

# 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 undertakes its functions.

## **(2) Responsibilities**

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

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

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

## **(3) Purpose of this Report**

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

- The progress against the 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 November 2017 to December 2017; and
- Special investigations/counter fraud activity.

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

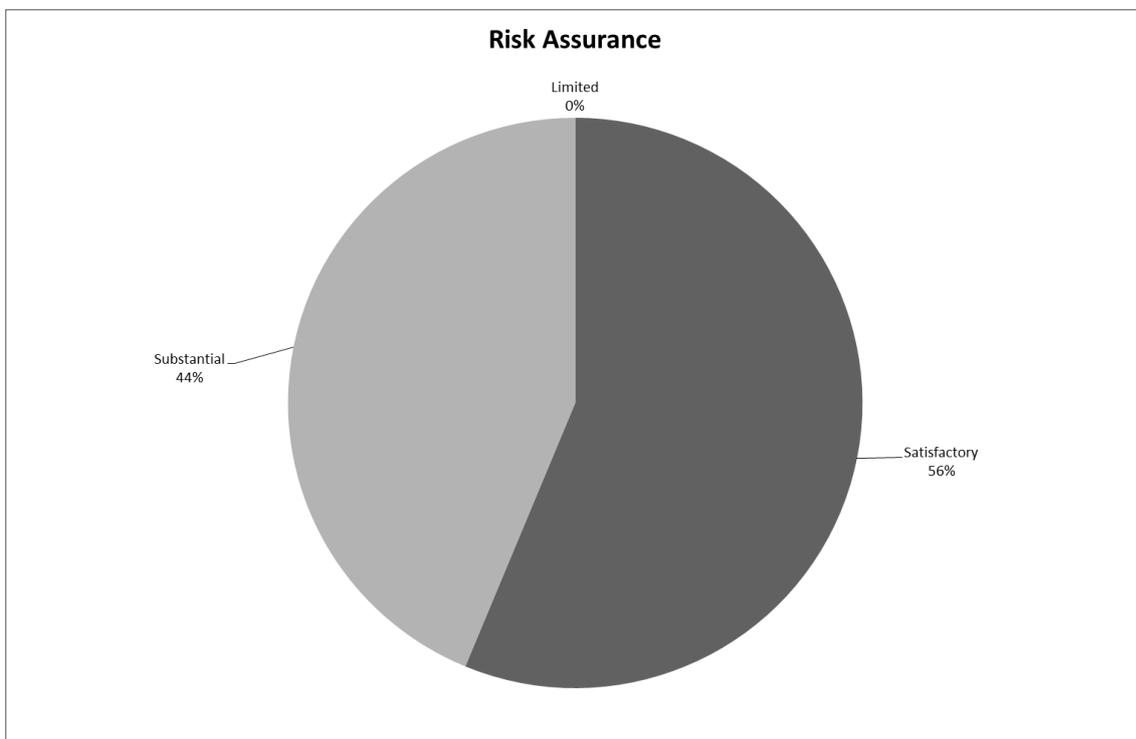
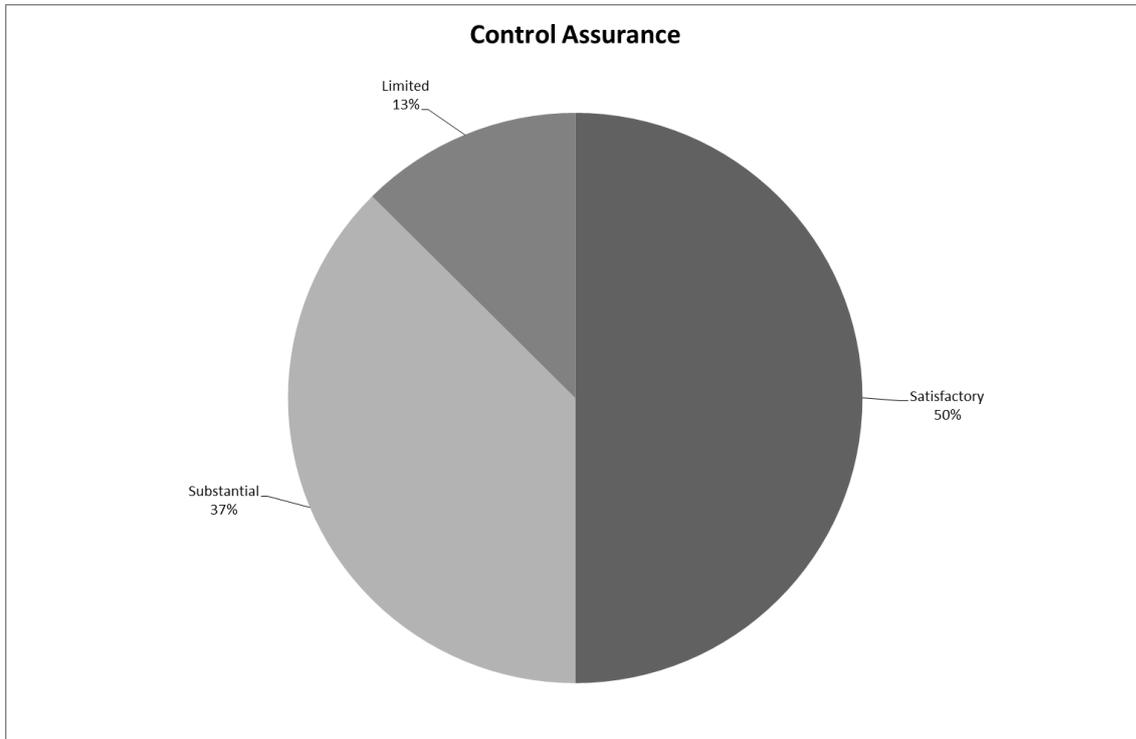
The schedule provided at **Attachment 1** provides the summary of 2017/18 audits which have not previously been reported to the Audit and Governance Committee, including, one limited assurance audit opinion on control. **Attachment 1** also includes the summary of special investigations/counter fraud activity to date.

The schedule provided at **Attachment 2** contains a list of all of the audit activity undertaken during 2017/2018, 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
<b>Substantial</b>	<p><b>Risk Managed</b> 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"> <li>• System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved</li> <li>• Control Application – Controls are applied continuously or with minor lapses</li> </ul>
<b>Satisfactory</b>	<p><b>Risk Aware</b> 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"> <li>• System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger</li> <li>• Control Application – Controls are applied but with some lapses</li> </ul>
<b>Limited</b>	<p><b>Risk Naïve</b> 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 a 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"> <li>• System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls</li> <li>• Control Application – Significant breakdown in the application of control</li> </ul>

#### (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 December 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 November 2017 to December 2017, one audit review has been provided with a limited assurance opinion on control which relates to Project Solace.

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 November 2017 to December 2017 Internal Audit made in total, **9** recommendations to improve the control environment, **2** of these being high priority recommendations and **7** 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 November 2017 to December 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 November 2017 to December 2017

### Summary of Limited Assurance Opinions on Control

#### Service Area: Communities

#### Audit Activity: Project Solace

##### Background

Anti-Social Behaviour (ASB) covers a wide range of activity that can have a significant negative impact on people's lives on a daily basis, affecting them as an individual, their community or their environment. It is widely recognised that single agencies cannot tackle ASB alone and there is a need to work in partnership to address these issues.

In Gloucester, Project Solace, a multi-agency team between Gloucester City Council (GCC) and Gloucestershire Constabulary brings agencies together to deal with ASB involving homeowners, private landlords and tenants, and ASB in public places. Project Solace is currently in a process of transition, as GCC took over the operational day-to-day running of Project Solace (from Gloucester City Homes (GCH)) in 2016. Cheltenham Borough Council (CBC) is due to join the partnership from January 2018 and structural and staffing changes have taken place within the team to accommodate a wider partnership, called Urban Solace.

##### Scope

This audit reviewed the Council's role within the Project Solace partnership to date to provide assurance that:

- The partnership's financial governance and reporting arrangements are in place and effective; and
- ASB is being handled appropriately in line with the Project Solace objectives and service level agreement.

Areas for improvement and development will be considered in the transition to the new and extended partnership model.

##### Risk Assurance – Satisfactory

##### Control Assurance – Limited

##### Key Findings

- The Project Solace partnership (GCC, GCH and Gloucestershire Constabulary) was formed in April 2010, with existing ASB teams co-locating under the management of GCH. However, in 2016 the involvement of GCH ceased and the management of Project Solace moved to GCC, with staff co-locating within the council offices.

- Referrals to Project Solace can be made through a variety of channels (e.g. from the Police, individual reports via the Council's Customer Service Contact Centre, or from other Council departments).
- Project Solace also delivers Street Aware (operational aspect of Gloucester's Safe and Attractive Street Policy, relating to tackling begging in Gloucester city centre).
- Key staff are aware of and refer to Project Solace; however there may be opportunities to expand engagement activity to ensure appropriate links with other schemes designed to tackle ASB, street begging and homelessness are in place.
- In April 2017 CBC Cabinet approved a proposal for Cheltenham to become a member of the partnership. At the point of Cheltenham joining the partnership it will become known purely as Solace.
- This expansion receives support from the Police and Crime Commissioner (PCC) in the form of £22,500 per annum for a period of four years. This forms 50% of the costs of a Senior ASB Officer / Solace Team Leader who will be responsible for the management of Solace teams at both GCC and CBC. The additional sum is being funded equally by each Council (£11,250).
- Ongoing delays have been experienced regarding the implementation of Solace and it is now anticipated that the extended Solace partnership will be in place early in the New Year (January / February 2018) although definitive timescales are still to be confirmed. Consequently there is less line management performance oversight currently available for the existing arrangement due to staffing structural changes.
- There is no Governance Board in place for the current Project Solace arrangement; however the new arrangements will see a Governance Board with clear terms of reference and membership to commence in spring 2018.
- A Solace Decision Making Forum meets at regular intervals and is attended by representatives of all partners. This meeting focuses on the development of Solace, and whilst progress has been made towards Solace implementation, there remain key actions outstanding including:
  - The Senior ASB Officer / Solace Team Leader commencing in post;
  - The completion and approval of the Service Level Agreement and key information including funding, governance, role and commitment of each partner, performance monitoring / review arrangements, security and confidentiality, budget and billing, communications, business continuity and complaints;
  - The Information Sharing Agreement being agreed and signed by all partners; and
  - The development of the Solace ASB, Hate Crime and Incident Policy and key staff guidance documents.

- Quality assurance sampling is not carried out to ensure cases are being dealt with appropriately and areas for improvement or areas of best practice identified.
- Performance reporting is not generally carried out on Project Solace activity or presented to management, the exception being the 'Street Aware' aspect which was reported to Overview and Scrutiny Committee 6 months following implementation.
- Key performance indicators and other measurable outcomes to be reported on are still to be agreed between partners. Updates to the PCC are a condition of funding.
- Future funding arrangements enabling the continuation of Solace (post the PCC grant funding contribution) are unknown at this stage and will need to be discussed and agreed by all partners.

### Conclusion

Multi-agency partnerships such as Project Solace working to tackle ASB are widely considered as good practice, benefiting individuals and communities affected by ASB and ensuring that the right person, with the right powers, is tasked to deal with each ASB complaint and holistic coordinated approach is taken to tackle emerging themes.

Overall, given the transitional nature of the current Project Solace / Solace arrangement Internal Audit conclude that risks are being satisfactorily considered; however whilst enhancement of the control environment is planned the ongoing delays and absence of corporate oversight and performance monitoring mean that only limited assurance can be provided that these risks are being adequately managed and controlled.

With the new arrangements of an extended partnership, there is opportunity to strengthen controls within the following areas:

- Carrying out further engagement activity to identify and liaise with other schemes working to reduce ASB;
- Improving management oversight and quality assurance practices to ensure that work is being allocated and actioned within appropriate timescales, risk assessment completed and that ASB action plans are well designed, victim focused and taking into account relevant factors;
- Introducing performance monitoring and reporting to ensure performance, working practices and case outcomes can be scrutinised sufficiently to ensure any gaps and/or good practice can be highlighted of continual improvement purposes; and
- Strengthening Governance arrangements and ensuring a Governance Board (with representative from each partner organisation) as detailed within the Solace implementation plan is formed as soon as possible.

### 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: Benefits – Key Controls 2017/18

#### 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 has 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 recently been extended to October 2021.

#### Scope

This audit reviewed the following objectives:

- Reconciliations with key financial systems are completed at an appropriate frequency;
- User management is operating effectively to prevent inappropriate access or amendments to software;
- The Council's Risk Based Verification (RBV) Policy is applied correctly to assessments;
- Quality assurance arrangements demonstrate that the Council is receiving a good service; and
- Data matching exercises for the prevention of fraud (e.g. National Fraud Initiative (NFI)) are reviewed and actioned promptly.

Although an additional objective was included to verify that recovery procedures are in place to identify and recoup benefit overpayments promptly, due to a concurrent review of this area against best practice by the Department of Work and Pensions (DWP) it was agreed to remove this from the initial scope in order to avoid assurance duplication.

**Risk Assurance – Satisfactory**

**Control Assurance – Satisfactory**

**Key Findings**

- Council Tax Support Scheme entitlements are reconciled to the Council Tax system on a weekly basis and formally signed off by a Supervisor.
- The benefits system is reconciled to the general ledger on a monthly basis, although there is no formal signoff by an independent person.
- System users for all modules have been reviewed following the Together Gloucester restructure. Improvements have been made, although five user amendments are required following this audit.
- A RBV Policy is in place and being applied. Sampling of 26 new claims confirmed that all necessary evidence had been obtained and identified some areas for policy clarification.
- The arrangements for delivery of quality assurance checks have been amended in 2017/18. Civica Benefits (from another location) now carry quality assurance sampling for the Council.
- Quality assurance checks on at least 10% of claim decisions have not been undertaken in 2017/18 at the point of the audit as no checks were conducted at the beginning of the financial year (April-June 2017). However if the current level of checks seen over the subsequent months continues (over 10%) the required percentage of claim decisions will be checked by the end of the financial year.
- The Council has opted in to the DWP's Right Benefit Initiative, an extension of the Real Time Information scheme to assist in identifying fraud and error. This will be monitored via existing governance arrangements in monthly performance reports.
- NFI recommended data matches have been reviewed by the Civica Investigations Officer and all relevant tables closed.

**Conclusion**

Overall, the arrangements to ensure risks relating to Housing Benefit and the Council Tax Support Scheme are being managed are considered to be acceptable.

Reconciliations are undertaken on a timely basis, by appropriate individuals. Sampling demonstrated that each reconciliation is accurate and supported by evidence from underlying systems. Independent review of the reconciliation between the general ledger and OpenRevenues software (the Revenues and Benefits system) is advised in line with best practice.

RBV is in place to streamline the assessment process. RBV is being applied appropriately with the necessary evidence obtained to verify claimant information; only minor non-conformance was identified and some areas could benefit from additional policy clarification.

Arrangements are in place to ensure quality assurance sampling and corrections are carried out on 10% of claim decisions; however they are not always completed in a timely manner and verification checks are not undertaken to confirm corrections are carried out. Introducing a process to confirm that the feedback has been actioned would further enhance control.

### **Management Actions**

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: Local Taxation – Key Financial Controls 2017/18 (including both Council Tax and National Non-Domestic Rates (NNDR))**

#### **Background**

Gloucester City Council collects Council Tax on behalf of public sector bodies that issue a precept e.g. Gloucestershire County Council and Gloucestershire Police and Crime Commissioner. The total value of Council Tax collected is £64m, with Gloucester City Council's share being circa £6.8m.

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.

In 2017/18 there is a Rateable Value of £125m within the City Council's area; the Business Rates due to be raised locally is £56m. Gloucester City Council is responsible for administering and collecting NNDR with the service outsourced to Civica Ltd in 2011.

#### **Scope**

This audit reviewed the following objectives:

- Reconciliations with key financial systems are completed at an appropriate frequency;
- User management is operating effectively to prevent inappropriate access or amendments to software; and
- Income collection is robust and incorporates segregation of duties.

The period reviewed was 2017/18 activities only and following discussions with management, only areas where the External Auditor seeks to place reliance on the work of Internal Audit was reviewed.

**Risk Assurance – Substantial**

**Control Assurance – Substantial**

**Key Findings**

- Daily checks and weekly reconciliations are carried out between cash receipting and OpenRevenues. A sample of 15 daily checks found each matched with no variances and were signed as checked by a Civica Revenues Control and Quality Assurance Officer. No gaps existed in the weekly reconciliations reviewed and audit review confirmed they were completed independently by a Control and Quality Assurance Officer and signed off by a senior Civica manager.
- Payments made directly to the Council's bank account are checked daily as they are entered into the OpenRevenues database. No discrepancies between the bank transactions and OpenRevenues records have been identified in the year to date.
- Weekly checks are completed to confirm that the OpenRevenues payment data matches the bank file records. No gaps exist in the weekly records, and a sample of five was confirmed as being prepared independently of the daily load, signed off by a senior Civica manager, and accurate against the bank reports.
- Reconciliations are carried out on a monthly basis between OpenRevenues and the Council Financial Management System. A sample of two confirmed that the reconciliations were carried out to a zero variance and were signed off by a senior Civica manager.
- Income collection arrangements demonstrate an adequate separation of duties, and cash allocation systems exist so that payments are made to the account details provided by the customer.
- Rejected payments are generally actioned promptly.

**Conclusion**

The collection of local taxation, comprising Council Tax and NNDR, is a core duty of the Council and money paid into the Collection Fund has a substantial financial value. Ensuring that monies are correctly accounted for is therefore a key consideration in the Council's activities.

This audit focused on the principal reconciliations undertaken by the Civica Revenues and Benefits team, which are used to verify that the local taxation database both receives the correct information from financial feeder systems (cash receipting and bank income), and also matches the Council's Financial Management System.

Audit findings confirmed that for 2017/18 reconciliations have been undertaken regularly, at expected frequencies, and all entries reviewed were accurate against supporting evidence. Therefore substantial assurance that the reconciliations are effective, both in terms of risk management and control environment, has been evidenced.

### **Management Actions**

No further management action was identified.

## **Service Area: Policy and Resources**

### **Audit Activity: Main Accounting System (General Ledger) 2017/18**

#### **Background**

In February 2017, the Council implemented a new Financial Management System (Civica Financials; the FMS). The General Ledger module is at the heart of the Civica Financials suite of integrated financial modules designed to enhance the financial and managerial control an authority has over its operating activities.

The Main Accounting System including the General Ledger is a key financial system used by the Council for financial records and as a basis for financial decision making.

#### **Scope**

This audit reviewed the controls in place to provide assurance that risk is being appropriately managed to ensure financial records meet data quality requirements and support the Council's financial decision making and reporting.

Review of the controls in place were carried out in relation to the following:

- Suspense / holding accounts;
- Journals;
- Virements;
- Access / privacy controls in the FMS; and
- Feeder systems and control accounts.

Assurance in relation to feeder system and control accounts may also be gained through work conducted within other key financial control audits in the 2017/18 audit plan.

Sampling related to the current financial year and sample sizes were selected in accordance with the joint working protocol between Internal Audit and the External Auditors.

**Risk Assurance – Substantial**

**Control Assurance – Substantial**

**Key Findings**

- Suspense and holding accounts within the FMS are monitored and processes are in place to review and clear them. Whilst it was evident that there was regular movement from Icon suspense holding account and from the general ledger suspense, it was observed that there were periods when high amounts were held in Icon suspense holding account and occasions where there were delays in items being allocated from general ledger suspense. However the new FMS and associated processes are still being embedded and it is clear that action is being taken to identify the correct ledger codes to allocated items.
- System controls are in place within the FMS to ensure a separation of duty is in place (users are unable to approve their own journals or virements) and unbalanced journals cannot be posted.
- A limited number (four) of senior finance staff can approve journals and virements.
- Review of a sample of 25 journals confirmed that all sampled journals balanced and were authorised by an independent officer before posting.
- A small number (11) of virements have been carried out in 2017/18 (as at 16/10/2017). Review of a sample of two virements confirmed that the sampled virements balanced and were authorised by an independent officer before posting.
- Any member of staff can request access to the FMS. All requests are considered by Finance before user access/change of access is granted; Accountancy Managers and the Head of Policy and Resources can authorise access to the FMS.
- A review of access / privacy groups in the FMS has been carried out following the Together Gloucester restructure; work is almost complete with minimal outstanding queries and changes to complete.
- Internal Audit review of the FMS users identified that a small number of users had left the organisation without their access being revoked. Due to the integration with network access, reliance can be placed on the network access suspensions rather than supplemental local management within the financial system. It is noted that one user was found to have retained access to both the FMS and network access following leaving the Council. Audit results have been reported to management for appropriate action.

### **Conclusion**

Appropriate controls are in place to ensure risks are managed and financial records meet data quality requirements to support the Council's financial decision making and reporting. The assurance opinion provided is therefore substantial.

### **Management Actions**

No further management action was identified.

## **Summary of Special Investigations/Counter Fraud Activities**

### **Current Status**

Four referrals have been received by Internal Audit for investigation during 2017/18 to date. Three of these cases have been closed, all of which have previously been reported to the Audit and Governance Committee. The fourth case is still under investigation, although an interim report has been provided to management.

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 National Anti-Fraud Network (NAFN) are passed onto the relevant service areas within the Council, to alert staff to the potential fraud.

### **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 (SPD) 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.

We have previously reported an adjustment to the Council tax base of **£155,448** in respect of SPD matches. Further work on those households failing to return forms or giving incorrect information is ongoing.

In addition, it was also reported that as a result of the SPD review ten potential fraud cases which also include Housing Benefit have been referred to the Department for Work and Pensions (DWP) and the Single Fraud Investigation Service (SFIS).