Audit and Governance Work Programme 2018-2019
(Updated 7 September 2018)

Item	Format	Committees	Lead Officer	Comments
17 September 2018				
1. Audit and Governance Committee Action Plan	Timetable	-----	-----	Standing agenda item requested by the Committee
2. Internal Audit Progress Report 2018/19	Written Report	Audit and Gov	Head of IA&RM Shared Services	Part of the Committee's annual work programme
3. Business Rates Pooling Annual Report	Written Report	Audit and Gov	Head of Policy and Resources	Part of the Committee's annual work programme
4. Annual Audit Letter 2017/18	Written Report	Audit and Gov	KPMG	Part of the Committee's annual work programme
5. AMEY Street Care Contract Update	Written Report	Audit and Gov	Corporate Director	Requested by the Committee
6. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item
19 November 2018				
1. Audit and Governance Committee Action Plan	Timetable	-----	-----	Standing agenda item requested by the Committee
2. Strategic Risk Register Update	Written Report	Audit and Gov	Head of IA&RM Shared Services	Part of the Committee's annual work programme
3. Internal Audit Progress Report 2018/19	Written Report	Audit and Gov	Head of IA&RM Shared Services	Part of the Committee's annual work programme
4. Regulation of Investigatory Powers Act 2000 (RIPA) – Annual Review of Procedural Guide	Written Report	Audit and Gov	Corporate Director	Part of the Committee's annual work programme
5. Treasury Management Performance 2017/18 Six monthly update	Written Report	Audit and GOv	Head of Policy and Resources	Part of the Committee's annual work programme
6. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item

Pages
66-69

Agenda Item 10

21 January 2019

1. Audit and Governance Committee Action Plan	Timetable	-----	-----	Standing agenda item requested by the Committee
2. Internal Audit Progress Report 2018/19	Written Report	Audit and Gov	Head of IA&RM Shared Services	Part of the Committee's annual work programme
3. Annual Governance Statement Improvement Plan 2017/2018	Written Report	Audit and Gov	Head of IA&RM Shared Services	Part of the Committee's annual work programme
4. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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