



## Audit and Governance Committee

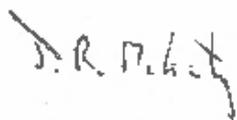
**Meeting: Monday, 18th November 2019 at 6.30 pm in Civic Suite - North Warehouse, The Docks, Gloucester, GL1 2EP**

<b>Membership:</b>	Cllrs. Melvin (Chair), Brooker (Vice-Chair), Bowkett, Hampson, Lugg, D. Norman, Taylor, Wilson and Williams
<b>Contact:</b>	Democratic and Electoral Services 01452 396126 <a href="mailto:democratic.services@gloucester.gov.uk">democratic.services@gloucester.gov.uk</a>

### AGENDA

<b>1.</b>	<b>APOLOGIES</b>  To receive any apologies for absence.
<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>  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.
<b>3.</b>	<b>MINUTES (Pages 5 - 6)</b>  To approve as a correct record the minutes of the meeting held on 16 <sup>th</sup> September 2019.
<b>4.</b>	<b>PUBLIC QUESTION TIME (15 MINUTES)</b>  To receive any questions from members of the public provided that a question does not relate to: <ul style="list-style-type: none"> <li>• Matters which are the subject of current or pending legal proceedings, or</li> <li>• Matters relating to employees or former employees of the Council or comments in respect of individual Council Officers</li> </ul>
<b>5.</b>	<b>PETITIONS AND DEPUTATIONS (15 MINUTES)</b>  To receive any petitions and deputations provided that no such petition or deputation is in relation to: <ul style="list-style-type: none"> <li>• Matters relating to individual Council Officers, or</li> <li>• Matters relating to current or pending legal proceedings</li> </ul>
<b>6.</b>	<b>CONTRIBUTION OF MEMBERS TO OUTSIDE BODIES: ASPIRE TRUST AND CITIZEN'S ADVICE BUREAU</b>  To hear from partner organisations on the contribution of Members appointed to outside bodies.

<b>7.</b>	<b>OUTSIDE BODIES SURVEY UPDATE</b> To receive an update on the progress of the Outside Bodies Survey.
<b>8.</b>	<b>ANNUAL AUDIT LETTER (Pages 7 - 18)</b> To receive the Annual Audit Letter from the Council's External Auditors.
<b>9.</b>	<b>INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2019/20 (Pages 19 - 46)</b> To consider the report of the Head of Audit Risk Assurance regarding Internal Audit's Activity Progress.
<b>10.</b>	<b>TREASURY MANAGEMENT PERFORMANCE 2019/20 SIX MONTHLY UPDATE (Pages 47 - 58)</b> To consider the report of the Cabinet Member for Performance and Resources on Treasury Management.
<b>11.</b>	<b>SHOPMOBILITY LIMITED ASSURANCE MANAGEMENT UPDATE (Pages 59 - 64)</b> To receive the management update report.
<b>12.</b>	<b>RISK BASED INTERNAL AUDIT PLANNING WORKSHOP</b>
<b>13.</b>	<b>AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME (Pages 65 - 66)</b> To consider the Work Programme.
<b>14.</b>	<b>DATE OF NEXT MEETING</b> 20 <sup>th</sup> January 2020 at 6.30pm in the Civic Suite, North Warehouse.



**Jon McGinty**  
Managing Director

**Date of Publication: Friday, 8 November 2019**

## 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, 16th September 2019

**PRESENT** : Cllrs. Brooker (Vice-Chair), Lugg, D. Norman, Taylor and Bowkett

### **Others in Attendance**

Corporate Director (Transformation)  
Accountancy Manager  
Head of Audit Risk Assurance  
Democratic and Electoral Services Team Leader

**APOLOGIES** : Cllrs. Melvin and Hampson

### **20. DECLARATIONS OF INTEREST**

20.1 There were no declarations of interest.

### **21. MINUTES**

21.1 The minutes of the meeting held on 22<sup>nd</sup> July 2019 were approved as a correct record and signed by the Vice-Chair.

### **22. PUBLIC QUESTION TIME (15 MINUTES)**

22.1 There were no public questions.

### **23. PETITIONS AND DEPUTATIONS (15 MINUTES)**

23.1 There were no petitions or deputations.

### **24. AUDIT AND GOVERNANCE COMMITTEE OUTSTANDING MATTERS**

24.1 The Committee considered the Outstanding Matters and noted that the Outside Bodies Working Group would report fully in January 2020 with an updated provided at the next Committee meeting.

### **25. INTERNAL AUDIT ACTIVITY 2019/20 - QUARTERLY PROGRESS REPORT**

**AUDIT AND GOVERNANCE COMMITTEE**  
**16.09.19**

25.1 The Head of Internal Audit Risk Assurance introduced the report and highlighted key passages.

25.2 **RESOLVED that:-** the Audit and Governance Committee **NOTE** the report.

**26. DELOITTE EXTERNAL AUDIT REPORT 2018/19 (ISA 260 TO THOSE CHARGED WITH GOVERNANCE)**

26.1 The Committee considered the finalised External Audit Report. An earlier iteration had been considered at the previous meeting.

26.2 **RESOLVED that:-** The Audit and Governance Committee **NOTE** the report.

**27. BUSINESS RATES POOLING REPORT**

27.1 The Accountancy Manager stated that this was usually an annual standing item and that the Council had been involved in the Business Rates Retention pilot and, as such, there was no update on pooling. There would, however, be such an update provided in 2020.

**28. AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME**

28.1 **RESOLVED that:-** The Audit and Governance Committee **NOTE** the Work Programme.

**29. DATE OF NEXT MEETING**

29.1 6.30pm on 18<sup>th</sup> November 2019 in the Civic Suite, North Warehouse.

**Time of commencement: 6.30 pm hours**

**Time of conclusion: 6.45 pm hours**

**Chair**



**Annual Audit Letter on the  
2018/19 External Audit  
Gloucester City Council**

October 2019

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# 1. Letter to Members

The Members

PO Box 3252

Gloucester

GL1 9FW

30 October 2019

Dear Sirs

We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of the audit for the year ended 31 March 2019.

Although this letter is addressed to the Members of Gloucester City Council (“the Council”), it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Public Sector Audit Appointments Ltd (PSAA) website at [www.psa.co.uk](http://www.psa.co.uk) and on the Council’s website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Ltd. This is available from [www.psa.co.uk](http://www.psa.co.uk).

This key contents of this letter have been discussed and agreed with the Council. A copy of the letter will be provided to all Members.

This is our first year as the external auditor of the Council following the transition of the PSAA contract in 2018/19. Our aim is to deliver a high standard of audit, delivering insights identified from our audit work to make a positive and practical contribution, which supports the Council’s own agenda.

Ian Howse

Audit Partner

for and on behalf of Deloitte LLP

Cardiff, United Kingdom

## 2. Key Messages

Statement of Accounts	
<b>Unqualified opinion issued on 31 July 2019</b>	<p>In 2018/19 the Council was required to prepare its Statement of Accounts in accordance with International Financial Reporting Standards (“IFRS”) as defined in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and other relevant legislation.</p> <p>The Statement of Accounts was prepared and audited in accordance with the agreed timetable.</p> <p>Through our audit planning we identified two significant risks of material misstatement which we addressed through our audit. These were:</p> <ul style="list-style-type: none"> <li>• completeness of expenditure; and</li> <li>• management override of controls.</li> </ul> <p>Materiality for the Council’s accounts was set at £2,072,000.</p> <p>We issued an unqualified audit opinion on the Statement of Accounts on 31 July 2019.</p>
Value for Money (VfM) conclusion	
<b>Unqualified opinion issued on 31 July 2019</b>	<p>We are required to base our statutory VfM conclusion on the criteria specified by the National Audit Office, namely whether the Council has in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p> <p>We issued an unqualified opinion in respect of the VfM conclusion on 31 July 2019.</p>
Annual Governance Statement	
<b>All relevant governance matters were adequately and appropriately disclosed</b>	<p>We have considered the contents of the Annual Governance Statement and confirmed that the Statement complied with guidance and that it adequately and appropriately disclosed all relevant governance matters arising in the year that we are aware of.</p>
Whole of Government accounts	
<b>The Council is below the audit threshold</b>	<p>The Council prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review this pack as the Council falls below the threshold where an audit is required.</p> <p>As required we have confirmed this fact to the National Audit Office by the national deadline of 13 September 2019.</p>

**Financial reporting systems**

<b>Weaknesses in internal control were identified</b>	During our audit we identified a number of areas for improvement in internal controls and procedures resulting in eight recommendations being raised, six of which were IT related.
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### 3. Responsibilities and Scope

**Responsibilities of the Council and Auditors**

The Council is responsible for maintaining the control environment and accounting records and preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We are appointed as the Council’s independent external auditors by PSAA, the body responsible for appointing auditors to local public bodies in England.

As the Council’s appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the National Audit Office’s Code of Audit Practice (“the Code”). Under the Code, we have responsibilities in two main areas:

- the Council’s accounts; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

**The scope of our work**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board (“APB”). The audit opinion on the accounts reflects the financial reporting framework adopted by the Council, being the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We conducted our work on the value for money conclusion in line with guidance issued by the National Audit Office, in respect of local government bodies for the financial year ended 31 March 2019.

## 4. Audit of the Accounts

Statement of Accounts	
<b>Unqualified opinion issued on 31 July 2019</b>	<p>Before we give our opinion on the accounts, we are required to Report to Those Charged with Governance any significant matters arising from the audit. A detailed report was discussed with the members of the Audit and Governance Committee on 22 July 2019.</p> <p>Materiality for the Council’s accounts was set at £2,072,000 which equated to 2% of gross expenditure. The level of materiality shapes and informs the extent of the audit work we undertook, including review of balances which are below this which exhibit particular characteristics. This assists in the identification of transactions and balances which were likely to give rise to material misstatements, and in determining the extent of work undertaken in respect of the areas we judged to contain such risks.</p> <p>Our Report to Those Charged with Governance, in the case of the Council, the Audit and Governance Committee, set out the details of any errors identified during the audit which were greater than £104,000, our clearly trivial threshold.</p> <p>Our audit work was designed to specifically address the following significant audit risks:</p> <ul style="list-style-type: none"> <li>• Whether the Statement of Accounts contained all of the expenditure relating to the year ended 31 March 2019 (Completeness of expenditure) – We obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness and valuation of accruals and provisions; we performed focused testing in relation to the completeness of expenditure including a detailed review of accruals and provisions; as part of this focused testing we challenged any assumptions made in relation to year-end accruals and provisions; we reviewed how accurate the Council has been in calculating its current year provisions and accruals; and we reviewed the year-on-year movement in accruals and provisions and investigated any significant downward movements.</li> <li>• Whether the Council’s controls had been bypassed by management in the preparation of the financial statements (Management override of controls) – We have tested the design and implementation of key controls in place around journal entries and management estimates; we risk assessed journals and selected items for detailed testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest; we tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting; we reviewed accounting estimates for biases that could result in material misstatements due to fraud, specifically in relation to material provisions; we reviewed the accuracy of calculating its current year accruals and provisions; and we have not become aware of any significant transactions that are outside the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.</li> </ul> <p>We issued an unqualified opinion on the Council’s 2018/19 accounts on 31 July 2019, in accordance with the deadline set for local government bodies. Our opinion confirms that the accounts present a true and fair view of the</p>

Statement of Accounts	
	financial position of the Council as at 31 March 2019 and its income and expenditure for the year then ended.
Key issues from work performed on the Statement of Accounts	
<b>We identified one uncorrected misstatement</b>	<p>We received a set of draft accounts in line with the agreed deadline, which were supported by working papers.</p> <p>The final Statement of Accounts upon which we issued our opinion contained one error.</p> <p>This error concerned the McCloud pension scheme. In December 2018 the Court of Appeal ruled against the Government regarding pensions (McCloud) on the grounds of discrimination between scheme members based on their age. The Supreme Court has recently upheld that ruling. Deloitte are of the view that all Local Government Pension Scheme participating entities should increase their IAS19 pension liability at 31 March 2019 for the estimated impact of the McCloud judgement, which is £330,000.</p>
Annual Governance Statement	
<b>The Statement includes all appropriate disclosures and is consistent with our understanding of the Council's governance arrangements</b>	<p>As appointed auditors, we review the Annual Governance Statement ("AGS") and comment on any inconsistencies noted between the AGS and our audit work, other work relating to the Code of Audit Practice, and our understanding of the Council's Governance arrangements.</p> <p>We have concluded that the Statement includes all appropriate disclosures and is consistent with our understanding of the Council's governance arrangements and internal controls derived from our audit work.</p>
Powers and Duties	
<b>We did not receive any questions about the accounts or make any public interest reports</b>	<p>Under the Local Audit and Accountability Act 2014, auditors have specific powers and duties, including to give electors the opportunity to raise questions about the accounts and to consider and decide upon objections received in relation to the accounts. We did not receive any such questions or objections.</p> <p>We have a duty to consider whether to issue a report in the public interest about something we believe the Council should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>
Whole of Government accounts return	
<b>The Council is below the audit threshold</b>	The Council prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review this pack as the Council falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office by the national deadline of 13 September 2019.
Audit Certificate	

## Statement of Accounts

**We have issued our certificate**

We issued our certificate on 31 July 2019. The certificate confirms that we have concluded the audit for 2018/19 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

## 5. Value for Money

### Background and approach

The approach to our audit work in relation to value for money (“VFM”) was specified by the National Audit Office.

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

We would emphasise that it is the arrangements in place that we are required to assess, and not the actual decisions made by the Council.

We planned our local programme of work based on our risk assessment, which was informed by a series of risk factors determined by the National Audit Office.

We did not identify any significant risks as part of our risk assessment.

### The VFM conclusion

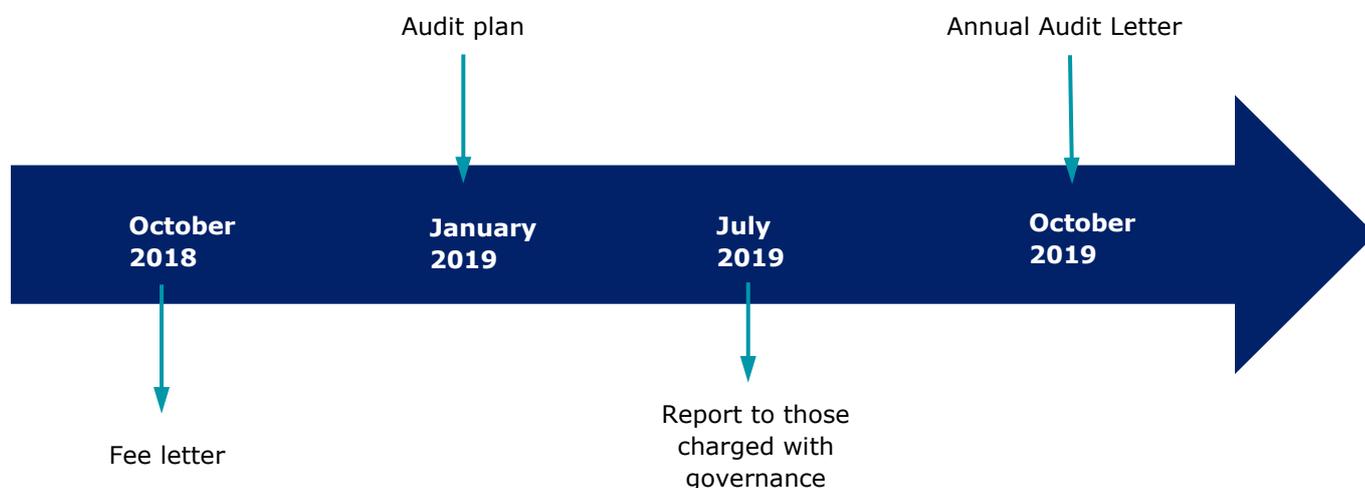
Having performed our work in line with guidance received from the National Audit Office we issued an unqualified value for money conclusion for the 2018/19 financial year.

## 6. Other Matters

### Reports issued

Reports issued during the course of the 2018/19 audit included:

- Audit Fee letter;
- Annual Audit Plan;
- The Report to Those Charged with Governance on the 2018/19 audit of the Council; and
- This Annual Audit Letter.



## Analysis of audit fees

Audit fees charged are as follows:

	2018/19 £
Scale fees for the audit of the Council's annual accounts, VfM conclusion and whole of government accounts return	48,857

## Independence and objectivity

In our professional judgement, our policies and safeguards that are in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

We confirm that we comply with FRC's Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.

In our opinion there are no inconsistencies between FRC's Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.

No matters impacting our independence have arisen during the year.

## Statement of Responsibilities

The Statement of Responsibilities of Auditors and Audited Bodies issued by PSAA explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the National Audit Office.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the

Annual Audit Letter since first published. These matters are the responsibility of the Council but no control procedures can provide absolute assurance in this area.



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<b>Meeting:</b>	<b>Audit and Governance Committee</b>	<b>Date:</b>	<b>18<sup>th</sup> November 2019</b>
<b>Subject:</b>	<b>Internal Audit Activity Progress Report 2019/20</b>		
<b>Report Of:</b>	<b>Head of Audit Risk Assurance (Chief Internal Auditor)</b>		
<b>Wards Affected:</b>	<b>Not applicable</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Theresa Mortimer - Head of Audit Risk Assurance</b>		
	<b>Email:</b>	<b>Tel: 01452 326338</b>	
	<b><a href="mailto:Theresa.Mortimer@gloucester.gov.uk">Theresa.Mortimer@gloucester.gov.uk</a></b>		
<b>Appendices:</b>	<b>A: Internal Audit Activity Progress Report 2019/20</b>		

**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 2019/20.

**2.0 Recommendations**

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

- (1) Accept the progress against the Internal Audit Plan 2019/20;
- (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) Internal Audit protocol is to recommend to the committee that management attend the next committee meeting to provide an update on progress with implementing the recommendations made, when a limited assurance opinion on the control environment is provided. In respect of the Travel and Other Expenses audit, it is appreciated that, due to its scope and financial risk impact, this is deemed to be an operational rather than a strategic risk. Therefore, Internal Audit would request the committee’s views on whether they require management to attend the next meeting of the committee or whether they would be satisfied that Internal Audit undertake a follow up review in 2020/21 reporting the outcomes to the committee accordingly.

### **3.0 Background and Key Issues**

3.1 Members approved the Internal Audit Plan 2019/20 at 11<sup>th</sup> March 2019 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 2019/20 at **Appendix A** summarises:

- The progress against the 2019/20 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 September 2019 to October 2019; and
- Special investigations/counter fraud activity.

3.3 The report is the second progress report in relation to the Internal Audit Plan 2019/20.

### **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 require 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 2019/20 are scheduled to be presented to the Audit and Governance Committee at the 20<sup>th</sup> January 2020, 9<sup>th</sup> March 2020 and 20<sup>th</sup> July 2020 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 Monitoring the implementation of Internal Audit recommendations assists the council to minimise risk areas and thereby reduce the prospects of legal challenge.

(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 2019/20  
PSIAS  
CIPFA Local Government Application Note for the UK PSIAS

# Internal Audit Activity Progress Report

2019-2020



## **(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 2019/20 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 September 2019 to October 2019; and
- Special investigations/counter fraud activity.

#### (4) Progress against the 2019/20 Internal Audit Plan, including the assurance opinions on risk and control

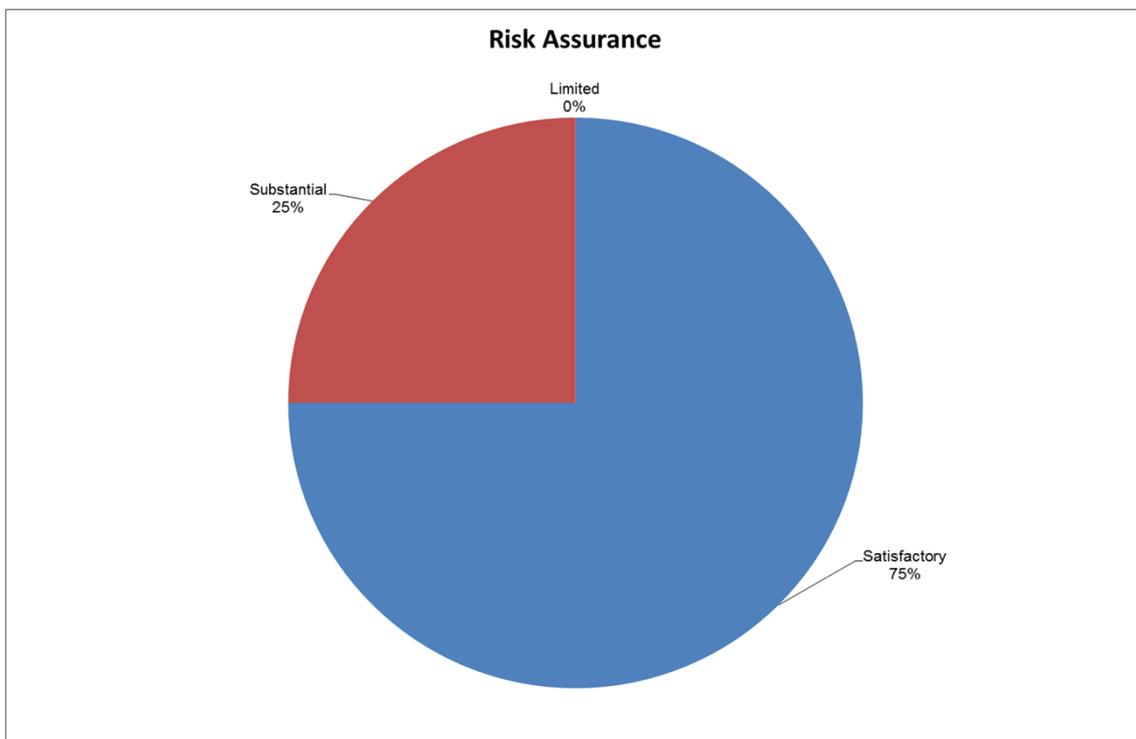
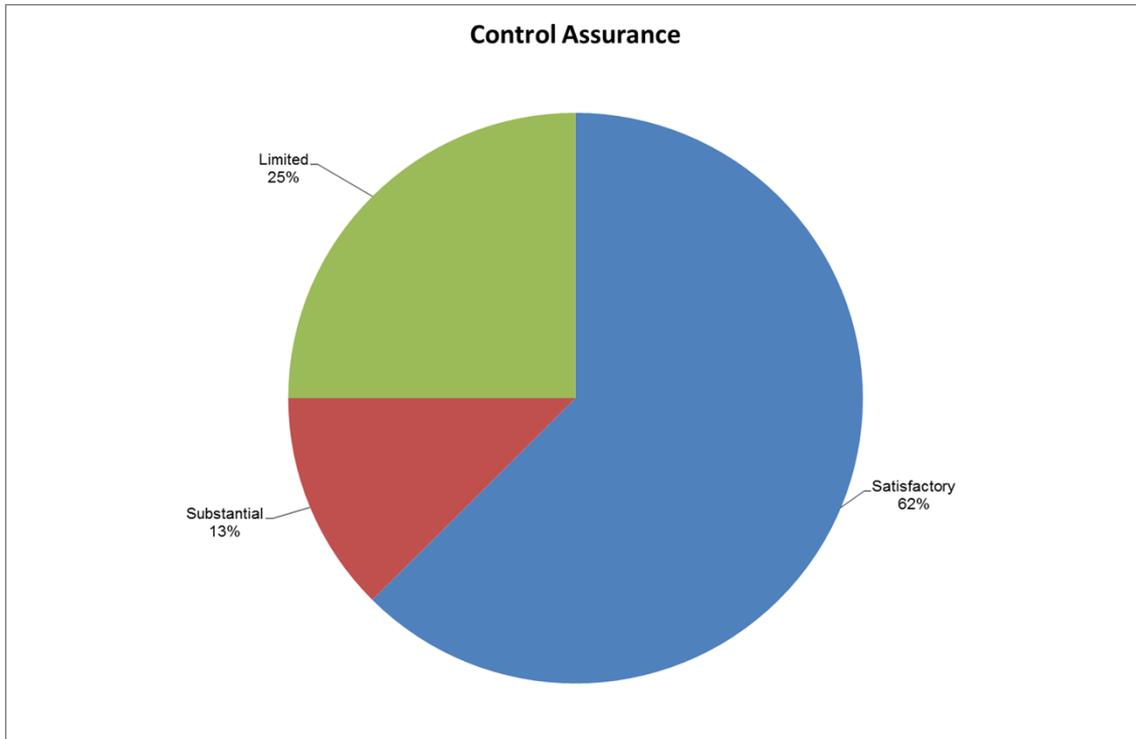
The schedule provided at **Attachment 1** provides the summary of 2019/20 audits which have not previously been reported to the Audit and Governance Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2019/20 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
<b>Substantial</b>	<p><b>Risk Managed</b> 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"> <li>• System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved</li> <li>• Control Application – Controls are applied continuously or with minor lapses</li> </ul>
<b>Satisfactory</b>	<p><b>Risk Aware</b> 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"> <li>• System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger</li> <li>• Control Application – Controls are applied but with some lapses</li> </ul>
<b>Limited</b>	<p><b>Risk Naïve</b> 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"> <li>• System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls</li> <li>• Control Application – Significant breakdown in the application of control</li> </ul>

#### (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 2019/20 audit activity undertaken up to October 2019.



#### **(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 September 2019 to October 2019, one audit review has been provided with a limited assurance opinion on control which relates to Travel and Other Expenses.

It is important to note that whilst a limited assurance opinion has been provided, 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 a plan of action has been prepared to address the issues identified by this review.

In addition, where a limited assurance opinion is given, a follow up audit is undertaken to provide assurance that the agreed actions have been implemented by management.

#### **(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 September 2019 to October 2019 Internal Audit made, in total, **11** recommendations to improve the control environment, **4** of these being high priority recommendations i.e. **7** 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 September 2019 to October 2019, no limited assurance opinions on risk have been provided on completed audits from the 2019/20 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 September 2019 to October 2019

### Summary of Limited Assurance Opinions on Control

#### Service Area: Policy and Resources

#### Audit Activity: Travel and Other Expenses

##### Background

Gloucester City Council has a corporate policy that specifies the expenses that can be claimed by employees including travel, accommodation and subsistence. The Council's Green Travel Policy encourages the use of sustainable and cost-effective forms of transport for all business journeys which is supported by the Travel Policy stating that all alternatives should be considered before personal vehicles are used.

##### Scope

To provide assurance that the expense payments made to employees are in accordance with the corporate policy. In particular, to review the process and controls in relation to the authorisation of expense claims, monitoring of expense payments and retention of supporting documents.

##### Risk Assurance – Satisfactory

##### Control Assurance – Limited

##### Key Findings

- On an annual basis the Council will reimburse expenses claims submitted by employees in the region of £16,000.
- Business mileage for cars and vans is paid at 50p per mile. Whilst this is above the HMRC approved rate this is identified in the payroll system and taxed accordingly.
- Evidence was not available to confirm that the required drivers' checks were completed for employees using personal vehicles to complete a business journey.
- A total of £4,325.71 had been paid in expenses from January 2019 to 13th June 2019. Internal Audit reviewed 45 expense claims paid from this period to ensure that they had been appropriately authorised and that the underlying expenditure reimbursed was in accordance with policy. Sample testing identified that:

- The majority of claims were input electronically, with the remaining nine claims completed via manually. All electronic inputs are authorised via a workflow system, meaning that they cannot be processed until the set authorising manager has agreed the expenses. The manual claims were appropriately authorised via manager email to the Business Service Centre;
- 29 (64%) expense claims did not have supporting receipts to confirm that the expenditure had been incurred;
- 17 (100%) of the mileage claims were not supported by a petrol receipt as required by HMRC for reclaiming VAT;
- Seven expense claims were made to recover 10% of the cost for commuting from home to work via public transport under the Green Travel Plan agreed by Cabinet on 31<sup>st</sup> March 2004. However, this scheme is not within the current Green Travel Policy agreed at Cabinet on 7<sup>th</sup> February 2018. The current method of reimbursement does not ensure the correct treatment for tax (benefit in kind) or VAT accounting when appropriate; and
- Three claims (two self-employed individuals and one from an individual undertaking a Civic Duties) should have been subject to tax deductions.

## **Conclusion**

The value and number of expenditure / claims in context to the overall expenditure of the Council is very low. However, in order to maintain an effective control environment which operates within the Council's policies and HMRC requirements, Internal Audit recommended that the following areas were reviewed to mitigate the associated risks by:

- Updating the Travel Expenses Policy to meet HMRC requirements;
- Reviewing the processes in place for checking / retaining receipts;
- Evidencing the completion of driver checks as per current policy, or following a driving at work risk assessment, consider amending the policy to reflect a control process which is within the Council's risk appetite;
- Reviewing and updating, where necessary, the Green Travel Policy, Green Travel Plan and associated schemes; and

- Ensuring the correct method is used for paying expenses, including taxable benefits and allowances to ensure the correct treatment of tax and VAT.

### **Management Actions**

The Head of Policy and Resources has considered the recommendations made in the draft report and has prepared an action plan to address the issues identified. Following a risk assessment completed by the Head of Policy and Resources it has been decided that a key control (requiring the completion of driver checks on employees using their own vehicles for business journeys) will be discontinued, primarily due to the low number of employees making such claims with the residual risk to the Council now considered within its risk appetite. Consequently, the policy will be updated to make employees responsible for ensuring they have met these requirements and to also highlight that Managers' may carry out random checks when claims are made should they wish to.

### **Summary of Satisfactory Assurance Opinions on Control**

**Service Area: Council Wide**

**Audit Activity: Sickness Absence Procedure**

#### **Background**

Sickness absence has an impact on the delivery of the Council's services and to the individual themselves and their colleagues. The Council wishes to ensure that the reasons for sickness absence are understood in each case, investigated where necessary and that, where needed, measures are taken to assist those who have been absent by way of sickness to return to work.

Managers are responsible for the successful operation of the sickness absence procedure within the service areas for which they are responsible, supported by the Human Resources (HR) service as appropriate.

#### **Scope**

This audit has reviewed how service managers operate the sickness absence procedure in practice, testing that appropriate monitoring and action (in accordance with the policy, procedure and guidance) is being taken by managers.

**Risk Assurance – Substantial**

**Control Assurance – Satisfactory**

**Key Findings**

The sickness absence procedure is well defined with significant guidance and support (e.g. templates) to aid employee understanding of the requirements and to support managers in the effective monitoring and management of sickness absence.

HR support and advice is provided by Gloucestershire County Council. The roles and function of the support service and the responsibilities of service managers in relation to sickness absence is now well understood and the arrangement, as it continues to further evolve, operates effectively.

Management information is provided by the HR team which aids and supports the monitoring of sickness absence. The sickness absence management information feeds through to the overall sickness absence performance levels. The performance reports also inform service managers when the sickness periods for employees within their teams, reach the specific trigger points that then require further management actions.

Through discussions with a number of service managers about the application of the procedure, the review of a sample number of sickness absence cases and the examination of sample documents, confirmation was obtained that the sickness procedure is being followed. A number of cases where the sickness absence triggers had been reached were examined with service managers and the HR case management team - confirmation was obtained that the sickness absence procedure has been complied with.

Part of the sickness absence procedure places responsibility for recording sickness absence on the SAP system (the GCC financial management system) with the service manager. As there is no secondary system to verify absence against, reliance is placed on service managers that the procedure is applied in all instances.

No sickness absence source records were found that had not been recorded on the SAP system. However, the promptness of SAP processing has been identified by the HR support provider as an area where there has been non-compliance with the sickness absence procedure, this can impact on the accuracy of an individual employees' payroll.

The location of the source documents that evidence sickness absence and which support payroll adjustments is specified in the guidance, and a consistent approach in accordance with the guidance is required. A recommendation has been made.

Policy and procedure provide a framework for delivery and compliance. In areas like sickness absence the general culture is also a key factor; balancing, for example, the needs of the individual, the team and the delivery of service aims and objectives.

A request was made for the internal audit review to explore whether managers display the right attitude, mind set and leadership to actively embrace processes and policies. The following comments and observations have been formulated base upon; the application of the sickness absence policy and procedure, sample case review, sickness absence trends, a consensus view of a sample number of service managers and HR service provider feedback:

- Collectively, the information obtained offered confidence that managers have a positive approach to the management of sickness absence. The clarity as to the managers' role and responsibilities, and of the role and functions of the HR team as a support provider, offers a strong foundation.
- There was evidence of a pragmatic approach, with recognition that due to the low frequency of some of the management challenges generated by sickness absence additional 'hand holding' may be required from the specialist HR case management team. However, all managers within Internal Audit's sample were very clear that they are responsible for both task and actions.

As well as SAP processing, which has been raised earlier in this report there were two other areas raised by service managers that have not been pursued in detail as part of the internal audit review, but an awareness may prove helpful:

- Sickness absence and its potential impact on service resilience was identified as a concern, particularly where there are small teams or there is single post holder reliance.
- The occupational health referral process and the consideration of service delivery requirements when forming recommendations to support employee wellbeing.

## **Conclusion**

The sickness absence policy, procedure and operating arrangements offer a comprehensive framework for effective sickness absence management.

Based on feedback from a sample number of service managers, from others who support and assist those managers, and data and document review, there is a positive attitude and mind set towards sickness absence management.

An important element is the effectiveness of the relationship that now operates between service managers and the HR team. Service managers offered clarity over their role and responsibilities. The role of the HR team has now evolved to reflect that intended, of specialist advisor, the provider of process guidance along with the collation and issue of sickness absence performance information.

There is need for service managers to improve elements of the administrative and recording processes that link to and evidence on employee personnel records; payroll adjustments made, sickness absence details and actions.

### **Management Actions**

Management have 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: Policy and Resources**

**Audit Activity: Civil Parking Enforcement**

### **Background**

In May 2018, the Council awarded a contract (maximum term of 7 years) for the enforcement and management of the Council's car parks from 31st August 2018.

### **Scope**

The overarching objective of this audit was to provide assurance that the new arrangements are operating as envisaged. In particular that the:

- Income due under the contract is being collected, received and accounted for; and
- Payments made to the contractor are in accordance with the contractual terms and conditions.

**Risk Assurance – Satisfactory**

**Control Assurance – Satisfactory**

### **Key Findings**

Income – Pay and Display

- The charges for off-street car parking were agreed by Cabinet on 20<sup>th</sup> February 2019 and Internal Audit observed that the correct charges are being applied.
- Charges can be paid using both cash and cashless methods. The income received for January 2019 through to May 2019 was circa £1.1m.

- All pay and display ticket machines (excluding those at Eastgate and Kingswalk Shopping Centres) were upgraded in December 2018 (cost £135k) to modernise the hardware and provide a better user experience.

#### Income – Penalty Charge Notices (PCN's)

- The fees applied for applicable contravention codes agree with the Road Traffic Act 2007.
- The contractor i.e. Saba deploys Civil Enforcement Officers (CEO) to patrol the car parks and will issue a PCN for parking contraventions in accordance with the Road Traffic Act 2007. PCN's are issued using a hand held device and any supporting information e.g. photographs of the contravention, relevant code and a description of the offence is uploaded in real time to the Council's centrally hosted system.
- Back office administrative services are provided by a third party (i.e. Chipside) who will correspond with members of the public relating to PCN's as well as other parking matters including telephone calls and payments. The Council retains authorisation for all decisions pertaining to PCN's (including cancellations).
- The Council's website details how PCN fees can be paid, either online or by cheque, and provides a link to an online payment portal facilitated by Chipside. At present, the web page does not provide supporting information on the PCN process and lifecycle/FAQ which if included, would enable a recipient of the PCN to be more self-servicing, and potentially reduce the level of queries received.
- Chipside remit PCN income monthly with a suite of reports to allow reconciliation of the income sources to the total remitted; however, Council Parking Contract Officers do not monitor income and verify that the amount received is correct.

#### Payments to the Parking Contractor

- Under the contract, the Council is invoiced by Saba for services rendered during the previous month. Upon receipt, verification is performed by the Parking Contract Officers who utilise Chipside software to provide independent scrutiny of costs/volumes invoiced. Payment will be withheld until any queries are resolved.

- The payment mechanism detailed within the specification includes a performance payment, which will only be made if the KPI's are met at the end of each month and allows the Council to ensure that value for money is achieved. This payment performance related element equates to 10% of the monthly invoice value and this should be agreed by both parties prior to the 5th working day of the following month and invoiced separately to the core value.

However, this process is currently not in place with the Council paying 100% of the monthly invoice irrespective of performance. In addition, the payment mechanism is disputed by the contractor who has considered that this relates to a bonus payment of an additional 10% of the monthly core value which can be claimed depending on performance.

- A high percentage of the invoiced amount is staffing costs and overheads to deliver and administer the contract. From review of the contractor invoices versus the pricing schedule within the contract documentation, several anomalies were identified. Whilst Internal Audit can confirm that the unit costs in relation to line items for CEO deployment hours are in line with the contract pricing schedule, several of the other line items appearing within the invoice were being undercharged.
- Taking the above anomaly into account, Internal Audit confirms that all payments made to the contractor for the audit tested period (September 2018 and March 2019) agree with the invoices received in terms of the volume of items charged and the rates specified in the invoice.

#### Contract Management

- The upgraded pay and display machines facilitate improved income monitoring and the ability to remotely monitor the operational status of each machine, thus increasing autonomy that can be exercised by the Council.
- It is the intention of the Council that a monthly contract meeting will take place to discuss performance and to agree payments relating to KPI's. However, due to some operational concerns it has been necessary for the Council to instigate more frequent and ad hoc meetings to discuss performance.
- Council scrutiny of the contractor invoices has led to positive challenge and an identification of improvements in process that can be made.

- Whilst there has been some operational concerns surrounding CEO working rotas / deployment hours for example, the principal issue concerns the qualification and subsequent payments due to the contractor which are linked to the Key Performance Indicators. As such, both parties are now seeking legal advice regarding the non-payment of KPI invoice payments by the Council.
- Whilst several changes have been made to the original contract specification and pricing schedule the contract changes have not been standardised and recorded on contract change forms, and a log has not been maintained of the variations.

### **Conclusion**

Through review of the processes and controls applied during the period September 2018 to July 2019 and the audit testing completed (as specified within the above Key Findings), reasonable assurance has been gained that the income due under the contract is being collected and received by the Council and the invoices submitted by the contractor are subject to scrutiny and challenge.

It is evident that the transition to the new contractor has been more difficult than anticipated and several operational issues and challenges have arisen. The Council Parking Contract Officers oversee the day to day operation of the contract, and they have been actively working with the contractor representatives to resolve the issues identified.

The process of issue resolution does appear to be heavily protracted, and several issues identified early in the commencement of the contract remain unresolved and affecting the smooth running and management of this contract. In the short-term it is imperative that an agreement with the Contractor is now reached on how the payment mechanism and subsequent treatment of the payments linked to the KPI's will work going forward.

### **Management Actions**

Management responded positively to the audit findings and a plan of action was agreed that when implemented will address the issues highlighted by this review. Whilst progress has been made in implementing the agreed actions the High Priority recommendation (agreed completed date 1 October) to identify and formally document variations to the contract has not been finalised. Management have now confirmed that this has been tabled with the contractor and will be finalised before the Audit & Governance Committee meeting.

**Service Area: Policy and Resources**

**Audit Activity: Local Government Transparency Code - 2015**

### **Background**

The Transparency Code was introduced to meet the Government's desire to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision-making process and help shape public services.

Transparency is the foundation of local accountability and the key that gives people the tools and information they need to enable them to play a bigger role in society. The availability of data can also open new markets for local business, the voluntary and community sectors and social enterprises to run services or manage public assets. This audit will review the arrangements and level of compliance with the Code.

### **Scope**

The objectives of the audit were to:

- Review the overarching arrangements to manage and monitor the Council's compliance with the transparency code;
- Review each specific area of the Code that applies to the Council examining and testing compliance with the 'must be published' requirement of the transparency code; and
- Sample test the controls applied to the data and information published on the website under the requirements of the code, which ensure it is in accordance with the definitions, and is timely, complete, accurate, accessible and useable.

**Risk Assurance – Satisfactory**

**Control Assurance – Satisfactory**

### **Key Findings**

- The Department for Communities and Local Government (DCLG) published a revised Transparency Code in February 2015, which specifies what open data local authorities must publish;

- To support local authorities in understanding and implementing the Code (and to help them publish the data in a meaningful and consistent way), the Local Government Association (LGA) has published appropriate guidance. The guidance provides more detail on both the mandatory and recommended elements of the Code and this has been used by Internal Audit to assess the Council's level of compliance with the mandatory elements;
- The Council provides easily accessible data in most cases, however, data pertaining to some of the grants made to voluntary, community and social enterprise organisations (VCSE) is provided in a standalone tab on the Community Living tab of the Council's web page, not the Transparency sub section as exemplified by other local authorities; and
- Data relating to VCSE grants is also provided within the monthly expenditure published by the Council and therefore the Council should consider if both data sources are appropriate to avoid duplication and increase transparency and ease of use.

### **Conclusion**

Overall, appropriate management arrangements are in place and the Council can demonstrate appropriate commitment and levels of compliance to fulfilling the requirements of the Code.

Most data published under the Code is readily accessible to stakeholders via the Council's website: Transparency pages albeit some lapses of compliance were identified where the expected data is either not published or if previously published, is not kept current.

In order to further demonstrate the Council's commitment to the transparency agenda, management should ensure that the areas of non-compliance identified by this review (relevant to four Code information categories) are now rectified and that going forward the data is current.

### **Management Actions**

Management have responded positively to the audit findings and are working to complete the remaining proposed actions by the end of November 2019.

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

**Service Area:** Policy and Resources

**Audit Activity:** European Elections

### Background

The European Parliamentary Election was on held 23<sup>rd</sup> May 2019. The costs incurred by the Local Returning Officer for managing and administering the election which have been paid through Gloucester City Council's payment systems may be claimed back from the Electoral Commission (EC). The Council's managing director fulfils the role of the Local returning Officer.

### Scope

This was an unplanned review requested by the Policy and Governance Manager. The objective of the audit was to provide assurance that, in all significant respects, the claim for the elections (to be signed off by the Returning Officer) is complete and accurate and appropriately evidenced.

**Risk Assurance – N/A**

**Control Assurance – N/A**

### Key Findings

- The claim has been prepared by the Policy and Governance Manager on behalf of the Local Returning Officer, with the face value of £165,773.66 against a maximum amount recoverable of £171,095.00.
- A number of areas were identified for consideration where there is opportunity to increase the sum claimed. The principle that the Council should not incur any cost (directly or indirectly) for the management and administration of the election has been applied by Internal Audit when identifying these areas.
- The claim has been completed in the required Microsoft Excel template provided by the EC and the Heads of Expenditure within the claim spreadsheet were found to agree and cross-reference to summary forms and the sub workbooks.
- Appropriate documentation was not held by the Policy and Governance Manager to support some elements of the claim to the value circa £19,000.00.

## **Conclusion**

To provide a full audit trail and to support the rates of pay used when calculating staff payments, it would be beneficial if the Local Returning Officer approved the scale of fees to be used for each election role in advance of any elections.

A number of questions and suggested amendments have been raised by Internal Audit which if subject to scrutiny by the EC may be challenged which could result in the value of the claimed reimbursement being reduced.

Provided that the questions, and suggested adjustments highlighted by this review are completed, Internal Audit considers with reasonable assurance that the claim to be submitted to the EC Claims Unit is a fair and accurate reflection of costs incurred in facilitating the European Parliamentary Election.

## **Management Actions**

The Policy and Governance Manager has confirmed that they will discuss the points raised with the Local Returning Officer ahead of submission of the accounts to the EC.

## **Summary of Special Investigations/Counter Fraud Activities**

### **Current Status**

As at 22<sup>nd</sup> October 2019 there have been four fraud/irregularity referrals received by Audit Risk Assurance (ARA) for investigation. All four cases are still ongoing and the outcomes will be reported to the Audit and Governance Committee once the investigations are complete.

The ARA Counter Fraud team currently comprises of 2.6 equivalent FTE's. The recruitment of a second FTE has increased the resilience and expertise in this area.

The team is continuing to raise the profile of the service by actively engaging with Gloucester City staff and plans to attend staff meetings, run fraud awareness training sessions and other fraud initiatives such as the promotion of International Fraud Awareness week (IFAW) in November. By raising the profile of the service it is expected that this will generate referrals from across the City Council.

The 2017-19 Counter Fraud Policy and Strategy together with the Fraud Risk Registers are under review and will be provided to the Audit and Governance Committee once completed. The 2016-19 CIPFA Fighting Fraud and Corruption Locally Strategy (the counter fraud and corruption strategy for local government) which is referred to in the policy and strategy has not yet been updated and ARA have been advised that this document is unlikely to be available before March 2020.

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 2018/19 data collections have been successfully uploaded to the Cabinet Office during October 2018 and the data matching reports were released on 31<sup>st</sup> January 2019 and the relevant staff at Gloucester City have been informed and any significant outcomes will be reported to the Committee. 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.

Additional data (Recheck) in respect of council tax and electoral register data is due to be submitted by the Council submitted through the secure NFI web application, as soon as possible after 2<sup>nd</sup> December 2019 and no later than 28<sup>th</sup> February 2020.

The timetable can be found using the following link [GOV.UK](https://www.gov.uk). Data uploaded after 28<sup>th</sup> February 2020 will be classed as officially late.

In addition to the information available on the NFI website, a report detailing the number of key matches, including the area within which they sit, together with the progress of actions undertaken to date to review the matches is being developed by ARA. This will be shared with the Monitoring Officer at regular intervals to provide an overview of progress and any key/significant outcomes to be easily identified.

ARA has been advised by the Policy and Resources Intelligent Client Officer that the Counter Fraud Unit (CFU) (procured via ARA) have been tasked with reviewing the NFI single person discount (SPD) matches.

The majority of these matches are those between electoral register and those who receive a 25% discount from their council tax for being the single occupant of a property. The number of matches was quite significant, speculatively this could be attributable to the fact that more people registered on the electoral in the lead up to the Brexit vote in 2017.

An initial overview of the matches was undertaken by the CFU and a number of 'legitimate' and exempted matches were identified and discounted. Letters then issued to all of the remaining people seeking clarification of their entitlement to the reduction in council tax by way of single person discount. A dedicated email address was created for this so people could respond by email if they chose to do so. This work has been transferred to the Revenues team to continue with the project and any bills will be amended as required. The NFI records have been updated accordingly and a summary of the findings will be provided to the next Audit and Governance Committee.

Gloucester City Council has introduced an Empty Homes premium on all unoccupied properties which have been unoccupied for in excess of 2 years. This came into force with effect from 1<sup>st</sup> April 2019 – for further information about the Empty Homes Premium – please follow this link - <https://www.gloucester.gov.uk/council-tax-benefits/council-tax/council-tax-premium-on-long-term-empty-properties/>

Prior to the premium being introduced the CFU undertook a special exercise to visit all of those properties said to have been unoccupied for >2 years. The Revenues team have now completed the project to visit all homes in the city listed as unoccupied and the council tax records have been updated. This project also included those homes which are said to have been unoccupied for less than two years. This piece of work is still ongoing and the key outcomes/findings of the project will be reported to the Audit and Governance Committee once analysed.

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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	General Data Protection Regulations (GDPR)	1	Final Report Issued	Substantial	Substantial	16/09/2019	Brought Forward from 2018/19 plan
Council Wide	Health and Safety Limited Assurance Follow Up	1	Planned				
Council Wide	Purchasing: Low and Intermediate Value Transactions Limited Assurance Follow Up	1	Planned				
Council Wide	IT Disaster Recovery and Business Continuity	1	Planned				Terms of Reference issued
Council Wide	Ongoing Cyber Resilience	1	Planned				Terms of Reference issued
Council Wide	Key ICT Project Governance	1	Audit in Progress				Brought Forward from 2018/19 plan
Council Wide	Complaints Procedures	2	Planned				
Council Wide	Travel and Other Expenses	1	Final Report Issued	Satisfactory	Limited	18/11/2019	
Council Wide	Use of Internet	1	Planned				
Council Wide	Honorariums and Temporary Promotions	1	Final Report Issued	Satisfactory	Satisfactory	16/09/2019	
Council Wide	Governance Review of Assurance Statements	1	Audit in Progress				
Council Wide	Safeguarding	2	Planned				
Council Wide	Sickness Absence Procedure	2	Final Report Issued	Substantial	Satisfactory	18/11/2019	
Council Wide	Network Access Controls Limited Assurance Follow Up	1	Audit in Progress				
Communities	Civil Penalties to tackle Unsatisfactory Housing Conditions within the Private Rented Housing Sector	2	Planned				
Communities	Licensing	2	Draft Report Issued				
Communities	Temporary Accommodation	2	Planned				
Cultural and Trading	Markets Limited Assurance Follow Up	1	Final Report Issued	Satisfactory	Satisfactory	16/09/2019	
Cultural and Trading	Guildhall and Blackfriars Priory - Income received from events	2	Audit in Progress				
Cultural and Trading	Shopmobility Fees and Charges	2	Final Report Issued	Satisfactory	Limited	16/09/2019	
Place	Planning - Processing and Performance	2	Planned				
Place	Building Control Shared Service	2	Draft Report Issued				
Policy and Resources	Civil Parking Enforcement	2	Final Report Issued	Satisfactory	Satisfactory	18/11/2019	Brought Forward from 2018/19 plan
Policy and Resources	Blackfriars Turnover Certificate	1	Final Report Issued	Not Applicable	Not Applicable	16/09/2019	
Policy and Resources	Budget Setting Monitoring and Reporting	2	Planned				
Policy and Resources	Freedom of Information (Fol) requests	2	Planned				
Policy and Resources	Housing Benefits	2	Planned				
Policy and Resources	IR35 Off-payroll working through an intermediary	2	Audit in Progress				
Policy and Resources	Property Investment Strategy	2	Planned				
Policy and Resources	Local Government Transparency Code - 2015	2	Final Report Issued	Satisfactory	Satisfactory	18/11/2019	
Policy and Resources	VAT	2	Planned				
Policy and Resources	Service Planning and Performance Reporting	2	Planned				
Policy and Resources	European Elections	1	Final Report Issued	Not Applicable	Not Applicable	18/11/2019	New Activity
Policy and Resources	Free Hospital Fund for Children	1	Final Report Issued	Not Applicable	Not Applicable	18/11/2019	Consultancy

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<b>Meeting:</b>	<b>Audit and Governance Committee Cabinet</b>	<b>18<sup>th</sup> November 2019 1<sup>st</sup> December 2019</b>
<b>Subject:</b>	<b>Treasury Management Update – Annual Report 2019/20</b>	
<b>Report Of:</b>	<b>Cabinet Member for Performance and Resources</b>	
<b>Wards Affected:</b>	<b>All</b>	
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework: No</b>
<b>Contact Officer:</b>	<b>Greg Maw, Accountancy Manager</b>	
	<b>Email: greg.maw@gloucester.gov.uk</b>	<b>Tel: 396422</b>
<b>Appendices:</b>	<b>1. Prudential and Treasury Indicators</b> <b>2. Interest rate forecasts</b>	

**FOR GENERAL RELEASE**

**1.0 Purpose of Report**

- 1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report covers the six months 1<sup>st</sup> April 2019 to 30<sup>th</sup> September 2019 and therefore, ensures this Council is implementing best practice in accordance with the Code.
- 1.2 This report will highlight issues specific to the Council and also highlight interest rate forecasts as provided by the Council’s treasury advisors Link Asset Services.
- 1.3 The body of the report provides an overview of the Councils performance for the first half 2019/20;
  - **Appendix 1** highlights the key performance indicators in line with the Councils Treasury Management Strategy.
  - **Appendix 2** Interest Rate Forecast.

**2.0 Recommendations**

- 2.1 Audit and Governance Committee is asked, subject to any recommendations it wishes to make to Cabinet, to note the contents of the report.
- 2.2 Cabinet is asked to **RESOLVE** that the contents of the report be noted.

**3.0 Annual Investment Strategy**

The Treasury Management Strategy Statement (TMSS) for 2019/20, which includes the Annual Investment Strategy, was approved by the Council on 21st March 2019. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

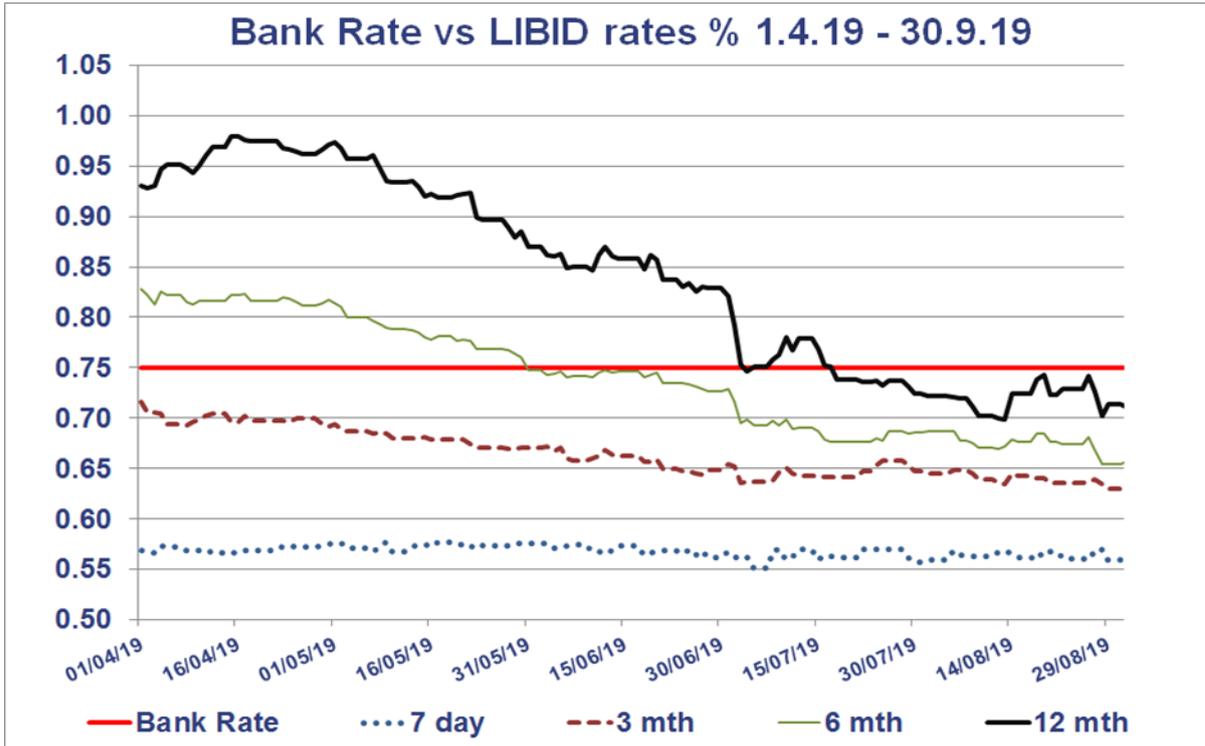
- 3.1 The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months, with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.
- 3.2 The average level of funds available for investment purposes during the year was £6.1m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds £11m core cash balances for investment purposes (i.e. funds available for more than one year).

**Investment performance for the financial year to date as at 30th September 2019**

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.57%	0.77%	£22,866
1 month	0.60%	0.95%	£4,216
3 month	0.66%	0.97%	£24,880
6 month	0.73%	1.10%	£10,247
12 month	0.83%	N/A	N/A

As illustrated, the Council outperformed the benchmark by 20 bps on 7 day investment returns, by 35 bps on 1 month, 31 bps on 3 month and 37 bps on 6 month investment returns.

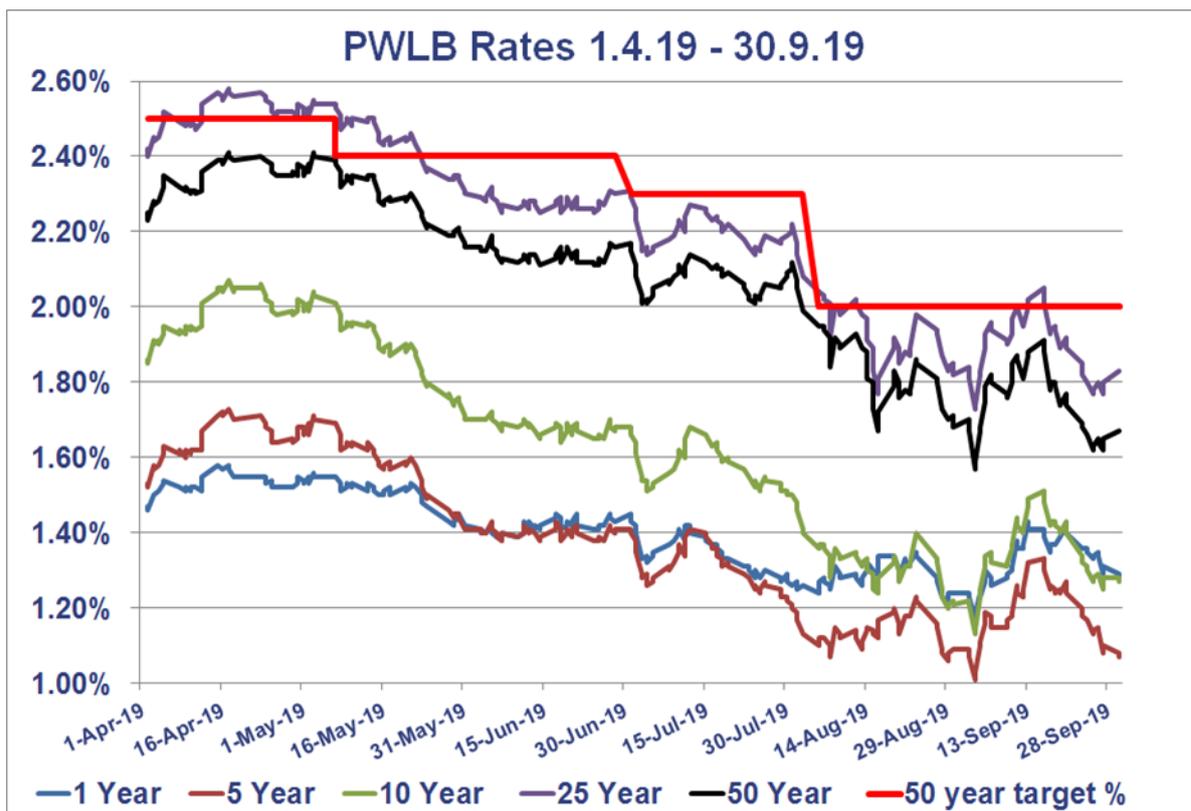
**Interest Rate Profile - Half year ended 30 September 2019**



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.75	0.58	0.61	0.72	0.83	0.98
High Date	01/04/2019	09/05/2019	15/04/2019	01/04/2019	01/04/2019	15/04/2019
Low	0.75	0.55	0.58	0.63	0.65	0.69
Low Date	01/04/2019	05/07/2019	08/08/2019	29/08/2019	04/09/2019	04/09/2019
Average	0.75	0.57	0.60	0.66	0.73	0.83
Spread	0.00	0.03	0.03	0.09	0.18	0.29

#### 4.0 New Borrowing

- 4.1 No long term borrowing was undertaken during the period ended 30 September 2019.
- 4.2 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date. PWLB rates have been on a falling trend during this period and longer rates have almost halved to reach historic lows. The 50 year PWLB target (certainty) rate for new long term borrowing fell from 2.50% to 2.00% during this period.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.01%	1.13%	1.73%	1.57%
Date	03/09/2019	03/09/2019	03/09/2019	03/09/2019	03/09/2019
High	1.58%	1.73%	2.07%	2.58%	2.41%
Date	15/04/2019	17/04/2019	17/04/2019	17/04/2019	17/04/2019
Average	1.40%	1.37%	1.62%	2.20%	2.07%

## 5.0 Debt Rescheduling

5.1 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

## 6.0 Compliance with Treasury and Prudential Limits

6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

6.2 During the financial year the Council has operated within the treasury limits set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

6.3 The Council debt profile is currently structured on short term borrowing. The Council is able to benefit from reduced costs associated with short term borrowing compared to longer term rates while operating within the Councils borrowing requirements, this strategy will continue to be reviewed in line with market expectations. The prudential and treasury Indicators are shown within appendix 1.

## **7.0 Other**

7.1 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

7.2 The Council continued to maintain an under-borrowed position in 2019/20.

7.4 This under-borrowing reflects that the Council resources such as reserves and provisions will have reduced debt rather than be externally invested. This strategy is sensible, at this point in time, for two reasons. Firstly, there is no differential between the marginal borrowing rate and investment rate so there is nothing to be gained by investing Council resources externally. Secondly, by using the resources to reduce debt the Council will reduce exposure to investment counterparty risk.

7.5 The Council will continue to monitor its approach to short term borrowing in accordance with our treasury advisor forecasts and future Council events which impact on the Council borrowing requirement.

## **8.0 Asset Based Community Development (ABCD) Considerations**

8.1 This report notes the treasury management performance of the Council. There are no anticipated ABCD implications from this report.

## **9.0 Financial Implications**

9.1 Contained in the report

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

## **10.0 Legal Implications**

10.1 There are no legal implications from this report  
(Legal Services have been consulted in the preparation this report.)

## **11.0 Risk & Opportunity Management Implications**

11.1 There are no specific risks or opportunities as a result of this report

**12.0 People Impact Assessment (PIA):**

12.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

**13.0 Other Corporate Implications**  
Community Safety

13.1 None

Sustainability

13.2 None

Staffing & Trade Union

13.3 None

Prudential and Treasury Indicators as at 30<sup>th</sup> September 2019

Prudential Indicators 2019/20	2019/20 Budget £m	Six Months (Apr – Sept) Actual £m
Authorised limit for external debt	£120	£120
Operational Boundary for external debt	£110	£110
Gross external debt	£110	£24.5
Investments	N/A	£13.8
Net borrowing	£110	£10.7

Maturity structure of fixed and variable rate borrowing – upper and lower limits	N/A	£13.8
Under 12 months	£110	£10.7
12 months to 2 years	0% - 100%	80%
2 years to 5 years	0% - 100%	0%
5 years to 10 years	0% - 100%	0%
10 years to 20 years	0% - 100%	0%
20 years to 30 years	0% - 100%	20%
30 years to 40 years	0% - 100%	0%
40 years to 50 years	0% - 100%	0%
Upper limit of fixed interest based on net debt	100%	80%
Upper limit of variable interest rates based on net debt	100%	20%

## INTEREST RATES FORECASTS

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB Rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB Rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB Rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

**Bond yields / PWLB rates.** There has been much speculation recently that we are currently in a bond market bubble. However, given the context that there are heightened expectations that the US could be heading for a recession, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US

whereby ten year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

What we have seen during the last half year is a near halving of longer term PWLB rates to completely unprecedented historic low levels. There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but due to a correlation between US treasuries and UK gilts, which at various times has been strong but at other times weaker, in the UK. However, forecasting the timing of this and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt fuelled boom which now makes it harder for economies to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

### **The balance of risks to the UK**

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be

much lower than before 2008. Central banks could, therefore, over or under-do increases in central interest rates.

**Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:**

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor, though more recently concerns have arisen over her health.
- **Other minority EU governments**. Austria, Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Italy, Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks**, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

## Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

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## **Report to Audit and Governance Committee 18/11/2019 on actions taken in relation to key recommendations made in the audit report relating to the audit of Shopmobility Fees and Charges**

**Lead Officer: Jonathan Lund (Corporate Director)**

**Presenting officer (if different to above):**

### **Summary of Audit Area**

Shopmobility provide battery powered scooters, wheelchairs, battery chairs, power chairs and rollators to help people who have limited mobility.

Charges were introduced in 2012 and remained unchanged until February 2018, when Cabinet agreed to adopt a new 'fees and charges' structure for the service effective from April 2018 in order to make the arrangements in place to be more commercially focussed. Shopmobility collected approximately £24k of income in the 2018/19 financial year.

### **Summary Terms of Reference of the Audit**

The overarching objective of the audit is to ascertain details of the registration process, hire fees charged, equipment maintenance and the processing of personal information relating to the services provided by Shopmobility. In particular that:

- Service user data and records are appropriately held and used in accordance with the requisite guidelines;
- Any equipment hired is in good working order, and training is provided to the user where applicable; and
- Arrangements are in place to assess, apply, collect and account for the correct fees charged to service users.

### **Risks**

- Income due is not collected;
- Income due is not banked and accounted for;
- Users of the service are not appropriately trained / Misuse of equipment;
- Accidents occur due to poorly maintained equipment;
- Personal data is not stored securely / misused;
- Injury to user / member of the public;
- Damage to reputation/fraud;
- Financial penalties if personal data is misused/made public; and Liability claims received from members of the public.

## **Key Findings**

### **Service User Data**

- Users complete a membership registration form i.e annual or occasional. Both forms are designed to collect personal identifiable information required for the user to complete a hire agreement;
- Data collected is held in electronic and hard copy formats, and respectively locked in a filing cabinet or on a secure server. However, from review of the records it was highlighted that:
  - They are inconsistently updated and the service is collecting data that is surplus to that required for a hire agreement;
  - The service does not provide a link to the Council's Privacy Notice on the user registration forms; and
  - The service does not routinely review the data held and delete data that is no longer required after two years of non-participation in the Shopmobility Membership Service.

### **Equipment Hired**

- The equipment available for hire from Shopmobility is donated by members of the public or from the Friends of Shopmobility;
- Apart from an initial inspection/service, any repairs are made on a reactive basis, instead of a planned maintenance/servicing schedule; and
- Because a maintenance log book is not maintained for each piece of equipment a comprehensive service history is not readily available in the event of an incident and subsequent claim being received.

### **Service User Training**

- Prior to any equipment being used, the Shopmobility assistants provide appropriate training if the user is new to the service and/or the equipment hired; and
- Whilst training/familiarisation is provided to the service user, the requirement to document this process is inconsistently completed.

### **Income Collection**

- Income generated by donations and bric a brac sales are collected as and when a purchase or donation is made at varying amounts, with long term hire, annual membership and day rate charges being applied as per the Council pricing in effect from 1st April 2018;
- Income is collected via both cash and wireless card terminal methods; and
- Income documents in the form of till receipts are not retained in line with the Council Retention Schedule and HMRC guidelines.

**Action taken as at 30/09/2019 and/or proposed**

**Recommendation 1**

The service completes a Privacy Impact Assessment in consultation with the Council Data Protection Officer to systematically analyse, identify and minimise the data protection risks of Shopmobility data processing. Following completion, clear guidance is provided to staff operating the service regarding data collection and retention.

**Original management response:**

The Visitor Experience Manager will liaise with One Legal to ensure compliance across all areas of the service.

**Management update as at 30/09/2019:**

Done - The Visitor Experience Manager has met with One Legal to produce a PIA. Potential risks were identified and have since been mitigated.

---

**Recommendation 2**

Service user registration forms:

- The service user registration forms are amended to include a link to the Council Privacy Notice; and
- The occasional user registration form is amended to reflect the Council Retention Schedule statement that user data will be destroyed after one year of non-participation.

**Original management response:**

The Visitor Experience Manager will liaise with One Legal to ensure compliance across all areas of the service.

**Management update as at 30/09/2019:**

Done - Both registration forms have been amended to include a link to the Council Privacy Notice.

The Occasional User form now follows the Membership form where data will be kept for 2 years after non-participation. Staff feedback showed that many occasional users do return to the service every year.

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**Recommendation 3**

The service ensures that equipment available for hire is subject to planned maintenance checks; the frequency of which is to be determined by a competent provider and the Council's insurers

**Original management response:**

Shopmobility staff will liaise with the service/maintenance provider to assess costs and timescales in ensuring that the fleet is serviced on an annual basis. Once the assessment is complete, budget will be identified and allocated followed by a planned service programme of the fleet

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**Management update as at 30/09/2019:**

Done - All scooters are serviced upon receipt and are now subject to an annual service with records kept in a new service history folder. Annual service of the current fleet will cost in the region of £2500 and will be allocated at the start of each financial year. 50% of the fleet has already received its annual service.

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**Recommendation 4**

A service log book is maintained for each item subject to hire to track the maintenance history, service use and required maintenance requirements.

**Original management response:**

A service log book has now been created which will clearly identify each item of equipment and its service history.

---

**Management update as at 30/09/2019:**

Done - A service log book is now in place to monitor all maintenance for each scooter in the fleet.

---

**Recommendation 5**

The service manager is to ensure that all standard documentation is being completed to the required level, and a reminder is issued to the assistants of the importance of ensuring training records are completed.

**Original management response:**

Following a team meeting on the 3rd July, the team agreed that regular users would be trained on initial arrival followed up by annual refresher training (normally at the time of membership renewal).

The customer signs a form each time they are trained and is countersigned by the member of staff providing the training.

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**Management update as at 30/09/2019:**

Action completed.

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**Recommendation 6**

To review current membership data records with a view to:

- Removing duplication; and
- Agreeing which primary records should be maintained and consistently updated by all team members.

**Original management response:**

The service suffers from ad hoc computer issues meaning that they cannot rely solely on electronic records.

The apparent undercharging was due to membership records not being kept up to date. Members were charged the correct amount but staff relied on their

knowledge instead of the main database. The Visitor Experience Manager will identify a better method of collecting data to ensure that staff are referring to the most up to date user information.

**Management update as at 30/09/2019:**

Done - The membership database has been checked for duplicates and is only collecting data which is required by the service. The data is reviewed every 3 months.

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**Recommendation 7**

The Shopmobility Service retain till rolls in accordance with the Council Retention Schedule and HMRC guidance.

**Original management response:**

N/B – Shopmobility uses a manual stand-alone till.

Prior to this audit, on the 8th May 2019, cashiers no longer accepted Shopmobility money and a new system was set up where money is now deposited through the till at the Museum of Gloucester.

A deposit form is filled out to enable Museum staff to quickly process the money which lists each service that Shopmobility offers. A receipt is printed upon completion and is attached to the deposit form. The till roll receipt from the manual till is also attached.

Following a staff meeting on the 3rd July, it was identified that the team had been told that it wasn't necessary to keep till rolls as finance kept records. The Visitor Experience Manager explained to staff that financial records will need to be kept for 6 years, plus the current year.

**Management update as at 30/09/2019:**

Action completed.

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**Gloucester City Council**  
**Audit and Governance Work Programme 2019-2020**  
**(Updated 1 November 2019)**

Item	Format	Committees	Lead Officer	Comments
<b>18<sup>th</sup> November 2019</b>				
1. Audit and Governance Committee Outstanding Matters	Timetable	-----	-----	Standing agenda item requested by the Committee
2. Annual Audit Letter 2018/19	Written Report	Audit and Gov	Deloitte	Part of the Committee's annual work programme
3. Internal Audit Activity Progress Report 2019/20	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
4. Treasury Management Performance 2019/20 Six Monthly Update	Written Report	Audit and Gov Cabinet	Head of Policy and Resources	Part of the Committee's annual work programme
5. Shopmobility limited assurance management update	Written Report	Audit and Gov	Corporate Director	Requested
6. Risk Based Internal Audit Planning Workshop	Discussion	Audit and Gov	Head of IA&RM Shared Service	Requested
7. Outside Bodies Survey Update	Verbal Update	Audit and Gov	Monitoring Officer	A&G Audit Study Group
8. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item
<b>20<sup>th</sup> January 2020</b>				
1. Audit and Governance Committee Outstanding Matters	Timetable	-----	-----	Standing agenda item requested by the Committee
2. Deloitte – Grants Audit Report	Written Report	Audit and Gov	Deloitte	Part of the Committee's annual work programme
3. Internal Audit Purpose, Authority, Role and Function	Written Report	Audit and Gov	Head of IA&RM Shared Service	Requested
4. The Review of the effectiveness of the Audit and Governance Committee	Written Report	Audit and Gov	Head of IA&RM Shared Service	Requested

5. Fraud Risk Assessment	Written Report	Audit and Gov	Head of IA&RM Shared Service	Requested
6. Internal Audit Activity Progress Report 2019/20	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
7. Outside Bodies Draft Report	Written Report	Audit and Gov Council/Cabinet	Monitoring Officer	A&G Audit Study Group
8. Audit and Governance Committee Work Programme	Written Report	-----	-----	Standing Agenda Item