

# Gloucester City Council

Meeting:	Audit and Governance Committee	Date:	20 <sup>th</sup> June 2016
Subject:	Head of Audit Risk Assurance Annual Report 2015/16		
Report Of:	Head of Audit Risk Assurance (Chief Internal Auditor)		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
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Appendices:	1: List of 2015/16 audits that resulted in a Limited/Unsatisfactory level of assurance		
	2: Local Government Transparency Code 2015 – fraud disclosure		

## FOR GENERAL RELEASE

### 1.0 Purpose of Report

- 1.1 To provide Members with a brief overview of Internal Audit work, compliance with Financial Regulations, Contract Standing Orders, and general probity issues for the financial year ending 31<sup>st</sup> March 2016, and, to provide an opinion on the overall adequacy and effectiveness of the organisation's control environment, comprising risk management, control and governance.

### 2.0 Recommendations

- 2.1 Audit and Governance Committee is asked to **RESOLVE** to endorse the assurance from the Head of Audit Risk Assurance that a satisfactory level of assurance can be given that there is a generally sound system of internal control in place at the Council (designed to meet the Council's objectives).

### 3.0 Background and Key Issues

- 3.1 During 2015/2016, Internal Audit work was carried out in accordance with the Public Sector Internal Audit Standards 2013 (PSIAS) and the CIPFA Local Government Application Note for the UK PSIAS.
- 3.2 The PSIAS define internal audit as 'an independent objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.

- 3.3 To achieve full effectiveness, the scope of the internal audit function should provide an unrestricted range of coverage of the organisation's operations and the internal audit function should have sufficient authority to access such records, assets and personnel as are necessary for the proper fulfilment of responsibilities. These access rights are specified in the Internal Audit Charter and Code of Ethics, which has been approved by Members and is referred to in the Council's Constitution.
- 3.4 The PSIAS requires the Chief Internal Auditor to 'provide a written report to those charged with governance timed to support the Annual Governance Statement'. The content of the report is prescribed by the PSIAS which specifically requires Internal Audit to:
- Provide an opinion on the overall adequacy and effectiveness of the organisation's internal control environment and disclose any qualifications to that opinion, together with the reasons for the qualification;
  - Compare the actual work undertaken with the planned work, and present a summary of the audit activity undertaken from which the opinion was derived, drawing attention to any issues of particular relevance;
  - Summarise the performance of the Internal Audit function against its performance measures and targets; and
  - Comment on compliance with the PSIAS.

A separate report containing the Annual Governance Statement is included on the agenda for the Audit and Governance Committee on 20<sup>th</sup> June 2016.

#### **4.0 Chief Internal Auditor's Opinion**

- 4.1 I am satisfied that, based on the internal audit activity undertaken during 2015/2016 and management's actions taken in response to that activity, enhanced by the work of other external review agencies, sufficient evidence is available to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of Gloucester City Council's overall internal control environment. Therefore, in my opinion, for the 12 months ended 31<sup>st</sup> March 2016, Gloucester City Council has a satisfactory overall control environment, to enable the achievement of the Council's outcomes and objectives.
- 4.2 In providing my opinion it should be noted that assurance can never be absolute. The most that Internal Audit can provide is a reasonable assurance that there are no major weaknesses in risk management arrangements, control processes and governance. The matters raised in this report, and our Internal Audit Plan Monitoring Reports for 2015/16 to Audit and Governance Committee, are only those that were identified during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that may exist or represent all of the improvements required.
- 4.3 The outcomes of the opinions provided during 2015/2016 are summarised below:

<b>Opinion</b>	<b>Number</b>	<b>%</b>
Good	16	38
Satisfactory	19	45
Limited	6	14
Unsatisfactory	1	3
<b>TOTAL</b>	42	100

Please note that on a number of audits, a 'split' opinion has been provided. This approach helps to identify to management the specific areas of control that are/are not operating as intended, rather than provide an overall conclusion on all the areas covered by the audit. Where a 'split' opinion has been provided on an audit, both opinions have been included in the above table. Details of the audits that received a Limited or Unsatisfactory level of assurance are provided in **Appendix 1**.

Whilst **17%** of the opinions provided have received a limited or unsatisfactory opinion, overall, it is pleasing to report that the Council is showing that **83%** of the activities reviewed have received a Good (**38%**) or Satisfactory (**45%**) opinion on control.

- 4.4 The PSIAS state that, within the Annual Report, the Council's Chief Internal Auditor should identify any issues that are relevant to the preparation of the Annual Governance Statement. From the risk-based Internal Audit assignment work undertaken during 2015/16, there are no issues of which I am aware that I regard as sufficiently significant to be considered in relation to the preparation of the Council's Annual Governance Statement. Whilst the Internal Audit work undertaken did result in one audit with an Unsatisfactory level of assurance (Choice Based Lettings), in my view, the weaknesses identified are not deemed to be significant governance issues.

## **5.0 Summary of Internal Activity undertaken during 2015/16**

### **5.1 Annual Plan**

- 5.1.1 The Internal Audit Plan for 2015/16 was agreed by the Audit and Governance Committee at its meeting on 16<sup>th</sup> March 2015.

- 5.1.2 Audits have been carried out on the following areas during the year:

Financial Services; Revenues and Benefits (Client and Contractor); IT (Client and Contractor); Letting and management of Contracts; Disabled Facility Grants; Members Allowances; Community Support Grants; Licences; Choice Based Lettings; Commercial Rents; Information Governance; Rugby World Cup; Garden Waste; Performance Management; and Marketing Gloucester Ltd.

### **5.2 Internal Control Assurance**

- 5.2.1 Internal Audit undertakes a Risk Based Internal Audit approach in both development of the Council's Annual Internal Audit Plan and delivery of the Plan. The risk based approach considers and includes risk based, system and probity audit methodology.

- 5.2.2 System audit methodology involves the identification, documentation, evaluation and testing of controls. Recommendations are made to management where weaknesses are identified. Where appropriate, use is made of CIPFA's System Based Auditing Control matrices. These matrices act as an aid to identifying the control objectives, expected controls and compliance tests for each main system.
- 5.2.3 Probity audit methodology involves testing (by means of sampling) transactions to ensure that the 'rules' of the organisation have been adhered to, that material fraud and significant levels of error are not in evidence, and that the organisation is acting within its statutory powers.
- 5.2.4 The audit work on the main financial systems (e.g. main accounting system, creditors, benefits, payroll, council tax and business rates) involved the testing of key controls as detailed within the Joint Working Protocol (JWP) between Internal Audit and External Audit. This JWP defined a number of key systems and key controls which the External Auditor would expect Internal Audit to cover on an annual basis to support the external audit work on the financial statements. The required scope for these encompassed both assessment of the design and implementation of controls (with walkthroughs of the system where applicable - testing of a single case to verify the documentation of systems and controls) and testing of the effective operation of the controls.
- 5.2.5 Close co-operation between audited bodies' internal and external auditors helps to ensure that audit resources are used efficiently and to maximum effect. The aim of the JWP is for External Audit to place a high degree of reliance on the work of the Internal Audit team. This will help inform their judgement on the Council's financial control environment. It is also a factor taken into account when calculating the External Audit fee.
- 5.2.6 The following comments have been received from the Council's External Auditor KPMG within the Council's Audit Progress letter dated 28<sup>th</sup> April 2016:
- 'As our audit work to date has gone smoothly and we have not identified any significant issues, we no longer consider it necessary to report to the Audit Committee at this stage.'
- KPMG has confirmed that findings (e.g. on internal audit review), if relevant, will be reported through the ISA260 report, which is due to be presented to Audit and Governance Committee in September 2016.
- 5.2.7 Follow-up audits are planned to be carried out to ensure that agreed recommendations have been implemented in relation to where an Unsatisfactory or Limited assurance opinion (including where Rank 1 recommendations have been raised). Members have requested to be informed of any Rank 1 'High Priority' recommendations that have not been implemented by the agreed date and these have been reported, where appropriate, via the Internal Audit Plan Monitoring Reports for 2015/16.

### **5.3 Other Issues**

#### **5.3.1 Key Performance Indicators for Internal Audit**

The PSIAS state that performance monitoring should include performance targets.

- a) One of the performance measures in place which is regularly reported to Members as part of the Internal Audit Plan Monitoring Report is the percentage completion of the Annual Plan.

The results for 2015/16, and the preceding two years, are shown below:

Indicator	Target	Performance 2013/14	Performance 2014/15	Performance 2015/16
% of Audit Plan Completed	Min 90%	88%	90% (Revised Plan)	90.6%

- b) Customer Feedback

At the completion of an audit, the auditee is asked to complete a questionnaire giving their views (on a scale of 1-4: 1 = Poor; 2 = Fair; 3 = Good; and 4 = Very Good) on the audit and its effectiveness. This is in accordance with PSIAS which states that performance monitoring should include stakeholder feedback. This feedback is important to identify any lessons learned and inform any potential changes required to the internal audit process and/or approach.

4 out of a possible 29 feedback forms were completed and returned within 2015/16. The mean average feedback score obtained was 3.6 (Good to Very Good).

Due to the low response rate and future planned changes to the audit approach, a revised method of obtaining customer feedback will be introduced during 2016/17. The target will be to simplify the feedback process, which together with support from Senior Management Team, should positively impact on the levels of feedback received.

- 5.3.2 The work of each member of staff was overseen during the year by the Chief Internal Auditor to ensure conformance with the Standards. All reports and working papers are reviewed to ensure the correct approach has been adopted, no matters have been overlooked, and any conclusions can be supported.
- 5.3.3 In order to help ensure audit staff keep up to date with current issues and techniques, work reviews and annual staff development reviews are carried out to identify any training and personal development needs. In addition, all appropriate staff are encouraged to register with a relevant Continuing Professional Development (CPD) scheme.
- 5.3.4 In relation to staffing matters, in March 2015 the Council approved the proposal to enter into a new internal audit shared service arrangement with Stroud District Council and Gloucestershire County Council. The new shared service commenced on 1<sup>st</sup> June 2015. Within 2015/16 the City Council Audit and Assurance staff transferred, under TUPE arrangements, to the County Council. Three of the shared service team remain based at the City Council offices to ensure a constant and accessible audit presence.

- 5.3.5 The revised Local Government Transparency Code 2015 came into effect on 1<sup>st</sup> April 2015 and requires Councils to publish information on defined areas, including fraud and irregularity. **Appendix 2** details the Code's fraud and irregularity criteria and discloses the relevant information for Gloucester City Council 2015/16.

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

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

## **7.0 Alternative Options Considered**

- 7.1 Consideration could be given to not producing an Annual Report. However this would not be in accordance with PSIAS requirements.

## **8.0 Reasons for Recommendations**

- 8.1 In accordance with the PSIAS and the Local Government Application Note for the UK PSIAS, the Council's Chief Internal Auditor is required to produce a formal annual report and opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- 8.2 Consideration of the Chief Internal Auditors Annual Report is also a requirement of the Audit and Governance Committee terms of reference (part of the Council Constitution).

## **9.0 Future Work and Conclusions**

- 9.1 The Council's Internal Audit Plan for 2016/17 was approved by the Audit and Governance Committee on 14<sup>th</sup> March 2016. Achievement against the Plan will be regularly reported to the Audit and Governance Committee via the Internal Audit Plan Quarterly Monitoring Reports for 2016/17.

## **10.0 Financial Implications**

- 10.1 There are no financial implications arising out of this report.

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

## **11.0 Legal Implications**

- 11.1 The Accounts and Audit Regulations 2015 (England and Wales) require the Council to ensure that it has 'a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk'. The Regulations also include the statutory obligation on the Council to undertake an 'effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account PSIAS or guidance'.
- 11.2 One of the key requirements of the PSIAS is that the Chief Internal Auditor should provide an annual report to those charged with governance, timed to support the

Annual Governance Statement. The content of the report is prescribed by the PSIAS.

- 11.3 The Head of Audit Risk Assurance Annual Report 2015/16 has been drafted to meet the above PSIAS requirements and support the Council.

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

## **12.0 Risk & Opportunity Management Implications**

- 12.1 The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records, and, governance arrangements. The organisation's response to internal audit activity should lead to the strengthening of the control environment and therefore contribute to the achievement of the organisations objectives.

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

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

## **14.0 Other Corporate Implications**

### Community Safety

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

### Sustainability

- 14.2 There are no sustainability implications arising out of this report.

### Staffing & Trade Union

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

**Background Documents:** Accounts and Audit Regulations 2015  
Public Sector Internal Audit Standards (PSIAS) 2013  
CIPFA Local Government Application Note for the UK PSIAS  
Local Government Transparency Code 2015  
Internal Audit Charter and Code of Ethics

## **Appendix 1**

### **List of 2015/16 audits that resulted in a Limited/Unsatisfactory level of assurance**

The following audits have been reported to Audit and Governance Committee through the Internal Audit Plan Monitoring Reports for 2015/16. The audit recommendations raised within the below audits have been positively agreed by management and implementation target dates confirmed.

<b>Audit</b>	<b>Opinion</b>	<b>Date presented to Audit and Governance Committee</b>
Choice Based Lettings	Unsatisfactory	21 <sup>st</sup> September 2015
Community Support Grants	Limited	21 <sup>st</sup> September 2015
Licences	Limited	21 <sup>st</sup> September 2015
Commercial Rents	Limited	18 <sup>th</sup> January 2016
Council Tax	Limited	18 <sup>th</sup> January 2016
Information Governance	Limited	14 <sup>th</sup> March 2016
Rugby World Cup	Limited	20 <sup>th</sup> June 2016



**Local Government Transparency Code 2015 – fraud disclosure****Introduction:**

This Code has been issued 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.

**Detecting and preventing fraud (taken from Annex B of the Code):**

Tackling fraud is an integral part of ensuring that tax-payers money is used to protect resources for frontline services. The cost of fraud to local government is estimated at £2.1 billion a year. This is money that can be better used to support the delivery of front line services and make savings for local tax payers.

A culture of transparency should strengthen counter-fraud controls. The Code makes it clear that fraud can thrive where decisions are not open to scrutiny and details of spending, contracts and service provision are hidden from view. Greater transparency, and the provisions in this Code, can help combat fraud.

Local authorities must annually publish the following information about their counter fraud work, as detailed for the Council in the table below:

**Council wide fraud and irregularity activity relating to 2015/16 including Internal Audit activity – mandatory Code requirements only:**

Question	Gloucester City Council Response
Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.	0 within 2015/16
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud.	The Council has access to 2.45 FTE professionally accredited counter fraud specialists within the audit shared service team. This fraud resource was not utilised by the City Council within 2015/16 due to 0 fraud cases being reported within year.
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists.	
Total amount spent by the authority on the investigation and prosecution of fraud.	£0 within 2015/16
Total number of fraud cases investigated.	0 within 2015/16