

Internal Audit Activity Progress Report

2017-2018



(1) Introduction

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that a relevant authority “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. The Internal Audit Service is provided by Audit Risk Assurance under a Shared Service agreement between Gloucester City Council, Stroud District Council and Gloucestershire County Council and carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

The guidance accompanying the Regulations recognises the Public Sector Internal Audit Standards 2017 (PSIAS) as representing “proper internal audit practices”. The standards define the way in which the Internal Audit Service should be established and undertake its functions.

(2) Responsibilities

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements.

Internal Audit plays a key role in providing independent assurance and advising the organisation that these arrangements are in place and operating effectively.

Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance and these are set out in the Council’s Code of Corporate Governance and its Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the standards is that the Chief Internal Auditor should provide progress reports on internal audit activity to those charged with governance. This report summarises:

- The progress against the 2017/18 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period June 2017 to September 2017;
- Special investigations/counter fraud activity; and

- The outcomes of the Marketing Gloucester Ltd (MGL) follow up internal audit and the Value for Money review.

(4) Progress against the 2017/18 Internal Audit Plan, including the assurance opinions on risk and control

The schedule provided at **Attachment 1** provides the summary of 2017/18 audits which have not previously been reported to the Audit and Governance Committee.

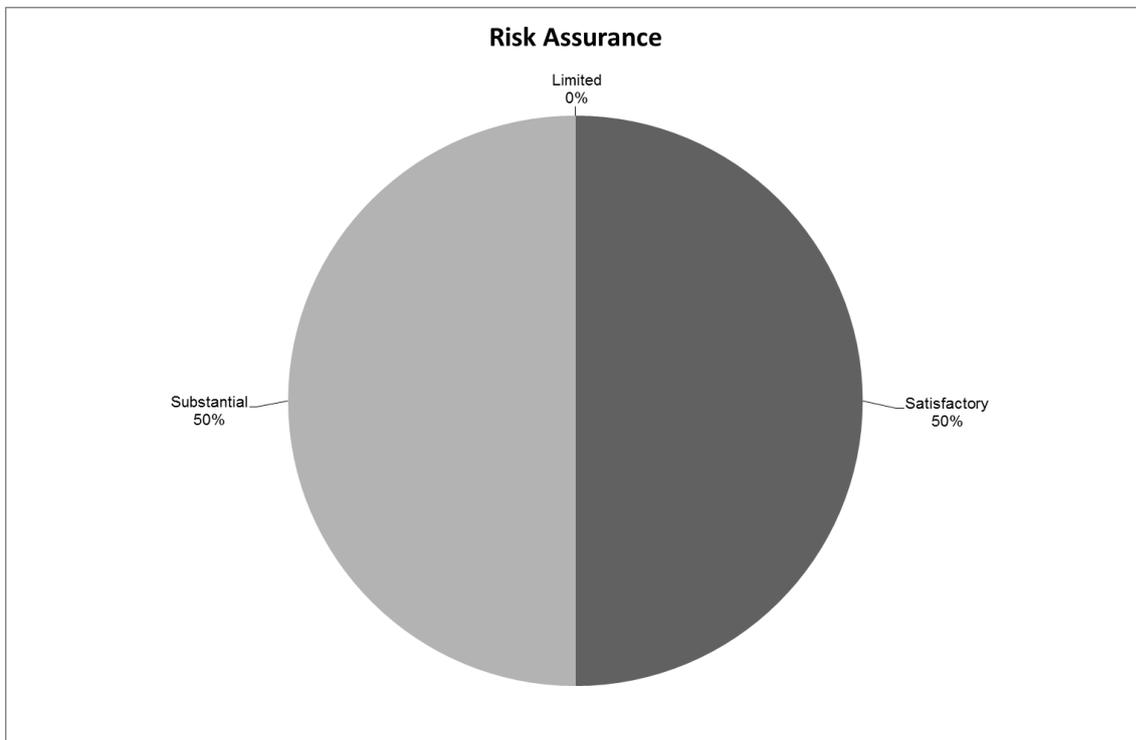
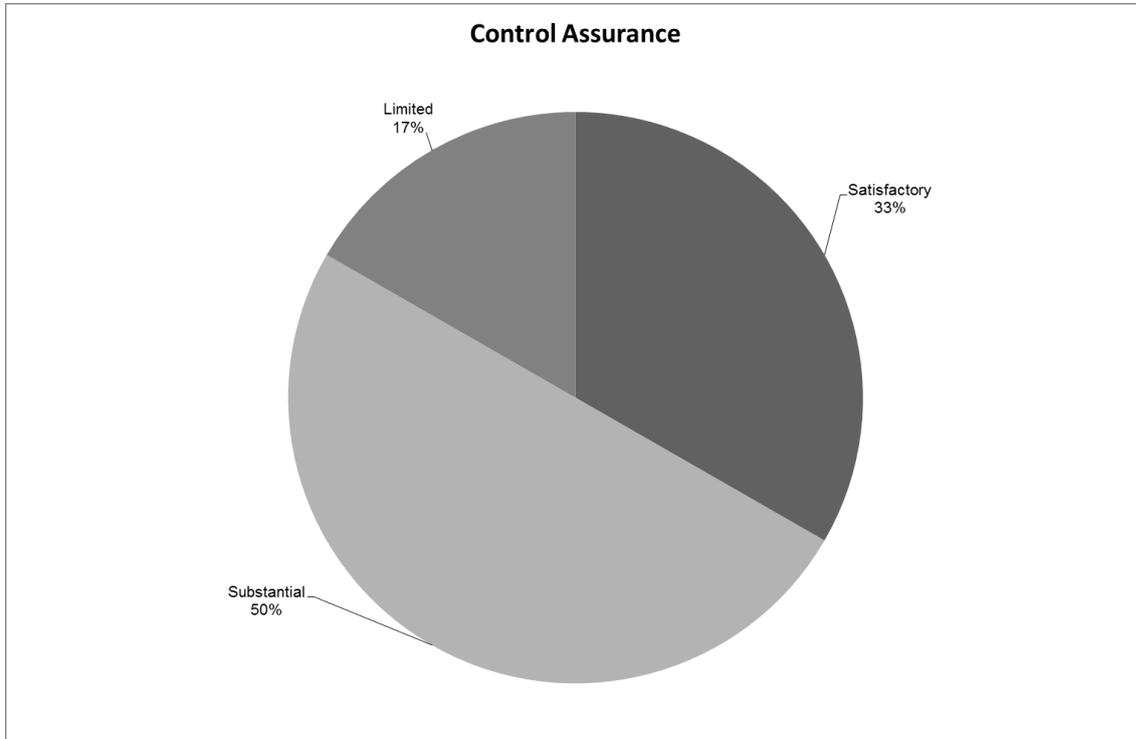
Attachment 2 includes the summary of the MGL follow up review (original audit completed in 2015/16) and the MGL Value for Money review.

The schedule provided at **Attachment 3** contains a list of all of the 2017/18 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Governance Committee. Explanations of the meaning of these opinions are shown in the below table.

Assurance Levels	Risk Identification Maturity	Control Environment
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 service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Strategy.</p>	<ul style="list-style-type: none"> • 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 service areas, finance, reputation, legal, the environment, client/customer/partners, and staff, however some key risks are not being accurately reported and monitored in line with the Council's Risk Management Strategy.</p>	<ul style="list-style-type: none"> • 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 Council's Risk Management Strategy, the service area has not demonstrated an satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.</p>	<ul style="list-style-type: none"> • 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 2017/18 audit activity undertaken up to September 2017.



(4b) Limited Control Assurance Opinions

Where audit activities record that a limited assurance opinion on control has been provided, the Audit and Governance Committee may request Senior Management attendance at the next meeting of the Committee to provide an update as to their actions taken to address the risks and associated recommendations identified by Internal Audit.

(4c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During the period June 2017 to September 2017, one audit review has been provided with a limited assurance opinion on control which relates to the Officers' Code of Conduct.

It is important to note that whilst a limited assurance opinion has been provided in this instance, management have responded positively to the recommendations made and actions are being taken to address them.

(4d) Satisfactory Control Assurance Opinions

Where audit activities record that a satisfactory assurance opinion on control has been provided, where recommendations have been made to reflect some improvements in control, the Committee can take assurance that improvement actions have been agreed with management to address these.

(4e) Internal Audit Recommendations

During the period June 2017 to September 2017 Internal Audit made, in total, **12** recommendations to improve the control environment, **3** of these being high priority recommendations i.e. **9** 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 2017 to September 2017, it is pleasing to report that no limited assurance opinions on risk have been provided on completed audits from the 2017/18 Internal Audit Plan.

Where a limited assurance opinion is given, the Shared Service Senior Risk Management Advisor will be provided with the Internal Audit report(s) to enable the prioritisation of risk management support.

Completed Internal Audit Activity during the period June 2017 to September 2017

Summary of Limited Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: Officers' Code of Conduct

Background

The purpose of the Officers' Code of Conduct (the Code/Code of Conduct) is to give all employees guidance on how the City Council and the public in general expect them to behave. If the Code is followed then staff should not find themselves in a situation where their conduct could create an impression of conflict of interest or corruption in the minds of the public.

Compliance with the Code is essential particularly during periods of significant change, such as the Together Gloucester restructure. The Together Gloucester project also introduced an Employee Behaviours Framework, which the Code should align with in order to support and develop a positive workplace culture.

In the wider context, one of the Council's key Corporate Governance Principles (Principle A within the Council's Code of Corporate Governance, which is based upon the CIPFA / SOLACE publication entitled "Delivering Good Governance in Local Government: Framework 2016 Edition"), states the Council will "behave with integrity, demonstrate strong commitment to ethical values, and respect the rule of law" and will have appropriate systems and process in place to enable this.

Scope

The audit objectives were to provide reasonable assurance that:

- The Council maintains a current and appropriate Code of Conduct, with appropriate links to the wider governance framework; and
- Council employees are aware of the Code of Conduct, are able to refer to it, and understand its contents and their own responsibilities in applying it.

The audit considered the current arrangements in place only.

Risk Assurance – Satisfactory

Control Assurance – Limited

Key Findings

The Council's Code of Conduct is part of the Constitution and has remained largely unchanged since 2010.

The majority of expected content was present in the Code of Conduct. However, some phrasing within the Code of Conduct may be open to interpretation and some sections do not provide a sufficient level of detail when compared to neighbouring authorities.

Many of the policies referenced within the Code of Conduct are out of date and not readily available to staff.

New starters are not provided with the correct Code of Conduct, and may therefore be unaware of its existence or requirements.

A survey of sampled employees found that staff are not generally aware of where to find the Code of Conduct for reference.

The Council's approach to registering gifts and hospitality is fragmented, and the stated process in the Code of Conduct is applied inconsistently between services. No central oversight of officer gifts and hospitality exists.

In scenarios of being offered gifts or hospitality, surveyed staff generally showed caution and indicated they would decline any offers from third parties, although this is not a requirement of the Code of Conduct.

No Register of Officer Interests for conflicts of interest exists, although there is mitigation for officers at a senior level through the process for declaring related party transactions. The stated processes in the Code of Conduct, Contract Rules and Financial Procedure Rules are not in place.

Conclusions

There is no guidance from central government on content to include within a public sector officer code of conduct. Analysis confirmed that many topics, drawn from internal audit and governance best practice, where officers are expected to act with integrity have been addressed by this Council.

However, comparison against neighbouring authorities in the Gloucestershire area found that this Council's Code of Conduct may benefit from the additional detail and depth in setting out the Council's expectations. Opportunities were found to clarify wording and update some sections of the Council's governance framework that support the Code of Conduct.

Consideration was given to how the Council's culture, which is fundamental to setting a "tone from the top" and establishing good officer conduct, is perceived by staff. The staff survey undertaken by Internal Audit was necessarily limited in the numbers of staff interviewed, but showed a generally good perception of the Council and management, with some specific areas of feedback that may be used to inform management in future developments.

There were however some areas where governance was weak, and management need to take action against some longstanding practices that are detrimental to good governance.

The Council's new starter process was found to need immediate correction, which the HR Business Partner actioned during the audit process, as the Code of Conduct issued to new employees is for a different Council and does not provide the right guidance on this Council's expectations.

The staff survey showed that in general employees have confidence in the Council's ethical stance. However, there was uncertainty around certain expectations and procedures, including the location of the Code of Conduct itself, leading to a tendency towards caution and reliance on line managers in ethical conduct.

There is also a need to overhaul the existing approach to registering potential conflicts of interests, registering gifts and hospitality, and update the Code of Conduct and associated policy documents accordingly. The design and implementation of the registers has resulted in reduced corporate oversight, and it is anticipated that the Together Gloucester programme and its associated links to ethical behaviour will provide a strong opportunity for management to re-establish effective arrangements.

Overall, the cautious approach exemplified in the staff surveyed signifies that the Council should take comfort that employees are conscious of the need to demonstrate correct and ethical behaviour. Taking all elements into consideration, the risk opinion has been assessed as satisfactory. However, the ongoing absence of established procedures to record officer conflict of interests, the need to bring the different methods of recording gifts and hospitality together into a single approach, the need to update core governance policies, and the absence of a current system to provide governance documents to staff have resulted in a control opinion of limited assurance.

Management Actions

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

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: Policy and Resources

Audit Activity: New Financial Management System

Background

The Council's Cabinet approved a change of the Council's financial system from Advanced Business Solutions (ABS) Financials to Civica Financials. As set out in the Cabinet report dated June 2015 the purpose of the change was the need to:

- Contribute to a saving requirement for the financial services team;
- Enable enhanced management reporting;
- Improve resilience; and
- Meet the needs of the Council.

The change of financial management system was delivered via a Project Board led by the financial services team and involving Malvern Hills District Council (MHDC) and Civica representatives, who were responsible for coordinating the integration of the new software into the Council's IT infrastructure.

The new system financial modules went live in accordance with the following schedule:

- February 2017: General Ledger;
- February 2017: Accounts Payable (Creditors);
- February 2017: Accounts Receivable (Debtors); and
- May 2017: Non-current Asset Register.

Data for the full 2016/17 financial year at the point of transfer was migrated from the legacy ABS Financials system to Civica Financials, with data for previous years archived.

The new system is hosted on the Council's IT Infrastructure, which is supported by Civica under a separate contract, and replicates hosting arrangements currently in place with ABS Financials. The system administration for Civica Financials is delivered by Malvern Hills District Council through a S101 Agreement.

Scope

The purpose of this audit was to provide assurance that key financial controls supporting the Council's financial statements and reporting are in place within the new financial system. This audit scope was developed following discussions with Finance and the External Auditor.

The objectives for this audit were:

- Objective 1: System Design ensures that transactions are recorded in a form suitable for use in financial statements;
- Objective 2: System Access controls prevent unauthorised creation, deletion or amendment to financial information;
- Objective 3: Data Migration ensures that data transferred from the legacy to new financial system is complete and accurate; and
- Objective 4: System Interfaces and Reconciliations are drawn from accurate and reliable data.

Following discussions with Finance, this audit did not review the project management arrangements, staff training, or benefits realisation associated with the Civica Financials system.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

This audit reviewed 68 controls across five functional themes: general ledger, budget, non-current assets, accounts payable and accounts receivable. Consequently findings have been summarised against each of the main objectives below:

Objective 1: System Design ensures that transactions are recorded in a form suitable for use in financial statements

The system was seen to have adequate controls in place to prevent inappropriate deletion of transactions, to allocate transaction reference codes and prefixes according to logic, and to allocate transaction numbers sequentially. Consequently a unique reference for each transaction, supplier and customer is present.

An audit trail is in place, and checks within the system for creditor and debtor accounts flag potential duplicates at the point of entry.

Objective 2: System Access controls prevent unauthorised creation, deletion or amendment to financial information

The system was reviewed to determine its access functionality, and the users assigned to roles. Roles were seen to have been mapped directly from the old financial system, although review found that a small number were leavers and should therefore have been removed. Functionality was generally sound, although a control mapped from the legacy debtors system for credit note authorisation was found to have potential for improvement.

High level access was restricted to senior finance officers, and the staff responsible for administering the financial system. Generic user roles were kept to a minimum.

Objective 3: Data Migration ensures that data transferred from the legacy to new financial system is complete and accurate

A substantial volume of transactional data relating to the 2016/17 financial year, plus the non-current asset register, accounts payable and accounts receivable databases were migrated in a staggered approach as part of the new system implementation.

The migration was evidenced as completed in full, with a reconciliation undertaken by the Finance Team verified as accurate by Internal Audit. Transactional data was verified by Internal Audit and although one minor error was seen in the migration of budgets all other areas were seen to have migrated accurately and in full.

Objective 4: System Interfaces and Reconciliations are drawn from accurate and reliable data

Reliance on difference sources of information entered into or matching against the financial system is a key consideration in providing assurance that the financial information available to the Council is of high quality.

Review of the general ledger and banking software confirmed that transactions are being managed appropriately, and information from both systems recorded in daily and monthly reconciliations is based on accurate parameters. Cash receipting transactions are currently imported manually pending a solution from the cash receipting software supplier to correct an issue with the export/import file, and although some delays are apparent walkthrough testing found the interim process to be accurate and complete.

Reconciliations against Council Tax and National Non Domestic Rates (NNDR) records have been completed with all variances accounted for. At the time of testing the reconciliation of the general ledger to Housing Benefits was part-completed, with discussions between Finance and Civica underway.

The general ledger also contains links to other modules of the system: the non-current asset register, accounts receivable, and accounts payable. Transactions tested between these modules were found to be appropriate and accurate.

Conclusions

Overall, the majority of the arrangements expected in transferring and securing data in the new Financial Management System were found to be in place.

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 address all issues raised from this review.

Summary of Substantial Assurance Opinions on Control

Service Area: Policy and Resources

Audit Activity: Benefits Upgrading

Background

Gloucester City Council expenditure on Housing Benefits and Council Tax Support is in excess of £46m per annum. The rules surrounding entitlement to Housing Benefit and Council Tax Support are quite complex and have the potential to lead to a number of under/overpayments. The service was outsourced to Civica Ltd in October 2011 with an initial contract term of seven years, which has been extended to October 2021.

Scope

The External Auditors have identified Housing Benefits and Council Tax Support as being a key financial system. The audit approach will be to test key high level controls on an annual basis with the remaining controls as identified by the Chartered Institute of Public Finance and Accountancy (CIPFA) being tested over a rolling three year period.

The period tested comprised activities to prepare the service function for the 2017/18 financial year. The initial review will provide assurance that staff verify that the appropriate 2017/18 system parameters for Housing Benefit and Council Tax Support Scheme calculations have been entered and authorised completely and correctly.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- Evidence was available to confirm that the nationally-set Housing Benefit and Council Tax Support Scheme uprating parameters have been applied by Civica and checked by the Council to confirm accuracy.
- The 2017/18 Local Council Tax Support Scheme was approved by the Council and evidence was available to confirm that amendments were applied by Civica and checked by the Council to confirm accuracy and completeness.
- Civica staff sampled claims to verify accuracy of Housing Benefit and Council Tax Support Scheme. A sample of the checks carried out by Civica was also reviewed by the Council to provide additional assurance and verify accuracy.

Conclusions

Internal Audit undertook testing to confirm that the parameter changes applicable to the 2017/18 year have been set correctly, and that internal procedures had been followed within Civica and the Council to verify the changes to the parameters before implementation.

Internal Audit can confirm that findings demonstrated that the expected controls were in place to prepare the benefits system for the 2017/18 uprating and that the controls functioned effectively; the assurance opinion provided is therefore substantial.

Management Actions

None required.

Service Area: Policy and Resources

Audit Activity: Council Tax – Setting the Base 2017/18

Background

Gloucester City Council is responsible for setting and collecting a level of residents' Council Tax to meet its budget requirement. It is also responsible for collecting the charges set by other public bodies within the administrative area, including Gloucestershire County Council and the Police and Crime Commissioner (PCC).

The Council Tax requirement for the Council's own purposes, as a source of Council finance in 2017/18 is £6.99million.

Scope

The External Auditor has identified the Council Tax system as an area where key financial controls exist.

The period tested comprised of activities to prepare the service function for the 2017/18 financial year. The review provided assurance that staff verify that Council Tax bills are based on approved levels, have been calculated correctly, and have been billed to relevant properties in accordance with statute.

High level controls only were reviewed, due to previous audit findings of no reportable areas for improvement.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

Internal Audit found:

- Evidence was available to confirm that the process for the calculation of Council Tax Base (CTB) figures for Gloucester City Council (the Council) and the Parish of Quedgeley (Quedgeley) have been followed inline with guidelines. These CTB figures were used to calculate the Council and Quedgeley band 'D' charges correctly.
- The Council Tax charges, including precepts by the County Council, the PCC and Quedgeley were formally approved at the full Council meeting held 23 February 2017.
- Evidence was available to confirm that the billing system parameters have been subjected to review by Civica's Service Delivery Manager and the Council's Senior Client Officer prior to annual billing to confirm accuracy and completeness.
- Civica performed reconciliations upon the number of properties, the gross charge, and the total amount billed. The reconciliation carried out was documented and satisfactorily concluded.

Conclusions

Internal Audit review confirms that the calculation of the CTB has been completed in accordance with statute and appropriately approved. Parameter changes applicable to 2017/18 billing had been set correctly and internal processes had been followed within Civica and the Council to verify the changes to the parameter before implementation.

Internal Audit found the expected controls were in place to ensure that Council Tax charges had been appropriately set and properties within Gloucester had been appropriately billed; the assurance opinion provided is substantial.

Management Actions

None required.

Service Area: Policy and Resources

Audit Activity: National Non-Domestic Rates (NNDR) Multipliers 2017/18

Background

NNDR, also known as Business Rates, are charged to non-domestic properties as a contribution towards local services. The calculation is based on the combination of a property's rateable value and a nationally-set multiplier.

Non-domestic properties in the UK pay business rates to local authorities. Business rate liabilities are based on each property's assigned 'rateable value'. This is multiplied by a 'multiplier' or 'poundage' to arrive at the property's annual liability. The two multipliers for 2017/18 are 47.9p (0.479) non-domestic rating multiplier and 46.6p (0.466) small business non-domestic rating multiplier.

In 2017/18 there is a Rateable Value (RV) of £125million within the City Council's area; the Business Rates due to be raised locally is £56million.

Under the Business Rates Retention Arrangements introduced from 1 April 2013, local authorities keep a proportion of the Business Rates paid locally (50%). The remaining revenue collected from Business Rates is sent to Central Government for re-allocation back to each local authority on the basis of per head of population. In 2019/20 the Business Rates Retention Arrangements will change, moving to a system where local authorities will retain 100% of the business rates raised locally.

Scope

The External Auditor has identified the NNDR system as an area where key financial controls exist.

The period tested comprised of activities to prepare the service function for the 2017/18 financial year. The review provided assurance that staff verify that NNDR bills are based on approved levels, have been calculated correctly, and have been billed to relevant hereditaments in accordance with statute.

High level controls only shall be reviewed, due to previous audit findings of no reportable areas for improvement.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

Internal Audit found:

- Evidence was available to confirm that the input of the NNDR parameters for 2017/18 and transitional arrangements onto the Open Revenue billing system had been subjected to review by the Council's Senior Client Officer prior to annual billing, to provide independent assurance that parameters had been accurately transferred onto the system; and
- Civica performed a reconciliation between the number of hereditaments within the billing system and Valuation Office records to provide assurance they were correctly aligned. Checks were also performed to compare the total value of the bills extracted for printing to the Financial Control Report run prior to billing to provide assurance that expected bills would be printed. The checks carried out were documented and satisfactorily concluded.

Conclusions

Internal Audit testing found the expected controls were in place to ensure that NNDR is based on approved levels and business hereditaments within Gloucester and Quedgeley are appropriately billed; the assurance opinion provided is therefore substantial.

Management Actions

None required.

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

Service Area: Policy and Resources

Audit Activity: Blackfriars Priory Turnover Certification

Background

In March 2012 the Council entered into a lease with English Heritage for the use of the Blackfriars Priory site. The Council's main objectives for the venue were to open it as a visitor attraction, provide educational visits, develop a wide-ranging events programme (both commercial and non-commercial), run and facilitate workshops and develop a meetings and conference trade. There is now also a developed service as a wedding venue.

The lease allowed a peppercorn rent for the first two years of operation, with the following three years' rental to be a percentage of Gross Turnover, as defined in the lease agreement.

The Council is required to provide English Heritage with a Turnover Certificate signed by a professionally competent auditor, certifying the amount of Gross Turnover for the relevant year.

Scope

To provide assurance that, in all significant respects, the Gross Turnover values for 2016/17 provided to English Heritage by Finance are accurate and in accordance with the requirements of the lease agreement.

To provide assurance that a certificate confirming the Gross Turnover for the Turnover Period may be signed.

Key Findings

Provisional Gross Turnover figures were provided by Accountancy based on the net balances of income account codes across the two cost centres in use for Blackfriars Priory. This identified income of £121,622 in 2016/17.

Detailed review identified a number of minor adjustments necessary in order to align the recorded figures to the requirements of the lease agreement. This has resulted in a Revised Gross Turnover figure of £115,376.

Conclusions

Following acceptance of the Revised Gross Turnover figures Internal Audit is able to provide assurance that the requirements of the lease agreement have been met. As a result, the Turnover Certificate has been signed by the Group Manager – Audit Risk Assurance.

Management Actions

Not applicable

Summary of Special Investigations/Counter Fraud Activities

Current Status

Four referrals have been received by Internal Audit for investigation during 2017/18 to date. Two of these cases have been closed, with a third (relating to potential perjury) having been referred to the Police through One Legal, although recent feedback received shows that the matter will not be taken further due to it not passing the public interest test. However, the intelligence received from Internal Audit will be used for other possible offences not concerning the Council. The fourth case is still under investigation.

Of the two cases closed one involved a whistle blowing allegation of abuse of position by senior staff. There was no evidence of fraud; however procedural issues were identified which have subsequently been addressed through Internal Audit reporting procedures.

The other closed case involved a potential email scam received from overseas. It was identified that this was a scam and as a consequence no further communications were made with originator of the email. This matter was also reported to the National Anti-Fraud Network (NAFN), and has subsequently been issued as an alert to all members.

The outcome of the fourth case will be provided to the Audit and Governance Committee once concluded.

Any fraud alerts received by Internal Audit from NAFN are passed onto the relevant service areas within the Council, to alert staff to the potential fraud.

Fraud Risk Assessment / Risk Register

A fraud risk register has been produced during this period, 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 now been received for further investigation. 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.

Outcomes from the Marketing Gloucester Limited (MGL) follow up internal audit and the Value for Money review

Background

The original MGL internal audit was completed in 2015/16 and resulted in an unsatisfactory assurance opinion (GAAP assurance level for internal control). A follow up audit was then completed in 2016/17 and presented to Audit and Governance Committee on 13th March 2017, confirming:

- 'The Corporate Director (as lead officer) has a clear strategy to regularise the Council's relationship with MGL and to further strengthen the governance arrangements (including performance and financial monitoring).'
- 'Actions are still in progress at the point of the follow-up.'

Audit and Governance Committee have requested that both a Value for Money (VFM) review and a further follow up review is completed on providing an update as to the progress made with the original internal audit report recommendations.

This is documented within the Audit and Governance Committee 2017/18 work programme and confirms the requirement for the outcomes to be presented to 18th September 2017 Audit and Governance Committee meeting.

Outcomes

Service Area: Cultural and Trading

Audit Activity: MGL follow up review

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

The follow up audit review has resulted in a satisfactory assurance opinion, regards the Council's position against the 2015/16 MGL internal audit report recommendations.

The findings from this follow up review confirm that the Council has actioned six of the original seven internal audit recommendations, through regularising of the Council's relationship with the Company and strengthening the base of governance arrangements in place - via updated legal agreements; review and decision regards secondments; and transparent performance criteria and a performance monitoring approach.

Due to the timing of the audit follow up, the audit was able to review the audit trail from one Partnership Performance Review Meeting (26th June 2017) only. This confirmed Council quarterly performance management report review and challenge, however could not confirm that the performance monitoring requirements set by the Company and Council as at 9th March 2017 have been fully embedded at the point of audit follow up.

Implementation of the remaining recommendation (low priority GAAP ranking) has been postponed to ensure appropriate consideration and update of the Council's performance review approach, with direct input from the new Head of Cultural and Trading Services (the new Head of Service appointed through the Together Gloucester project, with responsibility for delivery of MGL outcomes).

The Corporate Director has confirmed that the Council (through the Corporate Director and the new Head of Cultural and Trading Services) target is to further review and embed the performance monitoring arrangements within 2017/18.

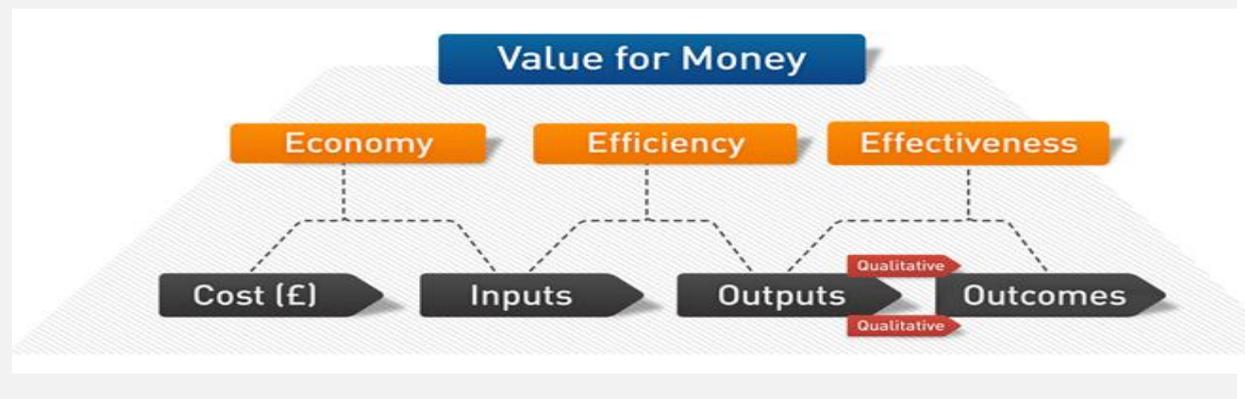
Service Area: Cultural and Trading

Audit Activity: MGL Value for Money (VFM) review

Review Scope

VFM is a term used to assess whether an organisation has obtained the maximum benefit from the goods and services it procures and provides within the constraint of available resources. It is often described and assessed in terms of the 'three Es' and the relationship between them:

- Economy: cost of the inputs needed to provide a service;
- Efficiency: productivity/performance measure of the outputs achieved from the service inputs; and
- Effectiveness: a measure of the outcomes/objectives achieved (quantitative and/or qualitative).



VFM promotes the best use of public money, to ensure services are provided of the right quality, level and cost that reflect the needs of the organisation and its stakeholders. It is also a key consideration within the current Council Plan 2014/17, which contains the priority of *'Sound finances and strong performance - with a reduced budget it is even more important than ever to get the most out of the resources we have, and to ensure our financial position is sound'*.

The objective of the VFM review was to apply the 'three Es' (Economy, Efficiency and Effectiveness) to determine whether the Council obtains VFM from its funding arrangements in place with MGL (the Company) at the point of the VFM review.

Background

MGL was established in 2008 by the Council as an independent organisation with *'the primary purpose of representing, supporting and advising business and public leaders on economic and regeneration growth, leisure and tourism, and promotion of them in the City of Gloucester.'*

The original Funding and Management Agreement (FMA) between the Company and the Council was signed on 19th December 2008. It confirmed that *'the Company require(d) pump prime funding in order to establish itself as an independent private company'* and that the Council *'agreed to provide this limited assistance'* based on the FMA terms and conditions.

More recently, the Council's Corporate Director defined a clear strategy to regularise the Council's relationship with the Company and to further strengthen the governance arrangements in place. This was actioned through the 9th March 2017 Council and Company signed:

- Memorandum and Articles of Association of Marketing Gloucester Limited;
- Contract for Services (between the Council and Company); and
- Members Agreement (between the Council and Company).

Key Findings/VFM Assessment Table

See table below.

Attachment 2

Value For Money	Economy	Cost	<p>The Council's Five Year Money Plan confirms a £200k reduction to the Company management fee phased over two years. This is in line with the Contract for Services annual charge amounts. The pump prime element of Company funding arising from the original FMA has now been replaced by the new management documents, which confirm an annual charge in return for the delivery of an agreed schedule of services.</p> <p>Company liabilities to the Council at the point of VFM: Loan of £97,000 from the Council to the Company is repayable on demand; stone bench crowd funding (£5,030 net of Company expenses where applicable); and roundabout sponsorship income (£9,000).</p> <p>Additional services (outside of the 9th March 2017 agreements) are permitted but require agreement, commissioning and charging in line with the Contract for Services requirements.</p>
		Input	<p>The Council's relationship and governance arrangements with the Company have been strengthened through the 9th March 2017 Council and Company signed documents.</p> <p>The 9th March 2017 agreements have clear performance reporting and performance management criteria.</p> <p>There is a clear Council decision making process for the Festivals and Events budget and events breakdown, prior to allocation to the Company for delivery.</p>
	Efficiency	Output	<p>There is a clear Council reporting process for the Festivals and Events budget and events delivery, which has had improvements in regard to content within 2017.</p> <p>The performance monitoring requirements set by the Company and Council as at 9th March 2017 have not been fully embedded at the point of VFM review, limiting the Council's ability to evidence (through robust substantive audit trail) outputs achieved from the service inputs.</p> <p>Positive grant bid and project outcomes e.g. Rugby World Cup 2015, the Great Places Scheme and the Gloucester Business Improvement District (BID) proposal.</p>
		Outcomes	<p>Positive qualitative outcomes.</p> <p>The performance monitoring requirements set by the Company and Council as at 9th March 2017 have not been fully embedded at the point of VFM review, limiting the Council's ability to evidence (through robust substantive audit trail) the objectives achieved from costs and inputs with the Company.</p>
	Effectiveness		

Strengths, weaknesses, opportunities and threats (SWOT) analysis results

SWOT analysis of the Council's current arrangements in place with the Company (based on reviewed available audit trail and discussion with Council officers) has been completed and confirms strengths and positive outcomes achieved through the Council's arrangements in place with the Company to date.

SWOT also highlights a risk to the Council and the Company, due to the Company requirement of the ongoing support of its creditors (including the Council) to pay its liabilities as they fall due. If the position is not managed appropriately by the Company and transparently reported to and considered by the Council in a timely/regular manner (in line with criteria within the Contract for Services and Members Agreement), there is potential reputational and financial risk to the Council. This needs to be appropriately considered within the Council's risk and VFM assessments of the arrangements with the Company.

Conclusions

The VFM review has confirmed that there has been a positive direction of travel over the last year in regards to the Council's overarching arrangements with the Company e.g. through regularising of the Council's relationship with the Company, strengthening the base of governance arrangements in place and agreement of funding for the medium term.

At the point of VFM review, the Council has not fully embedded the performance monitoring arrangements required by 9th March 2017 agreements and limited audit trail was available to confirm the overall VFM position.

Embedding of the performance reporting (the Company) and monitoring (the Council) criteria are required, to enable up to date and ongoing risk assessment, VFM assessment and benchmarking.

It is proposed that Internal Audit undertake a follow up VFM review within 2018/19, to enable independent assurance to be provided, once the revised governance arrangements have been fully embedded.