

INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016/2017



Gloucester
City Council



(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 (PSIAS) as representing “proper internal audit practices”. The standards define the way in which the Internal Audit Service should be established and undertakes 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 2016/2017 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- the outcomes of the Internal Audit activity during October 2016; and
- special investigations/counter fraud activity.

(4) Progress against the 2016/2017 Internal Audit Plan, including the assurance opinions on risk and control

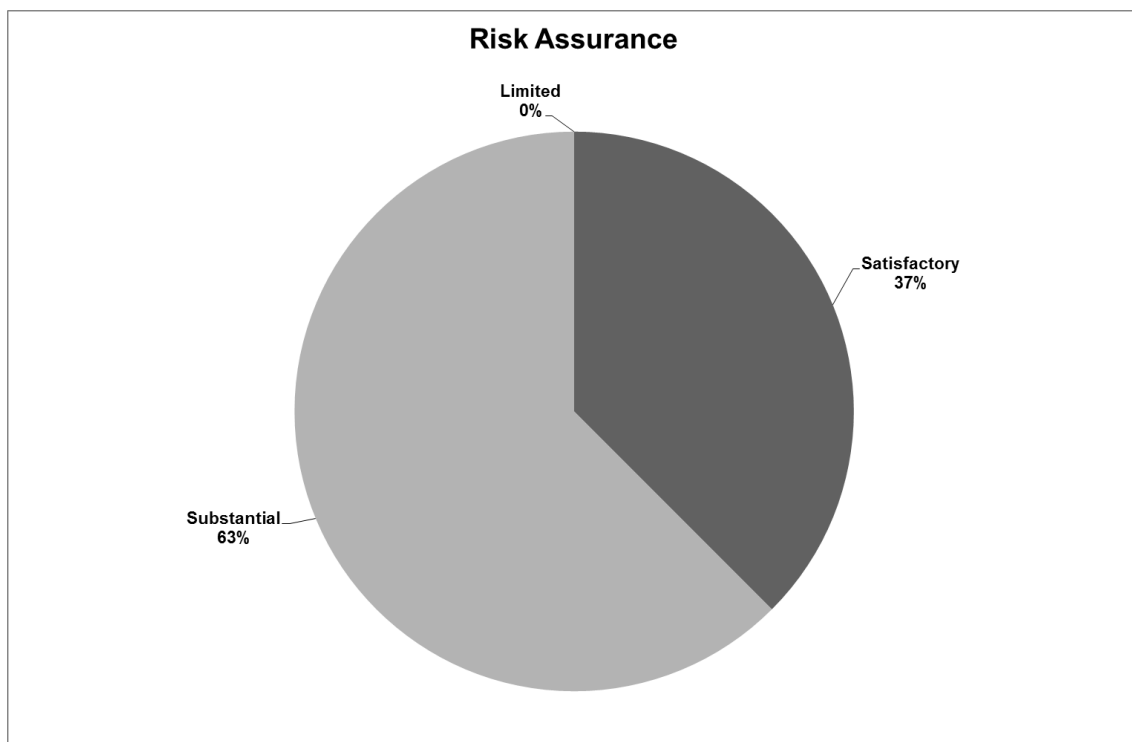
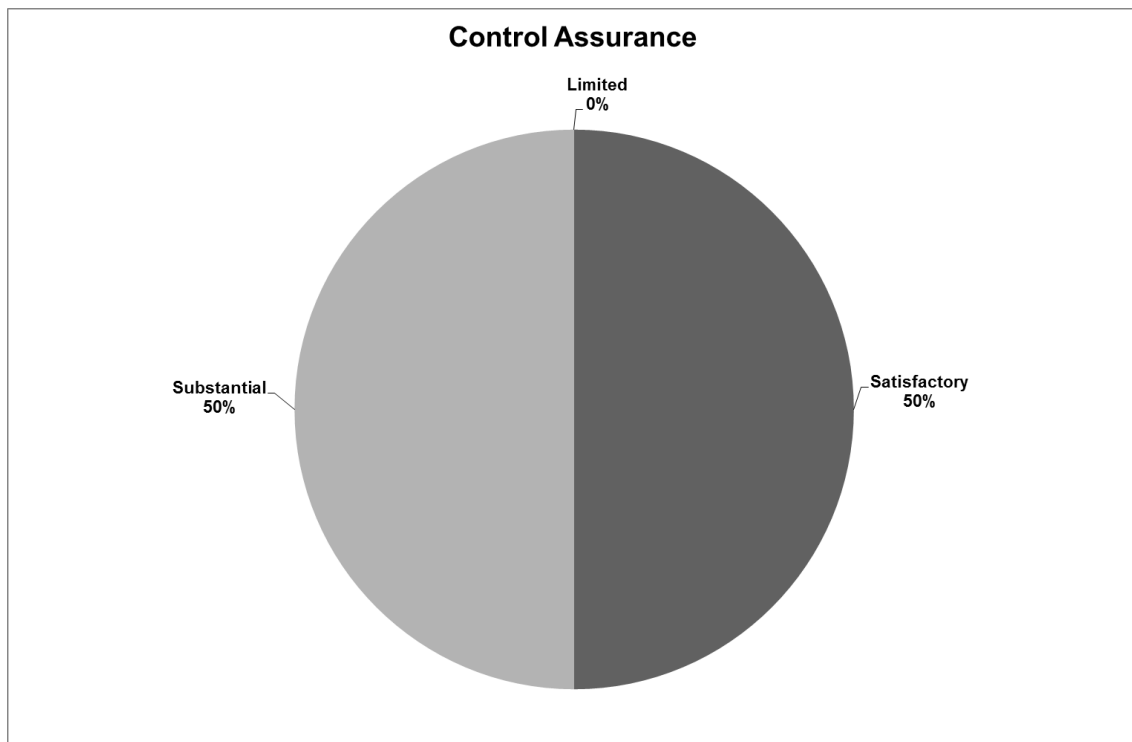
The schedule provided at **Appendix 1** provides the summary of 2016/17 audits which have not previously been reported to the Audit and Governance Committee.

The schedule provided at **Appendix 2** contains a list of all of the 2016/17 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 below.

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

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

The pie charts provided below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the audit activity undertaken during the period April 2016 to October 2016.



(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 to 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 June 2016 to October 2016, it is pleasing to report that no limited assurance opinions on control have been provided on completed audits from the 2016/17 Internal Audit Plan.

(4d) Satisfactory Control Assurance Opinions

Where audit activities record that an 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 October 2016 Internal Audit made, in total, **10** recommendations to improve the control environment, **2** of these being high priority recommendations i.e. **8** 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 June 2016 to October 2016, it is pleasing to report that no limited assurance opinions on risk have been provided on completed audits from the 2016/17 Internal Audit Plan.

In the cases where a limited assurance opinion has been given, the Shared Service Senior Risk Management Advisor is provided with the Internal Audit reports, to enable the prioritisation of risk management support.

Completed Internal Audit Activity during October 2016**Summary of Satisfactory Assurance Opinions on Control****Service Area: Planning****Audit Activity: Section 106 Agreements****Background**

Section 106 of the Town and Country Planning Act 1990 allows a local planning authority to enter into a legally-binding agreement or planning obligation with a landowner in association with the granting of planning permission. Section 106 Agreements are a way of delivering or addressing matters that are necessary to make a development acceptable in planning terms.

The Council intends to adopt a Community Infrastructure Levy (CIL) following the work undertaken on the Joint Core Strategy with the partner local planning authorities Cheltenham Borough Council and Tewkesbury Borough Council.

The Community Infrastructure Levy was introduced by the Planning Act 2008 and once adopted by a local planning authority allows funds to be raised from developers that can be used to support public infrastructure works in the local area. It can replace considerations that would previously have required a Section 106 Agreement, although once CIL is adopted, Agreements will continue to be used for affordable housing provision and site-specific mitigation measures.

Scope

This audit reviewed the systems and evidence supporting S106 Agreements in order to provide assurance that:

- Control improvements identified in the 2014/15 Internal Audit review have been addressed;
- S106 Agreements secure the maximum benefit for schemes through effective negotiation, arbitration and governance arrangements;
- Indexation is applied to commuted sums correctly;
- Year end reviews confirm that all commuted sums are accounted for correctly; and
- The impact of introducing the Community Infrastructure Levy on current S106 Agreement arrangements has been planned and is managed.

Risk Assurance – Satisfactory**Control Assurance – Satisfactory**

Key findings

The previous audit recommendation to introduce a S106 Monitoring Protocol has been completed.

Arrangements to develop and negotiate S106 Agreements are in line with accepted practices, with the Council intent on minimising delays in the process. Minor lapses in a number of areas were observed, although all have been assessed as low impact in financial, legal or reputational terms. These can largely be addressed through the provision of improved guidance and templates to staff, specialist service consultees and developers.

Provision for indexation is included where appropriate in S106 Agreements, although the calculation of indexation was imprecise in most cases when compared to the clauses of the Agreement. However, the financial impact to the Council or developer was negligible in the cases reviewed i.e. under £550.

Year end reviews to compare the Planning and Accountancy systems are a planned enhancement to augment existing controls. A conclusion is not currently possible as the year end review comprising 2015/16 and all historical transactions, has not yet been completed.

The introduction of a Community Infrastructure Levy (CIL) will replace the need for S106 Agreements in certain circumstances. The Council is working with two strategic partners to deliver the Joint Core Strategy and CIL, and although there is limited documentation on the project's governance, records of meetings show a good degree of attention on the development of CIL arrangements. Decisions have yet to be made on how CIL will function once implemented and therefore although progress appears to be good, it is too early to draw conclusions on the robustness of these arrangements.

Conclusions

The findings of this audit show that overall the arrangements in place within the Planning Department are satisfactory.

Section 106 Agreements are often complex legal instruments, involving a number of different service areas to assess and complete and all within the target timescales set by national government. Arrangements in place are largely as expected, as set out by national policy and law. However, opportunities exist to enhance the existing control environment and recommendations have been made accordingly.

Management Actions

Two High Priority actions were made and agreed with Management in the following areas:

- Delegated Authority has now been granted to the Development Control Manager for S106 Agreements and other Planning matters, following the revision to the May 2016 Constitution and Scheme of Delegated Authority; and
- The development of internal guidance setting out roles, responsibilities and procedures in negotiating and agreeing a Section 106 Agreement has been agreed.

Six medium priority recommendations have also been made, with a positive response to each agreed by Management.

With regard to S106 Agreements these actions relate to the development of public guidance and templates; ensuring completeness of consultation responses; agreeing variations to current Agreements; and enhanced sharing of records for the calculation of indexation.

Agreed actions relating to the development of the CIL encompass liaising with Partners to enhance joint project documentation, and improvements to information available to the public.

Summary of Substantial Assurance Opinions on Control

Service Area: Finance and Business Improvement

Audit Activity: Procurement Cards

Background

Procurement card programs are primarily used for lower-priced purchases and are considered to be an excellent tool for making payments to suppliers since it streamlines the expensive process of issuing purchase orders, matching received documents to supplier invoices and making payments to individual creditors.

Whilst these cards can provide flexibility when purchasing low value items, their use can result in a reduction with transparency of expenditure.

Under this system the bank managing the procurement card program will bill the payer on a monthly basis for all charges made during the month while remitting funds to the payee within a few days of each charge.

Scope

The main objectives of the audit were to:-

- Review the processes in place for approving and allocating new procurement cards;
- Evaluate the reconciliation process to ensure that expenditure remains within agreed thresholds and that transactions are verified for appropriateness;
- Establish that accounts are promptly paid and correctly allocated within the Financial Management System; and
- Establish whether procurement card expenditure is published in accordance with the local government transparency code.

Activities during the 2016-17 financial year were reviewed to ensure that sufficient data was available from which to form an accurate audit opinion.

Risk Assurance – Substantial**Control Assurance – Substantial****Key findings**

Gloucester City Council's procurement cards are provided by Barclays Bank PLC, who are the Council's current bankers, with the accounts being handled by Barclaycard Commercial.

There are currently 14 procurement cards in use with a combined limit of £47,500 for which usage is intended for low value purchases, in cases of emergency, or in instances where a purchase order cannot be raised.

Two members of Financial Services have been granted administration rights to the online portal with their access being controlled through web based controls requiring a user ID, password, passcode and company reference number.

The audit reviewed the documented processes relating to card circulation records, approval of new procurement cards and cancellation of existing cards, reconciliation and verification of transactions, payment of account, allocation within the Financial Management System, and compliance with the local government transparency code from which a substantial level of assurance was obtained that effective controls are in place.

Conclusions

The risk awareness and control environment reviewed within the 2016-17 Procurement Cards Audit is considered to be substantial.

Management Actions

None required.

Summary of Consulting Activity and/or support provided where no Opinions are provided

Service Area: Democratic Services**Audit Activity: Election Accounts****Background**

In 2016/17 two elections have been undertaken by the area's Returning Officer (RO):

Date	Election	Maximum Recoverable Amount
05 May 2016	Police and Crime Commissioner (in conjunction with the election of local councillors)	£ 91,431
23 June 2016	EU Referendum	£144,870

Costs for these elections are incurred by the Council on the Returning Officer's behalf and a sum up to the Maximum Recoverable Amount (MRA) may be recovered from the Electoral Commission.

Scope

To provide assurance that in all significant respects, the claims for the Police and Crime Commissioner election and the EU Referendum to be signed off by the Returning Officer and submitted to the Electoral Claims Unit, are complete and accurate.

Risk Assurance – N/A (Certification)**Control Assurance – N/A (Certification)****Key findings**

The claim for the Police and Crime Commissioner election provided to Internal Audit was below the MRA.

The claim for the EU Referendum provided to Internal Audit exceeded the MRA. Consequently all evidence to support the claim will be submitted to the Electoral Claims Unit who will assess whether it can be paid in full.

Following the review of the draft Accounts for each claim Internal Audit identified various adjustments, which have been agreed with the Service area.

Conclusions

Once the adjustments identified during the audit are completed, Internal Audit considers that the claims may be submitted to the Electoral Claims Unit and will represent in all significant respects a fair and accurate reflection of the costs incurred in making arrangements for the recent elections.

Management Actions

Management have agreed to implement the two medium priority recommendations to further enhance existing arrangements for future elections.

Summary of Special Investigations/Counter Fraud Activities

Current Status

During October 2016 there have been no fraud/irregularity referrals to Internal Audit.

Fraud Risk Assessment / Risk Register

A fraud risk register has been produced, the outcome of which will inform future Internal Audit activity.

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The data collections were collected throughout October 2016 and reports will start to be received with matches from January 2017. 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.

The Committee can also take assurance that all special investigations/counter fraud activities are reported to the Managing Director, Monitoring Officer and Head of Finance as required, via the Corporate Governance Board.

Anti-Fraud and Corruption Policy Statement and Strategy

Effective governance requires the Council to promote values for the authority and demonstrate the values of good governance through upholding high standards of conduct and behaviour. To enable this, the Fighting Fraud and Corruption Locally 2016–2019 Strategy has been developed by local authorities and counter fraud experts and supported by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre. It is the definitive guide for council leaders, chief executives, finance directors and all those with governance responsibilities. The strategy includes practical steps for fighting fraud, shares best practice and brings clarity to the changing anti-fraud and corruption landscape.

The Chief Internal Auditor is currently undertaking a self-assessment against the new guidance to measure the Council's counter fraud and corruption culture and response and propose enhancements as required. Further updates and outcomes will be provided to the Committee during 2016/2017, whether by committee information sheets, or reports as appropriate.