

# Gloucester City Council

<b>Meeting:</b>	<b>GLT</b>	<b>Date:</b>	<b>10<sup>th</sup> September 2013</b>
	<b>Audit &amp; Governance Committee</b>		<b>23<sup>rd</sup> September 2013</b>
<b>Subject:</b>	<b>Internal Audit Plan 2013/14 – Quarterly Monitoring Report</b>		
<b>Report Of:</b>	<b>Audit, Risk &amp; Assurance Manager</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>Terry Rodway, Audit, Risk &amp; Assurance Manager</b>		
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<b>Appendices:</b>	<b>1. List of the audits completed - April 2013 to August 2013</b>		
	<b>2. List of Audit Recommendations not implemented by agreed date.</b>		

## FOR GENERAL RELEASE

### 1.0 Purpose of Report

- 1.1 To inform Members of the audits completed as part of the approved Internal Audit Plan 2013/14.

### 2.0 Recommendations.

- 2.1 Audit & Governance Committee is asked to **RESOLVE** that:-

- (1) Members endorse the audit work undertaken to date, and the assurance given on the adequacy of internal controls operating in the systems audited.

### 3.0 Background and Key Issues

- 3.1 At the Audit Committee meeting held on 18<sup>th</sup> March 2013, Members approved the Internal Audit Plan 2013/14. In accordance with the Public Sector Internal Audit Standards, this report details the outcomes of internal audit work carried out in accordance with the approved Plan.
- 3.2 This report includes the audits completed during the period April 2013 to August 2013. The performance monitoring information is based on the number of completed audits vs. the number of planned audits (i.e. an output measure). The indicator for the Internal Audit Plan is 83% (10 out of 12 planned audits completed) compared to a target of 90%. These figures do not include 1 audit that was at Draft Report stage as at the end of August 2013.

3.3 Details of the audits completed, together with the overall conclusion reached on each audit, have been provided in **Appendix A**. This should provide Members with a view on the adequacy of the controls operating within each area audited.

#### 3.4 NFI Data Matching exercise

3.4.1 On a cyclical basis the Audit Commission undertakes a data-matching exercise known as the National Fraud Initiative (NFI). Data from a wide range of public sector organisations is matched, with the primary intention of discovering cases of fraud. Organisations from which data is collected for matching purposes include:

- Local authorities
- NHS bodies
- Police authorities
- Central Government departments and agencies

#### 3.4.2 **Data types used in the matching exercise include:**

- Housing Benefit
- Payroll
- Creditor payments
- Housing rents
- Licensing
- Insurance claims

3.4.3 The latest NFI exercise produced a total of 62 reports for GCC, of which 39 related to Housing Benefit matches. The Audit Commission identified 13 “Key” reports to which, they state, authorities should give priority. Within each report, Key or otherwise, the Audit Commission recommended a number of matches for investigation; these were where data matches were of a ‘high quality’ i.e. matching date of birth; matching NINO; matching address.

3.4.4 In total there were 2271 individual data matches within the following reports:-

- 39 reports relating to Housing Benefit – the matches included examples of matches included claimants who are also on the payroll of different organisations; claimants in receipt of benefits from more than one authority; claimants who may be ineligible for Housing Benefit as they are in receipt of a student loan, claimants in receipt of a pension, and, claimants who are a licence holder. These matches are being investigated by the Housing Benefit Fraud Team. As at the date of writing this report 1 case of fraud has been identified totalling £29,932. This related to the non-declaration of a pension, and the claimant has been prosecuted.
- 9 reports relating to Housing Tenancies – the matches included individuals who appeared to be resident at two different addresses. The cases were investigated by Internal Audit. Testing revealed a series of incorrectly recorded NINO’s within the housing system for which assurances have been provided that actions have now been taken to rectify these inaccuracies. In addition, the housing system currently records 5 individuals as being ‘joint’

tenants at addresses that they have vacated. This position is a direct result of the individuals having not surrendered their original tenancy. GCH have provided assurance that actions are being taken to request the individuals sign the requisite paperwork to remove them from the original joint tenancy.

- 5 reports relating to Payroll – the matches included individuals paid by GCC via the payroll and the creditors system, individuals paid by two organisations, and individuals in receipt of a salary and a pension. All cases were investigated and no evidence of fraud identified.
- 8 reports related to Creditors – the matches included possible duplicate payments to the same creditor for the same goods/services, and, possible VAT overpayments. Testing identified 3 duplicate payments totalling approximately £3500 that were paid between April 2009 and June 2010, of which £1,046 paid to one company cannot be recovered due to the company having been dissolved. The Technical Accountant has provided written assurance that the remaining overpayments totalling £2500 have now been fully recovered. Testing confirmed that all the VAT payments were correct.
- 1 report related to Licences - The report included one match where a person may not be entitled to a licence because of their immigration status. Testing revealed that the individual has applied for a UK passport and that the Licensing Team had already contacted the Home Office to confirm the current status. The Home Office provided notification on the 1<sup>st</sup> July 2013 that the individual has been granted 'unrestricted right to work' within the UK as part of the indefinite leave to remain that was granted 24<sup>th</sup> May 2013.

### 3.5 Financial Services Improvement Plan

- 3.5.1 Members have previously received updates from the Corporate Director of Resources on the Financial Services Improvement Plan. At the previous meeting of the Audit & Governance Committee, it was agreed that an internal audit of the Plan would be undertaken to provide independent assurance that recommendations that had been reported as being implemented, had been implemented.
- 3.5.2 The results of the audit has identified that of the 42 recommendations that had been RAG rated as Green, 34 were agreed as been implemented. For the remaining 8, the audit indicated that they were only partially implemented. The management response was that these items were still work in progress, however, it was agreed that these should have an agreed target date for completion.
- 3.5.3 A number of recommendations had a stated implementation date which was post the date of this audit, therefore, the testing of the implementation of these recommendations could not be undertaken at this time. However, arrangements will be made to carry out this work during the 3<sup>rd</sup> quarter of this financial year, and the results reported to the March 2014 meeting of this Committee.
- 3.6 It has previously been agreed that Members would be notified of all 'Rank 1 Fundamental' recommendations that have not been implemented within the agreed

timescale. There were 6 identified for reporting during the period covered by this report – see Appendix B for details.

#### **4.0 Alternative Options Considered**

4.1 Not applicable.

#### **5.0 Reasons for Recommendations**

5.1 The Public Sector Internal Audit Standards state that the Audit, Risk & Assurance Manager 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.

#### **6.0 Future Work and Conclusions**

6.1 The role of internal audit is to examine, evaluate and report upon the adequacy of internal controls. Where weaknesses have been identified, recommendations have been made to improve the level of control.

#### **7.0 Financial Implications**

7.1 As detailed in this report.

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

#### **8.0 Legal Implications**

8.1 None specific to this report.

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

#### **9.0 Risk & Opportunity Management Implications**

9.1 Delays in response to acceptance/implementation of audit recommendations lead to weaknesses continuing to exist in systems, which has the potential for fraud and error to occur.

#### **10.0 People Impact Assessment (PIA):**

10.1 A requirement of the Accounts & Audit Regulations 2011 is for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The internal audit service is delivered by the in house team. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.

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

## **11.0 Other Corporate Implications**

### Community Safety

11.1 There are no community safety implications arising out of this report.

### Sustainability

11.2 There are no sustainability implications arising out of this report.

### Staffing & Trade Union

11.3 There are no staffing and trade union implications arising out of this report.

## **Background Documents:**

Internal Audit Plan 2013/14  
Public Sector Internal Audit Standards

## APPENDIX A

### List of the final audits completed – April 2013 to August 2013

Audit	Comments	Level of Assurance
Council Tax – Opening Debit	<p><u>Audit Objective</u> The objective of the audit was to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> <li>• Reconciliation of the number of properties in the District as per data held on the Council Tax computer system, to the number of properties as per the Valuation Office List.</li> <li>• The Council Tax Base has been correctly calculated.</li> <li>• Charges have been accurately transferred to the billing system.</li> </ul> <p><u>Audit Opinion</u> A <b>Good</b> level of assurance has been obtained that Council Tax charges have been appropriately set and that properties in Gloucester and the Parish of Quedgeley have been appropriately billed for 2013/14.</p>	Good
NNDR – Opening Debit	<p><u>Audit Objective</u> The objective of the audit was to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> <li>• The NNDR system rateable value for all premises agreed to the Schedule received from the Valuation Office at the appropriate date.</li> <li>• The correct Multipliers had been used in the calculations and reconciliation.</li> </ul> <p><u>Audit Opinion</u> A <b>Good</b> level of assurance has been obtained that the NNDR charges for 2013/14 have been accurately applied and that businesses have been billed appropriately.</p>	Good
Year-End Creditors & Debtors	<p><u>Audit Objective</u> The audit objectives were to ascertain, through testing, that controls are in place and operating effectively towards ensuring that:</p> <ul style="list-style-type: none"> <li>• Auto accruals for 2012/13 are valid, by obtaining evidence to support that the relevant goods or service were provided prior to 1 April 2013.</li> <li>• Manual creditors, debtors, payments in advance and receipts in advance are valid and supported by appropriate evidence.</li> </ul>	Satisfactory

Audit	Comments	Level of Assurance
	<p><u>Audit Opinion</u> The number and classification of recommendations made has resulted in the overall assurance level of <b>Satisfactory</b>. Two Medium Priority (Rank 2) recommendations have been made:-</p> <ul style="list-style-type: none"> <li>• There were considerably less auto accruals for 2012/13 than in the previous financial year, however, the validity of those tested, along with manual entries, indicates that there are still service areas that do not fully understand the year-end process and its importance in respect of the Council's accounts. Therefore, it is recommended that identified service areas are given additional coaching in order to reduce the risk of recurrent error.</li> <li>• It is recommended that service areas where invalid auto accruals or manual entries have been identified are subject to greater scrutiny in order to ensure that further such instances do not exist.</li> </ul>	
Benefits Up-Rating 2013-14	<p><u>Audit Objective</u> The objectives of the audit were to ensure that controls are in place and operating effectively to ensure:-</p> <ul style="list-style-type: none"> <li>• The parameters within the Benefits system agree to the appropriate DWP Circular and the Council Tax Reduction Scheme adopted by the Council.</li> </ul> <p><u>Audit Opinion</u> The results of the testing have provided a <b>Satisfactory</b> level of assurance for the effectiveness of the internal controls operating within this area. A Rank 2 'Medium Priority' recommendation has been made to improve the adequacy of the documentation provided to support the level and results of the checking carried out.</p>	Satisfactory
Housing Renovation Grants	<p><u>Audit Objective</u> The objectives of the audit were to ensure that:-</p> <ul style="list-style-type: none"> <li>• Clear and up to date guidelines are available and followed for the award of each type of grant.</li> <li>• Appropriate documentation exists in respect of each grant application.</li> <li>• Where applicable, agreed contributions have been received from applicants and that such payments are monitored</li> <li>• Officers involved with grant applications have declared any interest as per the Council's policy.</li> </ul>	Good/Satisfactory

Audit	Comments	Level of Assurance
	<p>The scope of the audit covered transactions undertaken within the 2012-13 and 2013–14 financial years</p> <p><u>Audit Opinion</u> The results of the testing have provided a <b>Good</b> level of assurance for the effectiveness of the internal controls operating within the areas of administering Renovation Grants, applicant contributions, the Construction Industry Scheme (CIS), budget reconciliations, and declaration of interests. However, controls in relation to policy and guidance are only considered to be <b>Satisfactory</b> as a result of it being established that PI's are not being used to monitor the progress of in-house managed assistance programs. This matter is non-compliant with current policy for which a Rank 1 'High Priority' recommendation has been made.</p>	
Capital Accounting	<p><u>Audit Objective</u> The objective of the audit was to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> <li>• Five year rolling programme of revaluation for property, plant and equipment held at current cost.</li> <li>• Annual impairment review of tangible and intangible fixed assets.</li> <li>• Review of capital expenditure against the capital programme.</li> <li>• Periodic reconciliation of the fixed asset register to the general ledger.</li> <li>• Periodic physical verification of tangible fixed assets.</li> <li>• Controls in relation to accuracy of depreciation, e.g. reconciliation of movement in depreciation from prior year to movement in fixed asset balance.</li> </ul> <p><u>Audit Opinion</u> A <b>Good</b> level of assurance has been obtained in relation to the controls over the revaluation of assets and the impairment review. A <b>Satisfactory</b> level of assurance has been obtained in relation to the controls over the verification of fixed assets and the reconciliation of the fixed asset register. A <b>Limited</b> level of assurance has been obtained in relation to the controls relating to the reporting to GLT and Members of capital expenditure against budget, for which an appropriate High Priority (Rank 1) recommendation has been made.</p> <p><b>NB</b> It should be noted that, due to the fact that the majority of work on capital accounting is undertaken as part of the Final Accounts process, the audit testing and results relate to the 2012/13 financial year. The Limited</p>	Good/Satisfactory/ Limited



Audit	Comments	Level of Assurance
	level of assurance relating to the reporting of capital expenditure has already been identified on the Financial Services Improvement Plan.	
Utilities Contract	<p><u>Audit Objective</u> The objectives of the audit were to ensure that controls are in place and operating effectively towards the mitigation of associated risks: -</p> <ul style="list-style-type: none"> <li>• There is a valid, signed contract in place covering the provision of Gas &amp; Electricity at the council, is included on the contract register and ensure that the Council is achieving value for money from its contract.</li> <li>• Contract management arrangements are fit for purpose and the contractor performance is managed and monitored against agreed key performance indicators.</li> <li>• All payments made to the contractor have been appropriately authorised by the Contract Manager &amp; based on accurate meter readings.</li> </ul> <p>The audit scope involved a review of the current contract in place for the provision of Gas &amp; Electricity to the Council and to confirm whether the contract is achieving value for money, is valid, and that the management of the contracts is being effectively performed.</p> <p><u>Audit Opinion</u> The Utilities' Contract audit has focussed upon the key areas of the contract itself, the current adherence to the contract criteria and the standard of contract management.</p> <p>The findings from the testing have resulted in the control environment operating over the Utilities' contract being rated as <b>Limited</b>.</p> <p>One High, four Medium and four Low Priority recommendations have been made to improve the control environment and processes. The findings relating to the High and Medium Priority recommendations are as follows:-</p> <p><u>High Priority (Rank 1) Recommendation</u></p> <ul style="list-style-type: none"> <li>• Ensure all reports agreed to be provided in the contract, such as surcharge reports &amp; bill validation reports, are received every quarter. There needs to be a considered analysis and</li> </ul>	Limited

Audit	Comments	Level of Assurance
	<p>regular review of these reports to enable effective contract management.</p> <p><u>Medium Risk (Rank 2) Recommendations</u></p> <ul style="list-style-type: none"> <li>• Sufficient &amp; appropriate checks to be performed on the meter readings &amp; energy pricing prior to authorisation of the invoices. Use should be made of the bill validation reports from the supplier.</li> <li>• Key Performance Indicators should be used to help monitor the performance of the contract.</li> <li>• The contract manager should receive training to assist him with effective contract management.</li> <li>• Checks need to be performed to verify the trading gain and the year-end financial position. The Council should receive the annual audit report every year to provide further assurance.</li> </ul>	
<p>Response Repairs Contract</p>	<p><u>Audit Objective</u> The objectives of the audit were to ensure that controls are in place and operating effectively towards the mitigation of associated risks: -</p> <ul style="list-style-type: none"> <li>• There is a valid contract in place covering the provision of repairs &amp; maintenance, that the contractor is included on the contract register and that the Council is achieving value for money.</li> <li>• Contract management arrangements are fit for purpose and the contractor performance is managed and monitored against agreed key performance indicators.</li> <li>• The Council is using only suppliers from an approved list for jobs that do not go to the contracted supplier.</li> <li>• The contract management skills of the contract manager are sufficient with appropriate support and assistance from procurement &amp; licensed procurement practitioners.</li> </ul> <p>The scope of the audit covered the period April '12 to June '13.</p> <p><u>Audit Opinion</u> The Repairs &amp; Maintenance Contract audit has focussed upon the key areas of the value for money</p>	<p>Unsatisfactory</p>

Audit	Comments	Level of Assurance
	<p>being provided by the contract and the contract management by staff. Discussions held with council officers, coupled with detailed testing as applicable, has identified that the control environment surrounding the Repairs &amp; Maintenance Contract is <b>Unsatisfactory</b>.</p> <p>Five High, two Medium, and three Low Priority recommendations have been made to improve the control environment and processes. The findings relating to the High and Medium Priority recommendations are as follows:-</p> <p><u>High Priority (Rank 1) Recommendations</u></p> <ul style="list-style-type: none"> <li>• The current contract arrangements need to be fully reviewed to determine whether this is the most suitable method of procurement for this type of work.</li> <li>• If not using the current contractor, there needs to be demonstrable documentation kept confirming that value for money has been achieved with each job completed, hence a quotation from the current contractor should always be obtained where appropriate.</li> <li>• In line with Contract Standing Orders, for all works less than £5k, ensure there is a written quotation obtained where practicable.</li> <li>• Ensure all orders are all raised prior to the purchase invoice, in line with the Council Constitution.</li> <li>• In line with the MTC Specification September '10 contract there needs to be regular (monthly) review meetings with the Contractor, quarterly Key Performance Indicators received and an Annual Performance Review.</li> </ul> <p><u>Medium Risk (Rank 2) Recommendations</u></p> <ul style="list-style-type: none"> <li>• All checks on the quality of the work being performed by both the current contractor and other suppliers need to be fully documented and appropriately signed off.</li> <li>• Consideration should be given to provide training for the contract manager to fully embed best practice in the management of contracts.</li> </ul>	

The report includes an 'opinion' on the adequacy of controls in the area that has been audited, classified in accordance with the following definitions:-

<b>CONTROL LEVEL</b>	<b>DEFINITION</b>
<b>Good</b>	Robust framework of controls – provides substantial assurance. A few minor recommendations (if any) i.e. Rank 3 (Low Priority).
<b>Satisfactory</b>	Sufficient framework of controls – provides satisfactory level of assurance – minimal risk. A few areas identified where changes would be beneficial. Recommendations mainly Rank 3 (Low Priority), but one of two in Rank 2 (Medium Priority).
<b>Limited</b>	Some lapses in framework of controls – provides limited level of assurance. A number of areas identified for improvement. Mainly Rank 2 (Medium Priority) recommendations, but one or two Rank 1 (High Priority) recommendations.
<b>Unsatisfactory</b>	Significant breakdown in framework of controls – provides an unsatisfactory level of assurance. Unacceptable risks identified – fundamental changes required. A number of Rank 1 (High Priority) recommendations.

Ranking of Recommendations:-

<b>RANK</b>		<b>DEFINITION</b>	<b>IMPLEMENTATION</b>
1	High Priority	Necessary due to statutory obligation, legal requirement, Council policy or major risk of loss or damage to Council assets, information or reputation, or, compliance with External Audit key control.	Immediate action required – should be pursued immediately.
2	Medium Priority	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist.	Should be pursued in the short term, ideally within the next 6 months.
3	Low Priority	Current procedure is not best practice and could lead to minor in-efficiencies.	Action should be taken over the next 6 to 12 months.

**APPENDIX B****Details of Internal Audit 'Rank 1' and 'Rank 2' recommendations not implemented by the agreed date**

<b>Date</b>	<b>Audit</b>	<b>Recommendation</b>	<b>Rank</b>	<b>Agreed Action</b>	<b>Resp. Officer</b>	<b>Agreed Imp. Date</b>	<b>Management Comment</b>
Sept 12	Information Governance	<p>The Council should consider development of website FOI information to ensure the public are provided with accurate data on:</p> <ul style="list-style-type: none"><li>- The current FOI policy.</li><li>- An FOI request for information form.</li><li>- The FOI process following FOI request submission.</li><li>- The FOI complaints approach.</li><li>- Other access routes.</li><li>- The EIR approach.</li></ul>	2	Accepted	Business Improvement Manager	30 November 2012	Awaiting completion of the rebuild of the Council's website – planned go live date 1 <sup>st</sup> October 2013.
Sept 12	Information Governance	<p>Ownership of the publication scheme should be allocated within the Council.</p> <p>The publication scheme contents should be updated to ensure that links are current and data provided is up to</p>	2	Accepted. Review of the website to be completed, to include review and update of the Council publication scheme.	Business Improvement Officer	31 <sup>st</sup> March 2013	Awaiting completion of the rebuild of the Council's website – planned go live date 1 <sup>st</sup> October 2013.

		date (i.e. is the most recent version). Review and update should then occur on a regular basis.					
Sept 12	Information Governance	DPA roles & responsibilities should be defined between the Monitoring Officer and the Business Improvement team.	1	Accepted. Liaison between the Monitoring Officer & Business Improvement team to occur and confirm DPA roles & responsibilities to occur in the short term. Internal review of services (looking at the appropriate of where systems/processes sit) is being led by the Leadership Team. Actions from this may impact this recommendation.	Business Improvement Manager  Monitoring Officer	31 December 2012	Following the audit report, discussions between the Monitoring Officer and the Business Improvement Team provided clarification on a practical level about what the role of each was and where responsibilities for DPA fell. However, since the Audit was carried out, there has been a realignment of Management Resource which now unifies responsibility for DPA in the post of Head of Legal and Policy Development and responsibility will no longer be shared.
Sept 12	Information Governance	The Council should consider drafting an information governance	2	Accepted. Information governance policy	Monitoring Officer	31 March 2013	This policy would represent a drawing together of a number

		<p>policy, to include:</p> <ul style="list-style-type: none"> <li>- Roles &amp; responsibilities (including the SIRO, Information Asset Owners and others)</li> <li>- Criteria for information security, compliance, quality, sharing, and records management</li> <li>- Identification of and links to other relevant policies (e.g. FOI, DPA, BT&amp;T policies, etc)</li> <li>- Policy breach approach.</li> </ul>		<p>to be drafted using best practice guidance/examples and in liaison with other internal relevant services (e.g. Business Improvement and Business Transformation &amp; Technology).</p>			<p>of existing Council policies (e.g. around information security) and clarification of roles and responsibilities. Due to resource levels, principally within the Legal Service Team, it has not yet been possible to draft this policy for Members' consideration. However, it remains in the Monitoring Officer's workplan and will be addressed during this financial year.</p>
Sept 12	Markets	<p>Each of the gross costs being used to calculate the market stallholder charges are to be revisited with actions being taken to ensure that the costs incurred by the City Council are being fully accounted for.</p>	1	<p>Accepted - The service charge costs will be reviewed in line with the budget setting process for application in the 2013/14 Financial Year</p>	Markets Manager	January 2013	<p>The service charge costs are to be reviewed. If there are any discrepancies they will need to be added to refund/write off/amendment of stall holder charges ready for implementation on September 1<sup>st</sup> 2013</p>

Sept 12	Markets	Actions are to be taken to ensure that the ongoing issue of market stallholders being charged an incorrect monthly proportion of their annual charge is addressed and rectified.	1	Accepted - All stallholder invoices to be reviewed. A decision will have to be made upon how far to take back any under or over charges, with actions being taken as required.	Markets Manager	November 2012	All under/over charges have been calculated. The Director Services & Neighbourhoods has agreed that past under charges will be written off, overcharges will be paid and all traders will be charged the correct amount from September 2013.
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