

Annual report on Internal Audit Activity

2016-2017



(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 (PSIAS) or guidance'.

The standards define the way in which the Internal Audit Service should be established and undertakes its functions. The Council's 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 standards also require that an independent and objective opinion is given on the overall adequacy and effectiveness of the control environment, comprising risk management, control and governance, from the work undertaken by the Internal Audit Service.

The Shared Service Internal Audit function conforms to the International Standards for the Professional Practice of Internal Auditing.

(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 challenge, advising the organisation that satisfactory 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 PSIAS is that the Chief Internal Auditor should provide an annual report to those charged with governance, 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.

When considering this report, the Committee may also wish to have regard to the quarterly interim Internal Audit progress reports presented to the Committee during 2016/2017 and the Annual Report on Risk Management Activity for 2016/2017.

(4) Internal Audit's Opinion on the Council's Internal Control Environment

In providing our 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 quarterly monitoring reports, 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.

Chief Internal Auditor's Opinion

I am satisfied that, based on the internal audit activity undertaken during 2016/17 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.

In my opinion, for the 12 months ended 31st March 2017, Gloucester City Council has a **satisfactory** overall control environment, to enable the achievement of the Council's outcomes and objectives.

This opinion will feed into the Annual Governance Statement which will be published alongside the Annual Statement of Accounts.

(4a) Scope of the Internal Audit Opinion

In arriving at our opinion, we have taken into account:

- The results of all internal audit activity undertaken during the year ended 31st March 2017 and whether our high and medium priority recommendations have been accepted by management and, if not, the consequent risk;
- The effects of any material changes in the organisation's risk profile, objectives or activities;

- Matters arising from internal audit quarterly progress reports or other assurance providers to the Audit and Governance Committee;
- Whether or not any limitations have been placed on the scope of internal audit activity; and
- Whether there have been any resource constraints imposed on internal audit which may have impacted on our ability to meet the full internal audit needs of the organisation.

(4b) Limitations to the scope of our activity

There have been no limitations to the scope of our activity or resource constraints imposed on internal audit which have impacted on our ability to meet the full internal audit needs of the Council. Whilst the core Internal Audit service is provided by the Audit Risk Assurance Shared Service (effective from 1st June 2015), during 2016/2017 the Chief Internal Auditor has:

- Commissioned external specialist ICT audit via Warwickshire County Council's Internal Audit Framework Agreement;
- Set up joint working arrangements in relation to Internal Audit and Risk Management with the Chief Internal Auditor at Warwickshire County Council;
- Entered into a Service Level Agreement with Gloucestershire NHS Counter Fraud Service to provide support with investigations; and
- Worked with Gloucestershire's Counter Fraud Hub to review the options available to the Shared Service in respect of Counter Fraud support.

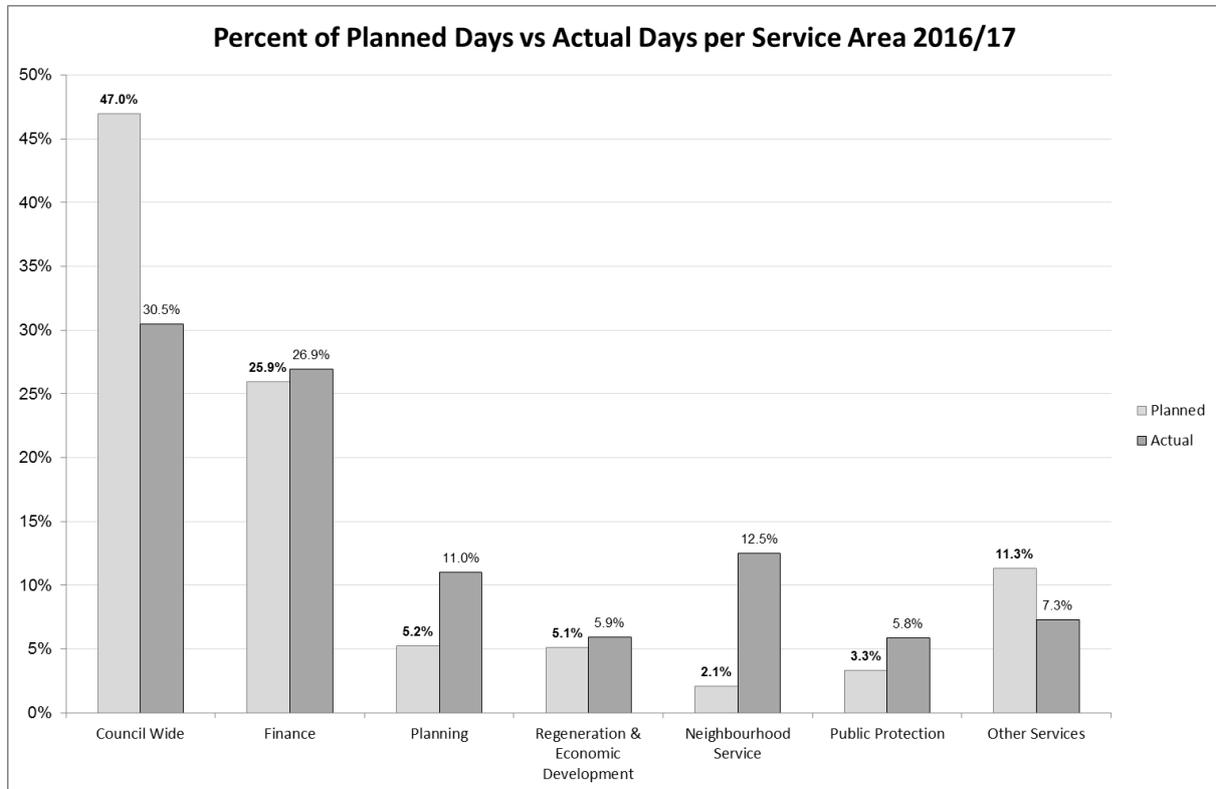
(5) Summary of Internal Audit Activity undertaken compared to that planned

The underlying principle to the 2016/2017 plan is risk and as such, audit resources were directed to areas which represented 'in year risk'. Variations to the plan are required if the plan is to adequately reflect the ongoing changing risk profile of the Council.

Since the original risk based plan was approved in March 2016 by the Audit and Governance Committee, a number of additional audit and consultancy activities have proved necessary and some of the original planned audits have been deferred into the 2017/18 Internal Audit Plan (based on appropriate client request and to ensure the audit adds value). Plan changes are detailed in **Appendix 2** (the Summary Activity Progress Report 2016/17).

The net effect is that although the work undertaken was slightly different to that originally planned we are able to report that we achieved **91%** of the overall revised plan 2016/17, against a target of 85%.

The bar charts below summarise the percentages of planned audits per service area (i.e. Corporate, Finance, Regeneration and Economic etc.) and category of activity (i.e. fundamental financial systems, governance etc.) compared with the percentage of actual audits completed.

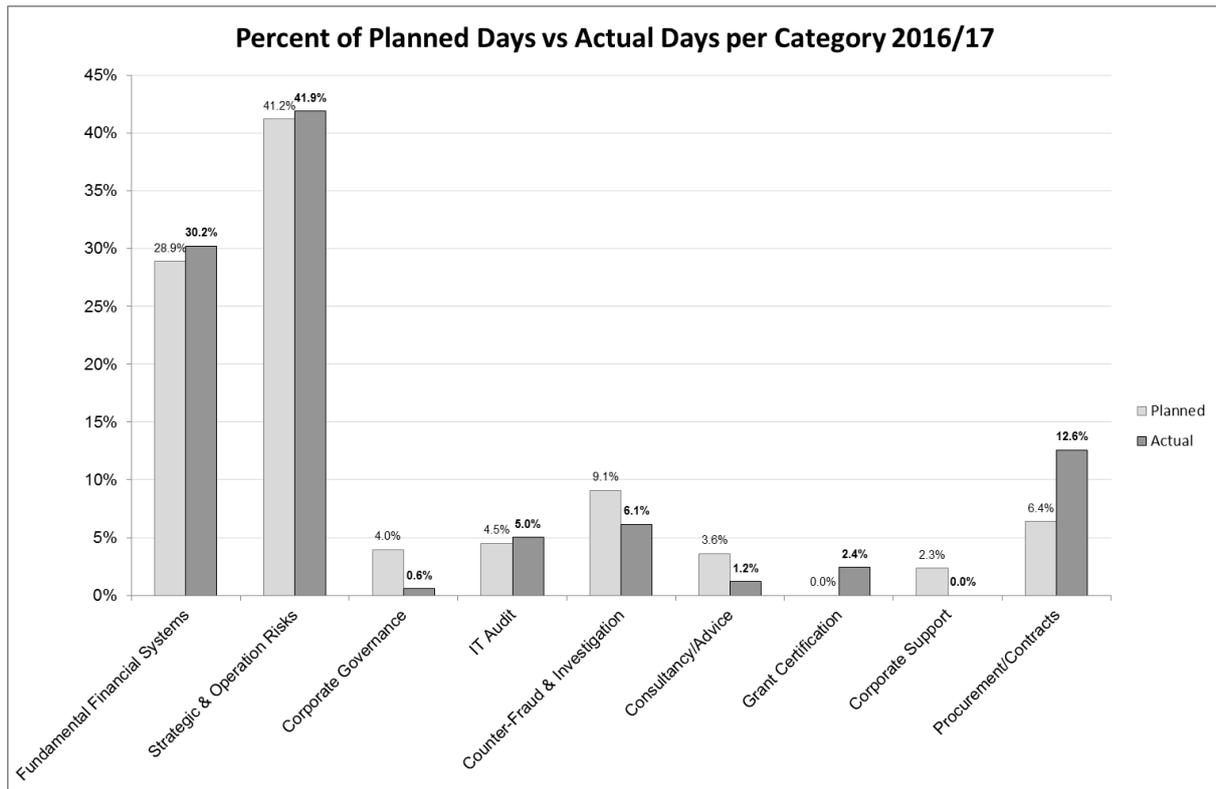


Example rationale for the variance between 2016/17 planned and actual days per service area include (but are not exclusive to):

- New activity requests:
 - Planning application consultancy (Planning).
 - Audit certification of the Turnover Certificate for Blackfriars Priory (Finance) and Broadband Connection Voucher Scheme (Regeneration).
 - Audit review of two sets of election accounts (Other Services), which replaced the deferred Electoral Services internal audit.

- Client requested audit deferrals into the 2017/18 Plan:
 - Delivery of Savings Targets (Corporate) – to be amalgamated into a wider Together Gloucester internal audit within 2017/18.
 - Staff Appraisal System (Corporate) – to be completed following full implementation of Together Gloucester.

- Audit activity where actual days were in excess of those originally budgeted, due to the findings and outcomes of the audit work e.g. the Amey – Streetcare contract (Neighbourhoods).



(6) Summary of Internal Audit Activity undertaken which informed our opinion

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, including, very importantly, one limited assurance audit opinion on control.

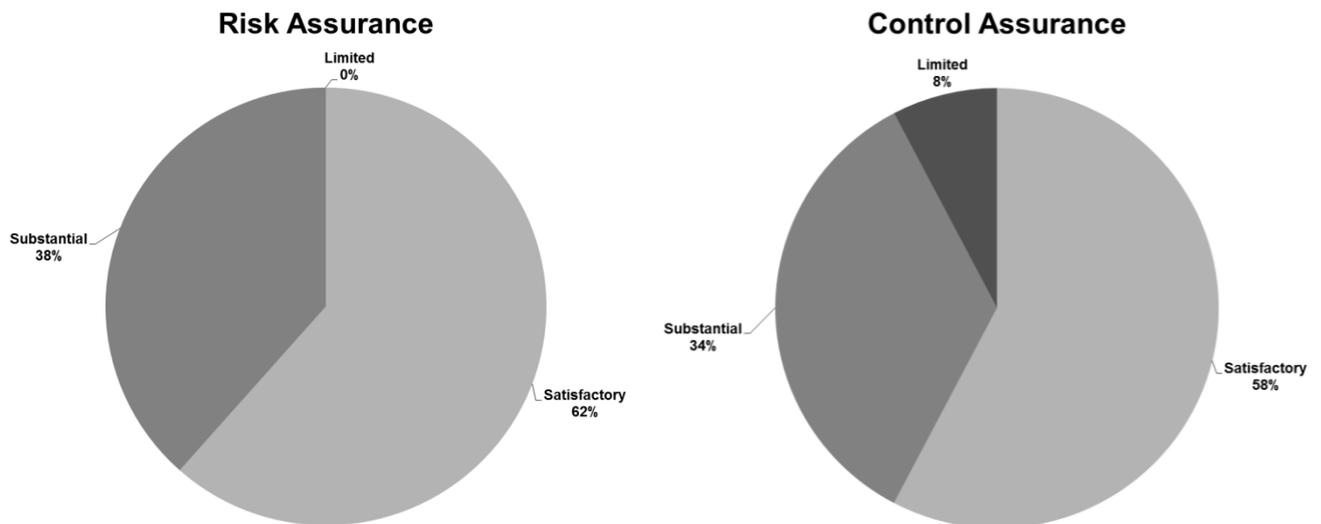
The schedule provided at **Appendix 2** contains a list of all of the audit activity undertaken during 2016/2017, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary 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	<p>Risk Managed Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other services, finance, reputation, legal, the environment client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Corporate Risk Management Strategy.</p>	<ul style="list-style-type: none"> • System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved • Control Application – Controls are applied continuously or with minor lapses
Satisfactory	<p>Risk Aware Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other services, 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 Corporate Risk Management Strategy.</p>	<ul style="list-style-type: none"> • System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger • Control Application – Controls are applied but with some lapses
Limited	<p>Risk Naïve Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Corporate Risk Management Strategy, the service area has not demonstrated an adequate awareness of the risks relating to the area under review and the impact that these may have on service delivery, other services, finance, reputation, legal, the environment, client/customer/partners and staff.</p>	<ul style="list-style-type: none"> • System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls • Control Application – Significant breakdown in the application of control

(6a) Internal Audit Assurance Opinions on Risk and Control

The below pie charts show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited. It is pleasing to report that the Council is showing that **92%** of the activities reviewed have received a **substantial (34%)** or **satisfactory (58%)** opinion on control. Whilst **8%** of the opinions on control are limited, this maybe related to transformational change, continued focusing our activity on the key risks of the Council and specific requests from the Audit and Governance Committee and Corporate Directors, who are asking for areas to be reviewed where issues have arisen or where independent assurance is required.

Risk and Control Opinions 2016/17



(6b) Limited Control Assurance Opinions

Where audit activity records 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.

(6c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During 2016/2017, two limited opinions on control were provided. These related to:

Audited Service Area	Date reported to Audit and Governance Committee
Amey – Streetcare Contract	23 rd January 2017
Gloucester Supports Business Grants	19 th June 2017

(6d) Satisfactory Control Assurance Opinions

Where audit activity records that a satisfactory assurance opinion on control has been provided where recommendations have been made to reflect some improvements in control, the Audit and Governance Committee and Senior Management Team can take assurance that improvement actions have been agreed with management to address these.

(6e) Internal Audit recommendations made to enhance the control environment

Year	Total No. of high priority recs.	% of high priority recs. accepted by management	Total No. of medium priority recs.	% of medium priority recs. accepted by management	Total No. of recs. made
2016/17	12	100%	89	100%	101

The Audit and Governance Committee and Senior Management Team 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.

(6f) Risk Assurance Opinions

During 2016/17, 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.

(6g) Internal Audit's Review of Risk Management

During 2016/2017, **100%** of the audited areas rated the effectiveness of risk management arrangements as **substantial (38%) or satisfactory (62%)** with **0%** obtaining a limited assurance opinion. This evidences that risk management continues to be further embedded into the Council's business activities.

Internal Audit also undertake, on a rotational basis, specific reviews purely on the effectiveness of risk management arrangements, operating across all service areas, looking at the Strategic and Operational Performance/Business Plans and associated Risk Registers, to ensure that actions recorded to mitigate risks are in place and operating as intended.

The assurance statements obtained from the Corporate Directors and Heads of Service across the Council (when formulating the Annual Governance Statement), provided reasonable assurance that the majority of management fully apply the Council's Risk Management Strategy and principles within their service areas.

This together with our own assessment, supported by the self assessment undertaken against the international standard on risk management - ISO 31000 , have led Internal Audit to conclude that the risk management arrangements within the authority are effective.

(6h) Gloucester City Council's Corporate Governance Arrangements

The Council is required by the Accounts and Audit Regulations 2015 to prepare and publish an Annual Governance Statement. The Annual Governance Statement is signed by the Leader, Managing Director and the Chief Financial Officer and must accompany the Annual Statement of Accounts.

In April 2016, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authorities Chief Executives (SOLACE) published 'Delivering Good Governance in Local Government: Framework 2016' and this applies to annual governance statements prepared for the 2016/2017 financial year. Guidance notes were also published to assist Council Leaders and Chief Executives in reviewing and testing their governance arrangements against the revised seven principles for good governance.

The key focus of the framework is on sustainability – economic, social and environmental and the need to focus on the longer term and the impact actions may have on future generations.

We therefore:

- Reviewed the existing governance arrangements against the principles set out in the Framework;
- Developed and implemented a refreshed local code of corporate governance, based on the new principles, including an assurance framework for ensuring ongoing effectiveness; and
- Will report publically, via the Annual Governance Statement on compliance with our code on an annual basis, how we have monitored the effectiveness of our governance arrangements in the year and on planned improvement areas.

Gloucester City Council's governance framework reflects the CIPFA/SOLACE key principles and has been summarised within a Local Code of Corporate Governance 2016/2017. This local code comprises the Council's systems and processes, culture and values for the direction and control of the Authority and its activities through which it accounts to, engages with and leads the community.

Statutory Officers /Corporate Directors/Heads of Service Assurance Process 2016/17

A governance assurance process has been implemented to provide a framework for the annual assessment of the effectiveness of the governance arrangements operating within the Council.

This includes overview, oversight and challenge by the Council's Statutory Officers i.e. the Managing Director, Monitoring Officer and Chief Financial Officer (S151 Officer). The 'three lines of defence risk assurance model' has also been introduced which helps Members and Senior Management to understand where assurances are being obtained from and identify potential gaps in assurance. This assurance process is a significant contributor to the formulation of the Annual Governance Statement and any associated improvement areas. Full details of the framework can be found within the Council's Annual Governance Statement 2016/2017.

The above process has therefore led Internal Audit to conclude that robust governance arrangements operate within the authority.

(7) Summary of additional Internal Audit Activity

(7a) Special Investigations/Counter Fraud Activities

Current Status

During 2016/17 (1st April 2016 to 31st March 2017) 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 have started to be received. Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

In addition, there is an annual data matching exercise undertaken relating to matching the electoral register data to the single person discount data held within the City Council. Once all relevant data has been uploaded onto the NFI portal, a data match report is instantly produced and available for analysis.

The key outcomes of the review will be provided to the Audit and Governance Committee.

Monitoring and Review

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.

Serious and Organised Crime Strategic partnership led by Gloucestershire Police

The Chief Internal Auditor is a member of the Serious and Organised Crime Strategic Partnership (SOCSP) formally known as the joint Policing Panel for Serious and Organised Crime (JPPSOC) to discuss the local multi agency approach to tackling crime/fraud. There is a clear direction from central government that a 'whole government approach' is required, with the co-ordination of the Police, statutory partners and the community and voluntary sector. It is the intention that this partnership is to set the context of Serious and Organised Crime within Gloucestershire and then mobilise the network of local partners to work together with a strong emphasis on a preventative, early intervention approach.

(7b) Gloucester City Council's participation in Gloucestershire's Counter Fraud Unit (Fraud Hub)

National Context

In 2011, the Cabinet Office Counter Fraud Taskforce issued a report on 'Illuminating Public Sector Fraud' which outlined four strategic priorities:

- Collaboration;
- Assessment of Risk;
- Prevention; and
- Zero Tolerance.

'The scale of fraud against Local Government is extensive and hard to quantify with precision. Fraud costs UK public services an estimated £21 billion per year, of which £2.1 billion is the estimated cost to Local Government. A further £14 billion is lost to tax fraud and vehicle excise fraud and £1.9 billion to benefit and tax credit fraud. Reducing this is now a major priority across all areas of government.' Cabinet Office 2016.

The National Fraud Authority and the Audit Commission have closed. However fraudsters are becoming increasingly sophisticated. All public service organisations are more vulnerable than ever to criminal activity.

Although resources remain stretched, the reduction of fraud within the public sector is a priority and is reflected by the CIPFA Counter Fraud Centre which was launched in 2014 to lead and coordinate the fight against fraud and corruption across local and central government.

Local Context

In 2013/2014, the Government announced that Local Authority responsibility for the investigation of benefit fraud was to be transferred, with the counter fraud investigation staff, to the Department for Work and Pensions. In February 2015, Audit Cotswolds successfully bid for £403,000 funding from the Department of Communities and Local Government (DCLG) on behalf of the Local Authorities in Gloucestershire and West Oxfordshire District Council to accelerate the development of a dedicated Counter Fraud Unit (the unit).

The funding was a one off payment to explore the feasibility of a Gloucestershire and West Oxfordshire Counter Fraud Unit that is able to use data matching to gather intelligence and provide skilled investigators to help counter all forms of fraud against the Councils and Social Housing Providers in the region.

The bid set out a phased approach. The unit's first objective was to counter fraud through better intelligence and enhanced proactive partnership working in Gloucestershire and West Oxfordshire District Council with the aspiration to create a 'Gloucestershire Hub'.

It built on the existing three authority partnerships (i.e. Cotswold District Council, West Oxfordshire District Council and Cheltenham Borough Council) and introduced other partners namely: Gloucestershire County Council, Forest of Dean, Stroud, Tewkesbury and Gloucester City Council, plus Cheltenham Borough Homes Ltd and in time, other registered social landlords.

The second phase of the project links the Gloucestershire Hub to other Hubs (Oxfordshire) through data sharing activity.

The business case associated with the project explores whether the DCLG funded project can be transferred into a permanent service model that is fully self-sufficient whilst continuing to manage and utilise the DCLG fund to set up the unit.

Feasibility studies have been undertaken in financial years 2015/16 and 2016/17 to show that the unit generated revenue and provided risk assurance. In addition, the unit has identified further areas of savings and loss avoidance, thereby adding value for all partners. The work included such legal documentation as data sharing and access agreements that enabled the feasibility studies to be undertaken and investigations to be conducted legally.

The S151 Officers oversee the project in terms of governance, which includes the unit's objectives, rationale and the development of the business case. Given their responsibility regarding counter fraud activity within their own organisations and the need to achieve value for money they will also be reviewing the business case from an individual organisation perspective.

Proposed Project Outcomes

- Produce real and demonstrable savings for partners from intelligence based counter fraud activity;
- Pursue criminals with an effective, self-sufficient and robust fraud investigation team, which can operate locally with partners or with third parties and other public bodies;
- Continue to operate and adapt to any reorganisation, restructure or political change;
- Fight local fraud by matching datasets across all demographics; and
- Fight regional fraud by legally exchanging data.

Feasibility Studies

It was agreed by partners that to evidence the financial aspect of the business case, the unit would need to complete some pilot work to develop an evidence base of the value of investing in the hub. Initial pilot work was undertaken for Cotswold District Council, West Oxfordshire District Council and Cheltenham Borough Council. More recently, work has also been/or due to be carried out for Cheltenham Borough Homes, Gloucestershire County Council and Stroud District Council.

Gloucester City Council participation

Context

The Fraud Hub provides the Council with a real opportunity of effective collaboration with our local councils, however there are three key points to consider prior to deciding on the most effective way of the Council's future participation:

- CIVICA is commissioned to provide the Revenues and Benefits service. The contractual arrangements relating to their role in counter fraud activity (including their role to support the NFI data uploads and subsequent analysis) is currently being reviewed. It has however been identified that there is no contractual role for Civica to process NFI matches for single person discount (SPD), only Housing and Council Tax Support. We are currently in dialogue with CIVICA around the outstanding work required and the cost to do this;
- Housing stock has been transferred to Gloucester City Homes and is therefore no longer the responsibility of the Council; and
- The Audit Risk Assurance Shared Service provides a 'corporate' counter fraud service as part of the shared service agreement and the Head of ARA has commissioned 30 days for Gloucester City Council on behalf of the shared service, via a legal framework i.e. Secondment Agreements (S113 Local Government Act 1972).

The Audit Risk Assurance Shared Service / Fraud Hub collaboration and work plan proposed includes the following:

- The provision of assistance with internal investigations being investigated and prosecuted by the Council and the Crown Prosecution Service;
- A generic document pack for criminal investigation, interview under caution and internal prosecution;
- Joint referral and joint reporting mechanisms in relation to fraud allegations and results; and

- Development and implementation of counter fraud training and awareness programmes.

Further Council participation

The Council has reduced the number of internal audit / assurance days (current annual commissioned provision is around 550 days) by around 30 days, using these days to 'buy back' counter fraud days from the fraud hub to run specific council tax discount scheme drives, analysis of SPD NFI outcomes etc. This work would be commissioned and managed via the Audit Risk Assurance Shared Service and contained within the existing budget. This is not an additional cost to the Council, would fulfil the roles and responsibilities of the Chief Financial Officer (S151), enable the Council to proactively participate and collaborate with partners by sharing good practice, potentially generate income, contribute towards loss avoidance and help protect Gloucester City Council's residents against fraud.

(7c) Local Government Transparency Code 2015

Introduction

This Code is 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 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 ¹ (as detailed for Gloucester City Council) in the table below:

¹ *(The definition of fraud is as set out by the Audit Commission in Protecting the Public Purse).*

Council wide fraud and irregularity activity relating to 2016/2017 including Internal Audit activity

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.	None
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud.	None, however the Council has access to 2.45 FTE fraud investigators as part of the Internal Audit shared service arrangement with Gloucestershire County Council and Stroud District Council.
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists.	None, however the Council has access to 2.45 FTE fraud investigators as part of the Internal Audit shared service arrangement with Gloucestershire County Council and Stroud District Council.
Total amount spent by the authority on the investigation and prosecution of fraud.	Nil – main area of fraud identified relates to Housing Benefit. Housing benefit fraud cases investigated by the DWP under the Single Fraud Investigation Service.
Total number of fraud cases investigated, including 43 blue badge fraud (inc. b/fwd. cases).	None for non-housing benefit fraud. Housing benefit fraud cases investigated by the DWP under the Single Fraud Investigation Service.

In addition to the above, it is recommended that local authorities should go further than the minimum publication requirements set out above (as detailed for Gloucester City Council) in the table below.

Question	Gloucester City Council Response
Total number of cases of irregularity investigated.	None
Total number of occasions on which a) fraud and b) irregularity was identified.	a) None b) None
Total monetary value of a) the fraud and b) the irregularity that was detected.	NIL
Total monetary value of a) the fraud (inc. blue badge costs awarded but exc. fines) and b) the irregularity that was recovered	NIL

Full details about the code and its requirements can be found at:

<https://www.gov.uk/government/publications/local-government-transparency-code-2015>

(8) Internal Audit Effectiveness

The Accounts and Audit Regulations 2015 require ‘*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*’. This process is also part of the wider annual review of the effectiveness of the internal control system, and significantly contributes towards the overall controls assurance gathering processes and ultimately the publication of the Annual Governance Statement.

The Accounts and Audit Regulations 2015 also state that internal audit should conform to the Public Sector Internal Audit Standards (PSIAS) 2017.

Public Sector Internal Audit Standards (PSIAS)

These standards have four key objectives:

- Define the nature of internal auditing within the UK public sector;
- Set basic principles for carrying out internal audit in the UK public sector;
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The Internal Audit Charter, Code of Ethics and the Audit and Governance Committee's Terms of Reference have all been amended to reflect the requirements of the standards.

External Assessment of the effectiveness of Internal Audit

The last External Quality Assessment (an independent assessment of the effectiveness of an internal audit function which should take place at least every five years) was completed within 2015/16 of the Gloucestershire County Council internal audit service.

The review was undertaken during May 2015 by the Chartered Institute of Internal Auditors and included a review of the team's conformance to the International Professional Practice Framework (IPPF) as reflected in the PSIAS, benchmarking the function's activities against best practice and assessing the impact of internal audit on the organisation. There are 56 fundamental principles to achieve with more than 150 points of recommended practice in the IPPF. The independent assessment identified 100% conformance.

The Chartered Institute of Internal Auditors stated: *'It is our view that (the Council's) internal audit function conforms to all 56 principles. This is excellent performance given the breadth of the IPPF and the challenges facing the function'*.

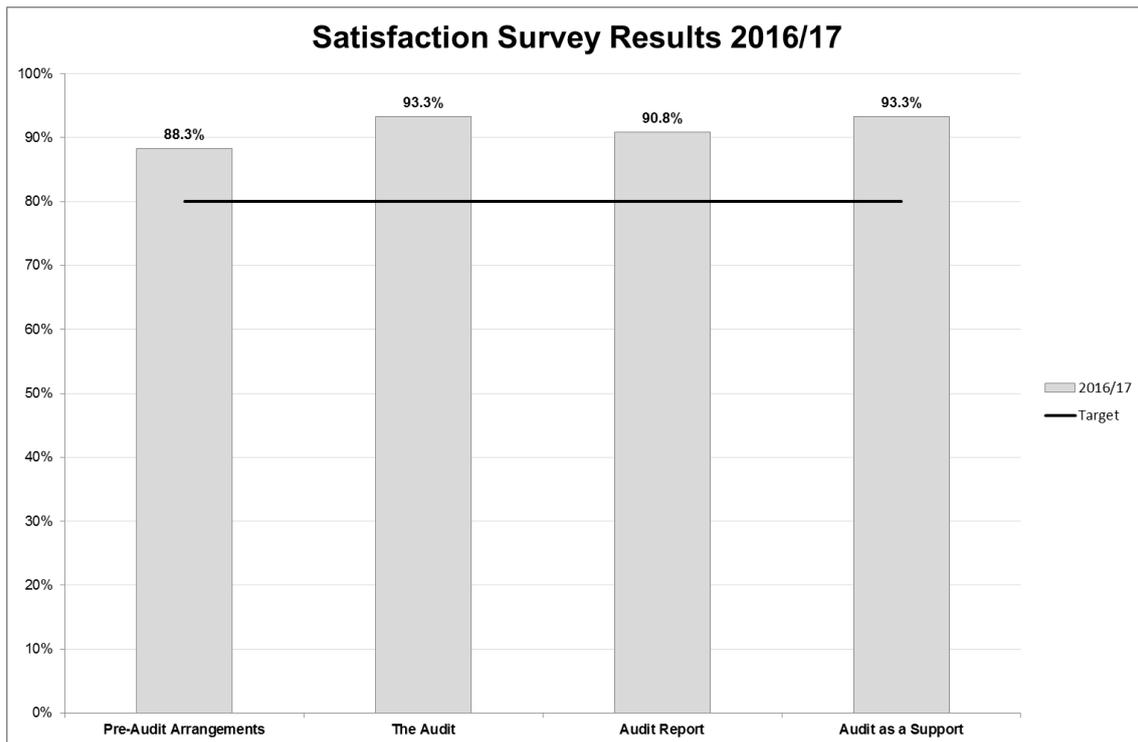
The internal audit shared service applies consistent systems and processes, which supports compliance across the Audit Risk Assurance Shared Service partners.

During 2016/17 the Chief Internal Auditor assessed Internal Audit's performance against the Internal Audit Quality Assurance and Improvement Programme (QAIP) as required by the PSIAS. The QAIP confirmed compliance against the PSIAS and highlighted opportunities for further service improvement.

Internal Assessment - Customer Satisfaction Survey results 2016/17

At the close of each audit review a customer satisfaction questionnaire is sent out to the Corporate Director, Head of Service or nominated officer. The aim of the questionnaire is to gauge satisfaction of the service provided such as timeliness, quality and professionalism. Customers are asked to rate the service between excellent, good, fair and poor.

A target of 80% was set where overall, audit was assessed as good or better. The latest results as summarised below, shows that the target has been exceeded, with the score of **93.3%** reflecting Internal Audit as being a positive support to their service.



In addition, the following positive comments have been received from our customers:

- *‘Excellent piece of work in a very short timescale’*
- *‘The auditor was always polite and professional, listening to our views and explaining what she was doing’*
- *‘The auditor very quickly took on board the understanding of the services and digested information very quickly’*
- *‘Kept well informed throughout review’*
- *‘Ample opportunities for discussion’*
- *‘The auditor has a great approach to working with people and easy to work with’*
- *‘Difficult background to this audit and much political interest and I think the final report is fair and reflective and the auditor has been great throughout’*
- *‘The auditor was generally very supportive throughout the process and explained it well’*
- *‘As it was my first experience on an internal contract audit, the auditor did spend plenty of time explaining the process to me and the expectations of what I needed to produce. She was very patient with my limited knowledge which was particularly helpful as the audit started only a month after starting this role’*
- *‘The lack of disruption to me and to Civica Revenues department’*

Lessons Learned from customer feedback and actions taken by Internal Audit

The Chief Internal Auditor reviews all client feedback survey forms and where a less than good rating has been provided by the client, a discussion is held with the both the relevant auditor and the manager to establish the rationale behind the rating and where appropriate actions are taken to address any issues highlighted.

The following specific feedback for improvement of audit approach has been received within 2016/17:

- *'More recognition of contract history and more focus on improvements moving forward than righting things retrospectively'*

The development comment will be taken on board when completing contract relevant internal audits within 2017/18 and beyond.

Over the year, improvement areas include, shorter, more focused internal audit reports, enhanced opening meetings i.e. to provide more information on the role of internal audit, the audit process and approach, ensure we fully consider the risk and the subsequent proportionality of the recommended controls to manage them, provide where possible more indication of when audit reviews will take place and a timelier turnaround of these reviews.

Completed Internal Audit Activity during the period April – June 2017

Summary of Limited Assurance Opinions on Control

Service Area: Regeneration and Economic Development

Audit Activity: Gloucester Supports Business Grants

Background

In 2010 Gloucester City Council established a Business Grant Scheme aimed at supporting business start-ups and companies looking to relocate or expand in the City. The scheme provided 50% grant funding towards first year business rent (to a maximum of £3,000 within the primary retail area and £1,000 outside) and a contribution to rates within the primary retail areas on a sliding scale. In 2013 the scheme was subsequently extended to provide a suite of grants with an overall allocation of £140,000.

Scope

The objectives of the audit were to:

- Establish if grants are awarded in accordance with policy, set eligibility criteria, and budgets; and
- Establish how grant outcomes are monitored, evaluated and reported.

Risk Assurance – Satisfactory

Control Assurance – Limited

Key findings

The internal audit identified areas of good practice applied by the Council, which included all grant types had published application guidance and eligibility criteria listing the requirements for each grant type in order for the Council to award a specific grant.

The audit also identified a number of observations where an improvement in Business Grant Scheme controls should be actioned:

- Internal Audit's testing of eight grants covering all grant types highlighted that insufficient records have been maintained to evaluate whether the eligibility criteria has been met.
- The information presented to Cabinet on 9th March 2016 and 9th January 2017 did not match the actual (general ledger) expenditure for the scheme and was incomplete. The report to Cabinet as at October 2015 was complete and accurate.

- Monitoring and evaluation of outcomes did occur for 2015/16. However the monitoring and subsequent evaluation only included the grants provided up to September 2015, although the report was presented to Cabinet on 9th January 2017.

Discussion with the relevant Head of Service, confirmed that there has been staff turnover in relation to Business Grant Scheme administration within 2015/16 and 2016/17 and that this has impacted the Business Grant Scheme control approach.

Conclusions

Evidence to support awarded grants could not be identified and therefore the internal audit was unable to give assurance that the grants were awarded in line with set policy, eligibility criteria and budgets.

While budget monitoring has taken place throughout the scheme, the differences between grants awarded as seen in the general ledger and information presented to Cabinet could have implications on the results of the scheme and impact the allocated budgets for each grant type.

Monitoring of outcomes and evaluation has not been completed as intended for all grants. Without consistent monitoring of outcomes and subsequent evaluation of those outcomes, determining the result of the scheme is not possible and therefore the City Council is unable to fully demonstrate that the scheme was a success.

Although the Gloucester Supports Business grant scheme has now closed, the Officers charged with running its successor (the Business Growth Grant Scheme) will need to ensure the improvements recommended in this report are incorporated and consistently applied in practice.

Management Actions

Management have responded positively to the audit findings and have agreed a comprehensive action plan to ensure that the issues raised from this review are not subsequently repeated in the new Business Growth Grant Scheme.

Whilst Internal Audit will monitor the implementation of the recommendations, it is recommended that senior management attend the next meeting of the Audit and Governance Committee and is requested to provide an update on the action taken in relation to each recommendation made.

Summary of Satisfactory Assurance Opinions on Control

Service Area: Corporate

Audit Activity: HR Shared Service

Background

In June 2015, Gloucester City Council's Cabinet resolved that the City's HR team be joined with the County Council's HR team with the functions delegated to the County Council as host authority. The Shared Service arrangements commenced from 6th November 2015 with the perceived benefits of the change for the City Council being:

- To create savings from the non-reappointment of a Head of HR and the deletion of this role.
- To ensure appropriate levels of capacity, resilience and expertise (which could no longer be sustained through a small in-house team) in order to:
 - a) Provide strategic direction and advice on the development of the organisation;
 - b) Create a coherent development programme which would include fostering and developing talent;
 - c) Ensure that employment policies reflect modern employment practices and are consistently applied across the Council; and
 - d) Drive leadership development through the organisation.
- To gain access to professional support from the wider County Hub resource (including Specialist Case Workers).

Scope

The objectives of the audit were to:

- Review the governance arrangements established by the City Council to provide effective oversight of the HR Shared Service (including performance management and reporting);
- Evaluate whether the services provided to the City Council are clearly defined and are being delivered to the required standard; and
- Confirm that the HR Shared Services financial payments made to the County Council are for work delivered and in line with expectations.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key findings

A Section 101 Agreement has been executed by both parties which broadly outlines the services to be provided to the City Council and the associated headline costs. The agreement is effective from 6th November 2015 for a minimum of two years and thereafter can be subject to termination by either party serving not less than 12 month's notice in writing.

The Section 101 Agreement anticipated the setting up of a Joint Liaison and Monitoring Group (membership would include the County Council's Head of HR and the City Council's Corporate Director) to formally monitor the performance of the HR Service. However, this is yet to be established and whilst this is in-part due to changes within senior management (particularly at the County Council) the absence of formal corporate oversight is considered an improvement area in the governance arrangements for this contract.

A key role within the HR service is the Business Partner for the City Council and the main point of contact with senior management to facilitate the strategic development of the service. Initially the County Council filled this post from existing resources with the intention to formally recruit as soon as possible thereafter, albeit until recently this had proved difficult. This has meant officers taking on this role as additional duties resulting in changes in personnel and less visibility / personal contact with City Council managers than is ideal.

A number of HR related policies / guidance have been updated under the shared service and are accessible through a new link to City Staffnet - HR and Employment Handbook section. This source of guidance and information is available to City Managers and staff and can easily be accessed through a common logon and password. Managers and staff can also seek advice through the County Council's HR Advice Line or submit a query by email. In the cases where more formal support is required to progress the manager's concern e.g. grievance, the manager will be assigned a named Case Worker and their role is to provide advice and to support the Manager throughout the process.

Invoices received from the County Council (with the exception of the 1% uplift) are in line with expectations and these are being checked by the Finance team before approving the payment. The charges invoiced relating to the delivery of the Apprenticeships Training has been challenged and the final costs for this service are under discussion and to be agreed.

Conclusions

The creation of the HR Shared Service has provided resilience and access to specialist support which was unlikely to have been sustainable from what was a relatively small in-house HR team during a period of significant change and organisational re-design.

However, the management information provided to the City Council is primarily restricted to sickness absence data. This is insufficient for the Corporate Directors to fully evaluate the performance of the HR Service over the past 12 months or make informed decisions on whether changes to the service provision should be considered.

The formalisation of the forum to provide corporate oversight of the HR Service is behind schedule and strengthening the governance arrangements in this area should be established.

Moving forward, the recent appointment of a dedicated HR Business Partner creates an opportunity for an increased HR presence and engagement within the organisation and to evaluate any areas of the service which need to be developed further or the HR resource focused towards. The implementation of the Together Gloucester (organisational change) programme and subsequent management changes indicates that the review and development of leadership skills for these managers will be a priority.

Management Actions

Management have responded positively to the five medium priority recommendations – relevant to agreement of performance metrics and formal regular review of performance; increase in HR Business Partner presence and staff communications regards service offer/provision; and update of the Section 101 Agreement. The agreed actions to be completed by 1st September 2017.

Service Area: Corporate

Audit Activity: Payroll – New Starters and Leavers Processes

Background

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

In 2015/16 annual payroll costs were £9.1 million, reduced from £10.3 million in 2014/15, with further reductions under way and planned. The payroll service for Gloucester City Council is provided by Gloucestershire County Council's Business Service Centre (BSC).

Scope

This audit reviewed the effectiveness of the systems and processes in place across the BSC and Gloucester City Council to ensure that key financial controls are operating as expected, so that the payroll system pays employees correctly and on time.

The objectives of the audit were to verify for the 2016/17 financial year:

- Any previously agreed actions to improve the control environment have been completed satisfactorily;
- Data entered into the payroll system is accurate and justified to support the payment of new starters, removal of leavers, and any changes to ongoing employment;

- Salary payments are made accurately, following appropriate approval and in accordance with an agreed schedule;
- System management of the payroll system is restricted to appropriate officers and configured to prevent inappropriate processing of payroll data; and
- Reconciliations between the payroll and finance system demonstrate that finance system records are accurate.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key findings

- The payroll service is delivered on behalf of the City Council by Gloucestershire County Council's BSC. City Council managers provide information to the BSC's Pay and Conditions team for data entry into the payroll database (SAP), which is also used by the BSC to manage the County payroll and other clients. Risks associated with payroll data and payments may affect the City Council, although the controls to manage those risks sit within the payroll activity completed by the BSC.
- In order to operate, the City Council has made arrangements so that the County Council may make salary payments directly from the City Council's bank account. Although a service level agreement was drafted when the payroll service transferred to the County Council it was not signed at the time, and work is underway to ensure a new contract is documented and formally agreed by both parties. This will enhance the governance arrangements and further clarify the responsibilities and authority of both parties in both the operation of the payroll system (including key financial controls and authorisation for salary changes) and access to make payments from the City Council's bank account.
- Testing confirmed that expected systems are in place and daily operations are generally functioning well: payroll information and changes are submitted by managers, and all the sampled changes submitted have been assessed as appropriate. The SAP Payroll system controls access to the City Council's payroll data and expected system access controls by the County Council are in place. Checks are in place within the City Council to confirm accurate recording of payroll expenditure within the City Council's accounts. Although any error that impacts on staff should be avoided, sampling identified only one administrative error with a financial impact totalling less than £500.

Conclusions

Based on the outcomes from the audit review, we conclude that Satisfactory assurance can be provided for both risk identification and control over the Payroll – New Starters and Leavers Processes audit scope areas. One High Priority action was identified during the course of this audit (formal contract agreement).

Management Actions

Management have responded positively to the audit findings and have agreed an action plan to address the issues raised from this review.

Service Area: Regeneration and Economic Development

Audit Activity: Townscape Heritage Initiative

Background

The Townscape Heritage Initiative (THI) is the Heritage Lottery Fund's (HLF) grant giving programme for the repair and regeneration of towns and cities throughout the UK. The Townscape Heritage programme is for schemes which help communities improve the built historic environment of conservation areas in need of investment. The total amount to be spent on this initiative is £1,197,490 with £897,400 being provided by HLF and £300,090 by the City Council.

Scope

The objectives of the audit were to:

- Establish the criteria for applying for and allocating funds by the City Council to ensure they meet the guidance defined by the HLF and the agreed expectations from their application to HLF;
- Ensure that grant applications from third-parties have been correctly awarded and authorised appropriately; and
- Ensure that the City Council are requesting and receiving the grant funds as listed in their THI acceptance letter.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key findings

- The third party application process does not take into consideration the clearance of state aid requirements (audit recommendation raised). All other requirements of the HLF are fulfilled in awarding third-party grants and appropriate evidence is maintained to support the individual grants awarded.
- The meetings between the HLF Monitoring Officer and the THI Officer are not formally documented and therefore only verbal assurances can be given on the outcomes and decisions made (audit recommendation raised).

- The claim for 77 Southgate Street followed the correct process for grants under the value of £100,000. Subsequently the City Council has completed the additional requirements requested by the HLF due to the project being in a conservation deficit.
- The expected process for Southgate Street Gateway was not fully followed, however following Council discussion with the funding body the HLF have since reimbursed the full amount requested by the City Council.
- The payment request for both May 2016 – July 2016 and August 2016 – October 2016 are supported by relevant invoices.
- The City Council has received and accounted for all 11 amounts confirmed to be paid by the HLF (via their confirmation letters) since the commencement of the scheme in 2013.

Conclusions

The grants awarded are in line with the agreed action plan, however all modifications to the plan need to be documented to give firm assurances that grants are being awarded correctly. The application process, while effective in obtaining and recording supporting documents, needs to account for state aid requirements to ensure that the correct consideration of awarding grant funding is undertaken. Payment requests made to the HLF are a fair reflection of expenditure incurred by the City Council, with only minor discrepancies seen.

Management Actions

No High Priority actions were identified during the course of this audit. Management have responded positively to the audit findings and have agreed an action plan to strengthen the management of these grants.

Service Area: Finance

Audit Activity: Capital Accounting

Background

Capital Accounting reflects the accounting records of the Council's fixed assets, which form part of the Council's balance sheet and overall financial position. At the end of 2015/16 the Council's balance sheet reported an asset value of approximately £87 million. In addition, financial transactions relating to fixed assets (known as capital) must be accounted for separately in accordance with IFRS standards. The Capital Programme for 2016/17 anticipated expenditure of £11.7 million.

This audit of controls in place at the Council is being carried out in accordance with the approved Internal Audit Plan for 2016/17 and the Joint Working Protocol agreed between Internal Audit and the External Auditor.

Scope

Due to the implementation of the new Financial Management System scheduled for February 2017 and its associated impact on the capacity of Finance staff, this audit focused on key control areas only, with an in-depth review to be completed in future years.

- Periodic review of capital expenditure against the capital programme;
- Periodic reconciliation of the fixed asset register to the general ledger;
- Periodic reconciliation of corporate property (asset management system) and the fixed asset register;
- Periodic physical verification of tangible fixed assets;
- Contract review;
- Additions walkthrough;
- Disposals walkthrough; and
- System access general controls.

Activities undertaken following the implementation of the new Financial Management System are not within the scope of this review.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key findings

The internal audit identified a number of areas of good practice applied by the Council, including (but not exclusive to):

- Monthly detailed capital monitoring report issued to all relevant budget holders and includes detail of all capital items.
- Quarterly capital expenditure reporting to Members. It is noted that some discrepancies were identified within the reporting arrangements (e.g. exclusion of S106-funded capital projects from Cabinet monitoring) and a relevant audit recommendation has been made.
- Monthly reconciliation of the eFinancials fixed asset register to the eFinancials general ledger within 2016/17. At the point of audit some delays in reconciliation were identified, but these were not considered significant.

- System access (e.g. password) controls and current users were confirmed as appropriate.
- The Council verifies all property assets in accordance with its revaluation programme. Review of the 2016/17 revaluation programme confirmed that the programme is proportionate to the overall size of the Council's property holdings.

The audit also identified a number of observations where an improvement in Capital Accounting controls should be considered and actioned:

- Reconciliation of the fixed asset register to the asset management system on an annual basis.
- Verification of non property assets should be formally requested and completed to confirm the continued existence of the assets and that they remain fit for purpose.
- Application of addition controls regarding additions and disposals, to ensure that Unique Property Reference Numbers are known and that appropriate adjustments are made to the fixed asset register and general ledger.
- Update to the Members capital reporting approach, to ensure consistency between reporting of the initial capital programme budget and the quarterly financial monitoring.

Conclusions

The Council's assets form a large part of its balance sheet, with approximately 550 fixed assets carrying a significant financial value. Consequently it is important that activities to account for changes to these assets are accurate and complete; as a result, the management of capital accounting is considered an area of key financial control.

Testing found that the majority of expected processes are in place. The Council makes changes on a monthly basis, pending final accounting entries as part of the year end process. Areas where all controls were operating as expected include the monthly reconciliations between the fixed asset register and the general ledger, and contract review to identify lease arrangements. In addition, the completion of a prior year action to reconcile the fixed asset register to property records was verified as substantially in progress although not completed at the time of testing.

Opportunities to enhance the control environment were identified (as described above). Although recommendations have been made in these areas, the impact of each finding in the context of the overall value of assets is not significant.

Consequently, the overall assurance levels for both risk and control environments have been assessed as satisfactory.

Management Actions

Four medium priority actions were identified during the course of this audit, and management have responded positively to the audit findings and agreed an action plan to address all issues raised from this review.

Service Area: Finance

Audit Activity: Network Access Controls

Background

Network access control (NAC) is primarily a network management solution with the key objectives of creating and managing identity and access management, ensuring that security policy is followed, and removing, preventing and mitigating security risks to the entire network environment.

NAC should consist of policies, procedures, protocols, tools and applications that define, restrict, and regulate what an individual or component can or cannot do on a network. A comprehensive NAC solution is applicable to all endpoints, such as computers, servers, firewalls, routers and the method through which they access a network.

The internal audit of NAC in place at the Council was carried out in accordance with the approved Internal Audit Plan for 2016/17.

Scope

Testing was performed upon on each of the following key areas within the control environment:

Information Technology (IT) Security Policies:

- Establish whether policies are being reviewed and updated on a regular basis and that all system users are required to demonstrate that they have read and understood the policies.

Network access controls:

- Setting up new users;
- Amending user access permissions;
- Revoking access for leavers;
- Handling of inactive accounts;
- Restricting user access;
- Passwords;
- Default and privileged accounts and
- Logging on and logging off processes.

Areas subjected to recommendations during the previous audit (2014/15) were also reviewed to establish whether the agreed management actions had been implemented.

Risk Assurance - Satisfactory

Control Assurance - Satisfactory

Key findings

The internal audit identified a number of good practice areas applied by the Council. It also confirmed that positive actions had been taken to address control matters reported within the prior internal audit.

The audit also identified a number of observations where in an improvement in NAC controls should be considered and actioned:

- Actions are required to ensure that all IT policies have been reviewed, updated and formally approved. Subsequent roll out to all Officers and Members should then be completed through NETConsent (the Council's policy management system).
- The Council should consider update of the IT new starter form to require an end date for all staff marked as fixed term contract, agency or contractor. The end dates should then be applied to the user's network account to ensure that the account is disabled in a timely and appropriate manner.
- The IT deregistration process should be redefined, formally agreed and implemented – to include a communications plan to ensure Officers and Members awareness.
- The Council should consider strengthening inactive network account controls. These could include reactivation of the control to automatically disable network user accounts after a prescribed period of inactivity (e.g. 90 days) and regular management review.
- The control for automatic lock out of user accounts after a prescribed period of inactivity (e.g. 10 to 30 minutes) should be considered.
- Controls for both logging and reviewing invalid access attempts and preventing concurrent logins to a single user account should be reviewed and addressed as appropriate.

Conclusions

The findings from works undertaken within this NAC internal audit have demonstrated that positive actions have been taken to address the general network access control matters since prior audit. There has been an overall improvement within both risk awareness and the control environment, which are now both considered to be satisfactory. The 2016/17 audit identified that there is opportunity to further strengthen internal controls and 8 medium priority recommendations have been made to support this.

Management Actions

Management have responded positively to the Internal Audit recommendations made.

Service Area: Corporate

Audit Activity: Grant Income

Background

The Council's Forecast Capital Programme 2016-2021 is financed from a range of sources, including capital receipts, S106 commuted sums, borrowing and grant income. Grant income has been utilised to fund various schemes within 2016/17, including:

- Kings Quarter Development;
- Disabled Facilities Improvement Grants;
- Drainage and Flood Protection works;
- Townscape Heritage Initiative – Heritage Lottery Fund;
- Homes and Communities Agency Regeneration Grant Money;
- Horsbere Brook Local Nature Reserve works;
- Alney Island grant funded works;
- Longlevens Neighbourhood Partnership Active Together Project;
- Abbeymead Rovers FC Active Together project; and
- Tree Planting - Forestry Commission funded.

Scope

This audit sample selected projects from the above list, to provide assurance that within 2016/17:

- Expected income has been received;
- Grant conditions have been identified; and
- Grant conditions have been complied with.

Due to the inclusion of the Kings Quarter Development in the 2017/18 annual audit plan this scheme was not sampled. Townscape Heritage Initiative funds have been subject to a separate audit in 2016/17. The sampled projects therefore comprised:

- Disabled Facilities Improvement Grants;
- Drainage and Flood Protection works; and
- Horsbere Brook Local Nature Reserve works.

Risk Assurance – Substantial

Control Assurance – Satisfactory

Key findings

- Within all sampled cases for the selected schemes, the Council's activities in managing grant income (obtaining finance, and identifying / complying with grant conditions) were found to be satisfactory.
- The Drainage and Flood Protection works may rely on some Council contributions in addition to external grant funding and the Council is recommended to document the level of internal funding requirement.

Conclusions

Funding from grants is a key area for the Council to support its budget and deliver capital schemes. These schemes are designed to improve the environment of Gloucester and its inhabitants, and it is important to ensure that no impediments exist to the achievement of this goal.

This audit reviewed three grant schemes and verified for each scheme, and where applicable for a sample of individual projects, that the arrangements in place to secure funding and meet any funding conditions are appropriate.

No issues were seen in any of the sample that suggests the Council may not obtain the budgeted funding, or may fail to meet the grant conditions. Consequently the assurance on the risk environment is substantial. An opportunity to improve internal records was seen, leading to an assessment of satisfactory on the control environment.

Management Actions

One medium priority action was identified during the course of this audit, and management have responded positively to the audit findings and agreed an action plan to address all issues raised from this review.

Summary of Substantial Assurance Opinions on Control

Service Area: Finance

Audit Activity: General Non-Pay Expenditure (Accounts Payable)

Background

The External Auditors' have identified Creditors as being a key financial system for which CIPFA have defined a series of risk and control matrices. These matrices have been used as the base point for testing from which to provide levels of assurance upon the risk management and control environment.

The accounts payable system, also known as the creditors system, manages the Council's expenditure and payments to suppliers and third parties. This system is a key mechanism for making payments by BACS, and in addition to payments to suppliers for goods and services, other required payments including precept payments and payments to Benefit claimants have been passed through the system. From November 2016 Benefit payments are no longer transacted through the accounts payable system following a change in software.

Scope

The purpose of this audit is to review the effectiveness of the key financial controls in place to ensure that payments are made to suppliers accurately and promptly. In particular, this audit assessed for the main purchase ledger:

- Reconciliation of the accounts payable system to the general ledger;
- Payment run authorisation;
- Use of purchase ordering and three-way matches in invoice authorisation; and
- Use of invoice authorisation other than three-way matches.

The internal audit period of review was 2016/17 up to the point of audit (period 10).

Risk Assurance – Substantial

Control Assurance – Substantial

Key findings

- The accounts payable system and general ledger are integrated within the eFinancials software.
- Payments from accounts payable are automatically recorded in the general ledger within the creditors and bank expenditure control accounts; monthly bank reconciliations are in place to identify any discrepancies against the expenditure control account.

- Sampling of fifteen daily payment runs demonstrated that all systems (accounts payable, BACS payment, and general ledger) reconciled correctly.
- Current procedures require that high value payments are checked and the payment file authorised by specified, separate individuals. Sampling of fifteen payment runs confirmed that this was undertaken in all cases.
- One payment run approval was delayed as no appropriate member of staff was available; the payment was made with the agreement of the Deputy S151 Officer, although the officer was unable to formally approve it due to their previous approval of the high value payments.
- Purchase orders are the default and most used method for approving individual invoices for payment.
- Twenty sampled purchase orders demonstrated that separation of duties and three-way matching procedures are in place and functioning correctly.
- Ten sampled payments that did not use the purchase order system had been approved appropriately and had a valid basis for payment.
- Where purchase orders are not used, a pro forma invoice may be completed. Physical signatures from the relevant service manager are used to authorise the payment and are verified within accounts payable, although no authorised signatory list is in place.

Conclusions

The Council's system for making payments to third parties is a key area where financial controls play an essential role in ensuring money is transferred only to genuine suppliers for valid reasons. This audit considered the procedures in place for authorising individual payments and BACS payment runs.

Testing demonstrated that all expected key financial controls within the scope of this review are operating effectively. Consequently the Internal Audit assessment for both the risk management and control environment is of substantial assurance.

Management Actions

None required.