

ARA
Audit Risk Assurance

**Gloucester
City Council**
Transforming Your City



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(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 undertake 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 2017/18 and the Annual Report on Risk Management Activity 2017/18 presented to the Committee.

(4) Chief Internal Auditor’s Opinion on the Council’s Internal Control Environment

In providing my opinion it should be noted that assurance can never be absolute. The most that Internal Audit can provide is a reasonable assurance that there are no major weaknesses in risk management arrangements, control processes and governance. The matters raised in this report, and our 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 2017/18 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 2018, 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 my opinion, I have taken into account:

- The results of all internal audit activity undertaken during the year ended 31st March 2018 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, during 2017/18 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;
- Arrangements in place with Gloucestershire NHS Counter Fraud Service to provide support with investigations; and
- An agreement in place with Gloucestershire's Counter Fraud Unit to provide counter fraud support.

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

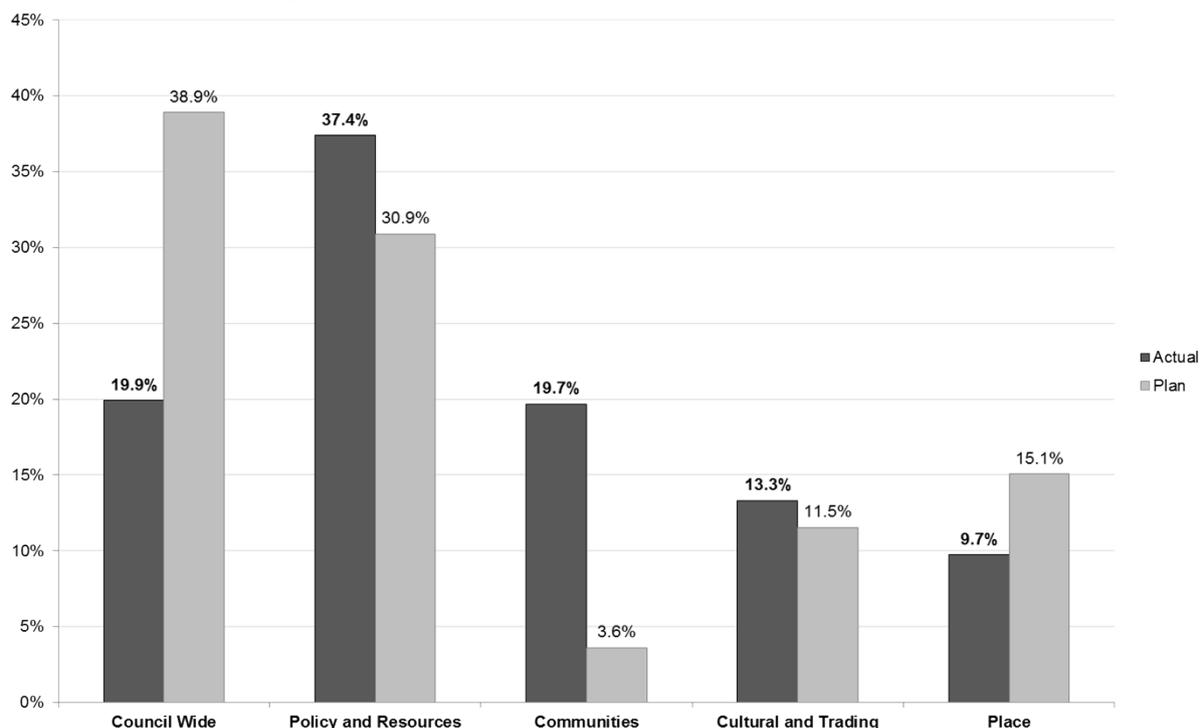
The underlying principle to the 2017/18 plan is risk and as such, audit resources were directed to areas which represented 'in year risk'. Variations to the plan are required if the plan is to adequately reflect the ongoing changing risk profile of the Council.

Since the original risk based plan was approved in March 2017 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 2018/19 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 2017/18).

The net effect is that although the work undertaken was slightly different to that originally planned we are able to report that we achieved **97%** of the overall revised plan 2017/18, 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.

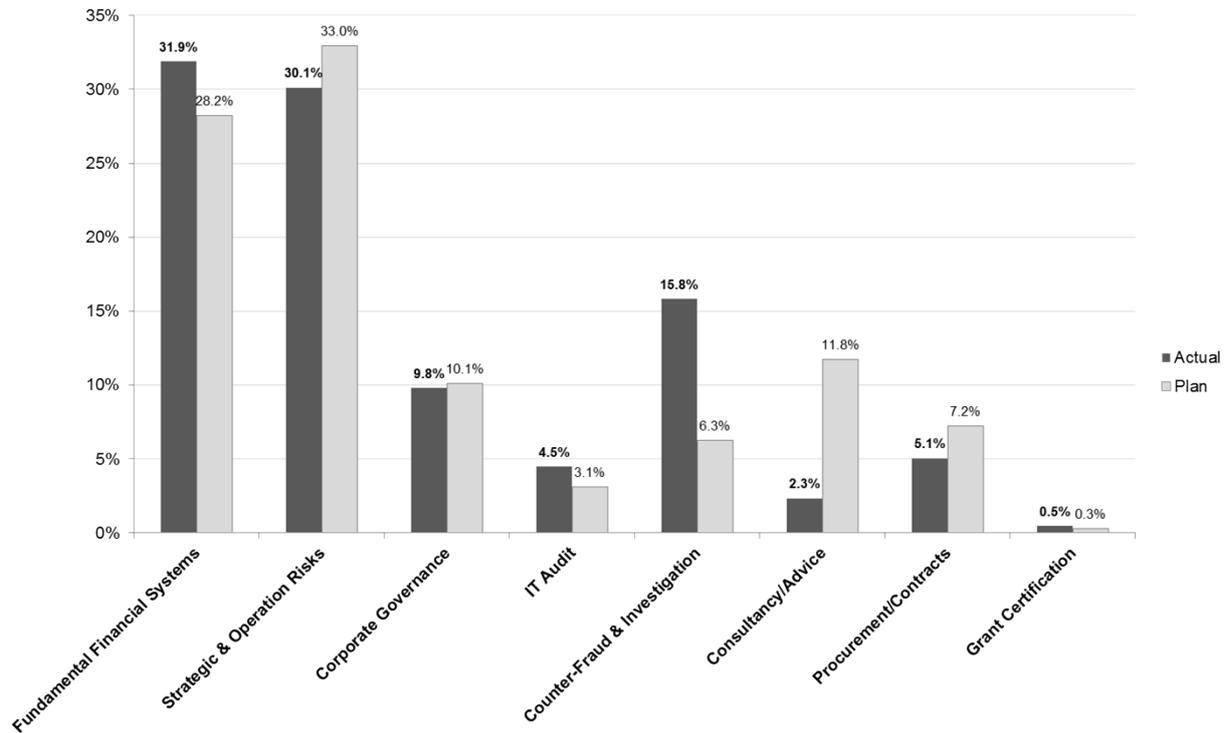
Percentage of Planned vs Actual Days per Service Area 2017/18



Example rationale for the variance between 2017/18 planned and actual days per service area include (but are not exclusive to):

- New activity requests:
 - ICT Assurance Mapping (including policy review) – Consultancy;
 - Planning Appeal;
 - Housing Discretionary Payments; and
 - Additional ICT Activity.
- Audit activity where actual days were in excess of those originally budgeted, due to the findings and outcomes of the audit work e.g. Project Solace, Benefits 2, Complaints Handling and Code of Conduct for Employees.
- The impact of counter fraud and investigation actual days, following case referral by the Council (i.e. actuals days have been allocated to the service area, rather than Council Wide).
- Lower than planned risk management support being required by the Council within 2017/18.

Percentage of Planned vs Actual Days per Category 2017/18



Example rationale for the variance between 2017/18 planned and actual days per category include (but are not exclusive to):

- The impact of counter fraud and investigation actual days, following case referral by the Council;
- New activity requests being mainly audit in nature, rather than consultancy; and
- Lower than planned risk management support being required by the Council within 2017/18. Risk management support is expected to increase within 2018/19, alongside the Council update to the performance management and risk management system.

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

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

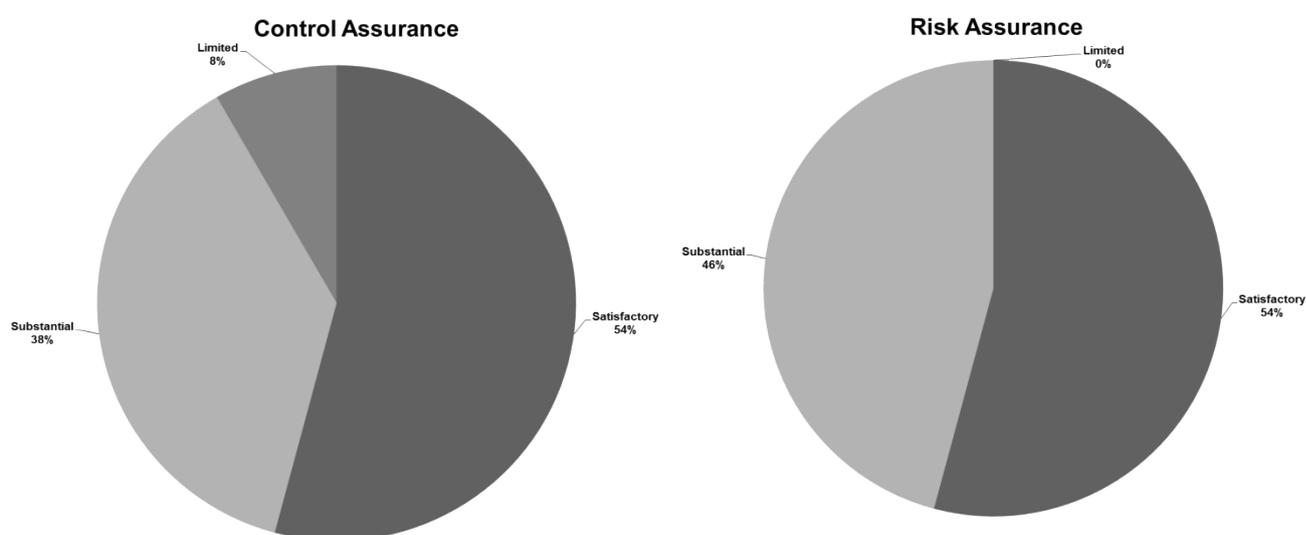
The schedule provided at **Appendix 2** contains a list of all of the audit activity undertaken during 2017/18, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Governance Committee. Explanations of the meaning of these opinions are shown below.

Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	Risk Managed Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other 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.	<ul style="list-style-type: none"> System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved Control Application – Controls are applied continuously or with minor lapses
Satisfactory	Risk Aware Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other 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.	<ul style="list-style-type: none"> System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger Control Application – Controls are applied but with some lapses
Limited	Risk Naïve Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the 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.	<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. ARA can report that the Council is showing that **92%** of the activities reviewed have received a **substantial (38%)** or **satisfactory (54%)** opinion on control. Whilst **8%** of the opinions on control are limited, this maybe related to transformational change, continued focusing of 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 2017/18



(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 2017/18, two limited opinions on control were provided. These related to:

Audited Service Area	Date reported to Audit and Governance Committee
Officers' Code of Conduct	18 th September 2017
Project Solace	22 nd January 2018

(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
2017/18	7	100%	52	100%	59

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 2017/18, 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.

In the cases where a limited assurance opinion is 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 2017/18, **100%** of the audited areas rated the effectiveness of risk management arrangements as **substantial (46%)** or **satisfactory (54%)** with **0%** obtaining a limited assurance opinion. This evidences that risk management continues to be further embedded into the Council's business activities.

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 apply the Council's Risk Management Strategy and principles within their service areas.

This together with our own assessment, 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. ARA 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 2017/18. 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.

The key 2017/18 governance matters identified related to: Future Financial Stability / Efficiency Savings, Local Government Association (LGA) Corporate Peer Challenge, CIPFA Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition) and Corporate Performance.

The actions to be taken to address the above can be found within the Council's Annual Governance Statement 2017/18.

The above arrangements have therefore led Internal Audit to conclude that effective governance arrangements operate within the Council.

(7) Summary of additional Internal Audit Activity

(7a) Special Investigations/Counter Fraud Activities

Current Status

During 2017/18 (1st April 2017 to 31st March 2018) four potential irregularities were referred to Internal Audit (IA). All cases referred to Internal Audit were investigated (some in collaboration with relevant officers within the Council) and three have now been finalised. The areas investigated occurred within Public Protection (Environment, Health and Licensing), Planning, Customer Services and a query raised by a Councillor.

Of the three cases closed, one was reported to the police (relating to a potential perjury issue in respect of undeclared income relating to a fine imposed by the court). Police subsequently decided it was not in the public interest to pursue this matter. In another case investigated, a Councillor received correspondence from someone purporting to be from China wanting to arrange a cultural visit to the UK. Investigations by Internal Audit established that this was not a genuine request and the Councillor was advised not to enter into any correspondence with the originator of the email. The matter was referred to National Anti Fraud Network (NAFN) who issued a warning to all of its members advising them not to enter into any correspondence/provide information should they be contacted. The third case involved information received from a whistleblower. Whilst no fraud was found, the investigation identified a number of control weaknesses and a report was issued containing recommendations to improve and strengthen the control environment.

In respect of the outstanding investigation, Internal Audit continues to work with relevant officers within the Council and the investigation outcome will be provided to the Audit and Governance Committee once concluded.

The Counter Fraud Unit (CFU) has been engaged through ARA in 2017/18 to undertake work on behalf of the Council, although this will now take place in 2018/19. All counter fraud activity to be undertaken by the CFU has been agreed with the relevant Service Managers, S151 Officer and overseen by the Chief Internal Auditor.

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

Fraud Risk Assessment / Risk Register

A fraud risk register is used to assist in the formation of the annual Internal Audit plan.

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 generating reports containing data set matches for follow-up action. Examples of data sets includes 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.

Internal Audit has already reported that to-date, 16 cases have been forwarded to the Department for Work and Pensions (DWP) for further review, as they involved housing benefit which is investigated by the Single Fraud Investigation Service (SFIS) which sits within the DWP. Ten of these cases have been closed, one of which confirmed an overstated benefit claim and resultant overpayment of just under **£2,000**. This amount is to be repaid plus a penalty of almost **£1,000** was also imposed. The other nine cases were closed with no further action.

The key outcomes of the review of the remaining six cases will be provided to the Audit and Governance Committee once the investigations are completed, and if the DWP provide an outcome of the investigations.

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

The data continues to be reviewed, however to-date, SPD review forms have been issued to current claimants. To date, returns which identify a change in circumstances has resulted in an increase of **£155,448** to the Council Tax base. Verification on those returned with no declared changes will be reviewed by undertaking internet checks, credit checks etc. Further work on those households failing to return forms or giving incorrect information is ongoing, the outcome of which will be provided to the Audit and Governance Committee once complete.

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 Chief Financial Officer as required, via the Corporate Governance Board who challenge, monitor management actions and follow-up progress to date and approve all police referrals.

Anti Fraud and Corruption Policy Statement and Strategy

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

The Chief Internal Auditor has undertaken a self-assessment against the new guidance to measure the Council's counter fraud and corruption culture and response and propose enhancements as required.

As such, a revised Anti Fraud and Corruption Policy Statement and Strategy, Anti Bribery Policy and Anti Money Laundering Policy 2017-2019 was developed and subsequently approved by the Cabinet in February 2017.

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) 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) 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 (as detailed for Gloucester City Council) in the table below:

Council wide fraud and irregularity activity relating to 2017/18 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.	0.47 FTE plus Council staff who have been involved in investigations, which is not quantified.
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists.	The Council has access to 1.8 FTE fraud investigators plus qualified staff employed by the Gloucestershire Counter Fraud Unit, as part of the Internal Audit shared service arrangement.
Total amount spent by the authority on the investigation and prosecution of fraud.	£21,336 plus any staff time for those employed direct by Gloucester City Council which is unknown.
Total number of fraud cases investigated.	2

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.	3 + NFI SPD collectively+ 15 referred to DWP
Total number of occasions on which a) fraud and b) irregularity was identified.	a) 2 + 6 DWP outcomes not known b) 3
Total monetary value of a) the fraud and b) the irregularity that was detected.	a) £1,996 b) £155,765 6 cases not known as referred to DWP

	for review
Total monetary value of a) the fraud and b) the irregularity that was recovered	a) £2,995 b) £155,448 6 cases not known as referred to DWP for review

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.

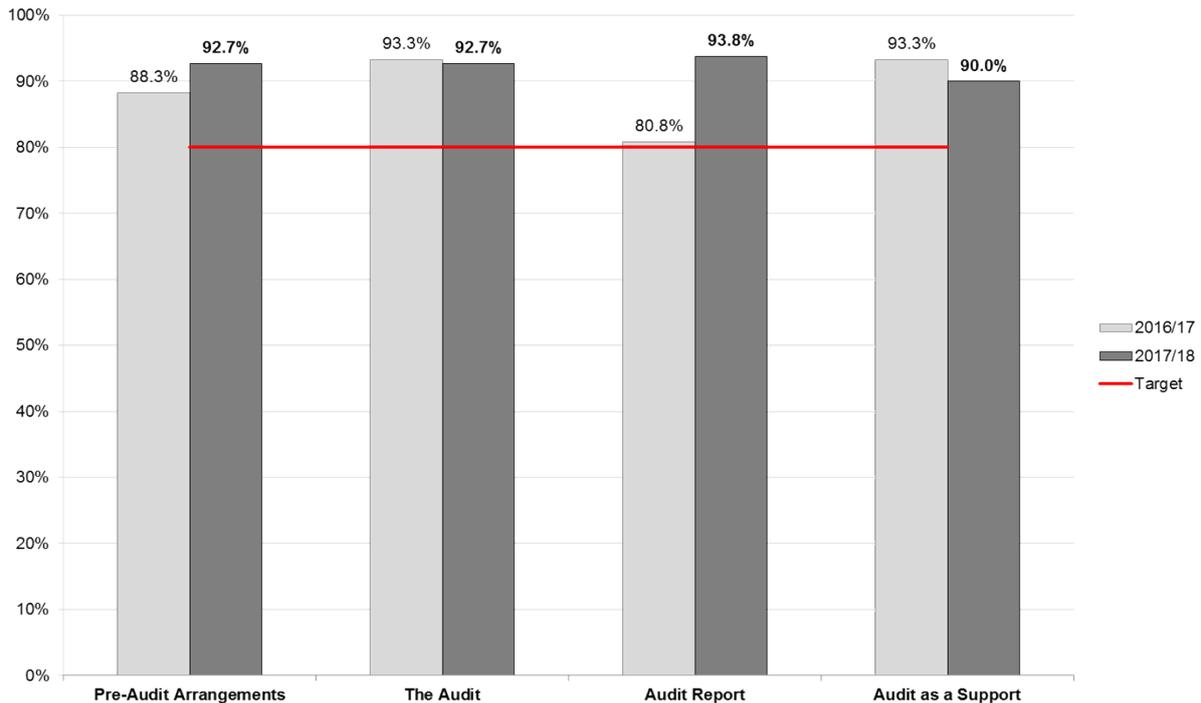
During 2017/18 the Chief Internal Auditor assessed Internal Audit's performance against the Internal Audit Quality Assurance and Improvement Programme (QAIP) as required by the PSIAS. The QAIP confirmed compliance against the PSIAS and highlighted opportunities for further service improvement.

Internal Assessment - Customer Satisfaction Survey results 2017/18

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 **90%** reflecting Internal Audit as being a positive support to their service.

Satisfaction Survey Results 2017/18 Compared to 2016/17



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

- *'Excellent piece of work in a very short timescale'.*
- *'It was a timely analysis which has helped with planned review of the code of conduct'.*
- *'At all times the auditor made it clear what was going to happen and when she rang to confirm any of our queries we also were happy to liaise with her. She was polite, thorough and fair and was also great in her approach dealing with the staff'.*
- *'The auditor took the time to take me through the process that had taken place prior to me joining Gloucester City Council. The auditor spent time with me to ensure that the report was a useful tool for informing my future work'.*
- *'I would like to pass on my thanks to the auditor for getting me up to speed with the work that had (been) undertaken and taking the time to go through the findings with me'.*
- *'Regular communication and visits from the auditor who was always very professional'.*
- *'The scope of the audit was clearly explained and was carried out in a way that did not impinge on the delivery of the procurement. By splitting the audit it will allow a complete examination of the process while not taking up resource at busy times during the project'.*

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 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.

No specific feedback for improvement of audit approach has been received within 2017/18, however a revised joint working protocol has been agreed between internal and external audit to avoid duplication and static annual auditing of the same area / system or process.

ARA Learning and Development

Development of leaders, managers and staff within ARA is a key priority, to ensure that the service has the qualities, behaviours and skills to deliver efficient and effective services to our partners and external clients.

The Chief Internal Auditor is a member of the Local Authorities Chief Auditor's Network, Midland Counties Chief Internal Auditor Network and the Midland District Chief Internal Auditors Group. ARA staff participate in CPD and / or are members of other relevant internal audit, counter fraud and risk related forums / groups, all of which provides the opportunities to discuss and understand the latest developments affecting the internal audit, counter fraud and risk management profession, contribute to strategy, exchange ideas and work collaboratively on problems and issues.

ARA is also committed to offering a structured trainee auditor programme, to attract people to the Council and to the profession, currently supporting three trainee auditor posts.

ARA Partner Dividend

During 2017/18 ARA has been in a position to be able to provide a dividend to the Council in the sum of £10,762.69 This is due to efficiencies achieved by the shared service during this period.

Completed Internal Audit Activity during the period April – June 2018

Summary of Satisfactory Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: Communications Service

Background

In March 2015, following a protracted period of staffing absence and instability within the City Council's in-house Communications and Marketing Service several proposals were considered for the future delivery of this critical function. The options being:

- Continue without in-house communications support;
- Recruit a new-in-house team;
- Commission support from Gloucestershire County Council;
- Seek alternative support from another District Council; and
- Seek alternative support from other outside providers.

Cabinet subsequently gave approval to commission support from Gloucestershire County Council.

Scope

The objectives of the audit were to:

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

Risk Assurance – Substantial

Control Assurance – Satisfactory

Key Findings

Governance:

- The agreement was formalised on 18th February 2016 with the contract year commencing on 1st February 2016. The arrangements have subsequently been extended for a second and third period and is due to expire on 31st January 2019.
- Meetings between the Corporate Director (lead officer) and the County Council's Head of Communications are scheduled at least monthly.
- A representative from the County Council's Communications Service currently attends Senior Management Team meetings, Cabinet briefings and Cabinet meetings.
- A dedicated Business Partner for the Communications Service has recently been recruited by the County Council to increase on-site presence at the City offices. It is proposed that this resource will be based at the City offices three days per week (similar to that of the HR Business Partner).

Service Delivery:

- The agreement is dated 18th February 2016. Schedule 1: Specification provides details of the engagement offer around: Internal Communications / staff engagement; Social Media, Website, Communications project support, Media Management support and Out of hours.
- Schedule 4: Change Control covers the general principles and procedures to be followed should either party wish to change the agreement. It was identified that the main change in service delivery related to the production and distribution of the City Life magazine. With effect from summer 2017 edition this magazine is now published primarily in a 'digital' format (as opposed to hard copy) with this initiative resulting in annual savings of £30,000 to the City Council of reduced printing and distribution costs against the original contract price.
- Monthly spreadsheets have been provided with actual hours delivered by the County Council on each category with the original intention being that the invoice would be adjusted to reflect any under or over provision. As the relationships have developed it became apparent that this quantitative information (in isolation) is not beneficial or provides the full picture. As such no adjustments to the agreed pricing schedule were considered appropriate.
- The service delivery has moved from a pure contractual arrangement into a shared service. A new Section 101 Agreement has been drafted which requires the formal change taking place from 1st April 2018. It is envisaged that going forward there will be increased emphasis on working together and focus on the quality of service delivery with performance being measured against a wider suite of Key Performance Indicators (KPIs).

Financial payments made under this agreement:

- The core service is provided to the City Council at an annual charge of £80,000. In addition for each production of the City Life Magazine (three times per year) the City Council will be charged £2,000 (previously £12,000 per issue). This is a significant reduction based on the figures for in-house provision reported to Cabinet in 2015 of £179,000 per annum.
- A review of Civica Financials for 2016/17 and 2017/18 confirmed the charges made by the County Council (and paid by the City Council) since the commencement of this agreement are supported by audit trail and are in line with the agreement criteria.

Conclusion

Appropriate oversight is in place through the Corporate Director being the Council's nominated lead officer for this service. The recruitment by the County Council of a Business Partner will further enhance the governance and oversight arrangements and provide dedicated support, training and be on hand to disseminate best practice and guidance to officers and Members.

The payments made to the County Council are in line with expectations and in accordance with the Agreement (as amended).

By outsourcing the delivery of this service to the County Council it has resulted in a significant reduction in costs when compared to the cost of the former in-house service. Feedback suggests that overall the service provision is more resilient with access to specialist advice being available which may not have been consistently to hand prior to entering into this arrangement.

Whilst officers considered the processes relating to internal communications and reactive press releases were reasonable they felt the Council's handling / approach to proactive press releases and media campaigns (to ensure appropriate lead time) was in need of refining.

Management Actions

The Council targets to continue service improvement (covering both governance and delivery) through the introduction of a Section 101 Agreement and physical on site presence of a Communications Services representative. Due to this ongoing action, no recommendations have been raised within the report.

Service Area: Policy and Resources

Audit Activity: Cash and Bank

Background

The Council receives income from many sources in order to support its functions. Reasons for receiving income include payments against local taxation, application fees, other fees and charges, or payments against sundry debtor invoices. The main system for recording cash is the Pay360 system, which is administered by Civica on the Council's behalf. Income at outstations such as the Guildhall, Tourist Information Centre (TIC) and museums is recorded via the SRO (Standing Room Only) box office software.

The income recorded in each of these systems is of significant value to the Council, and consequently cash receipting has been identified as a key financial system.

The Council operates five bank accounts, including the Income bank account. Cash takings and other transactions within each bank account should be mirrored within the Council's main accounting system, so that the Council makes decisions based on sound financial information. Bank records reflect the Council's financial position and are therefore considered to be a key financial system.

Scope

The objectives of the audit were to ensure:

- Cash is received, handled, transferred and deposited into the Council's bank account in a timely and accurate manner, so that the Council secures the income it is due; and
- Bank transactions align to the Council's financial records.

The scope of the audit was the 2017/18 financial year to date and the controls were reviewed at the Council's main offices and Guildhall bar/café.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

The internal audit findings (including walkthrough review and sample testing results per site) identified a number of areas of good practice applied by the Council at the various income receipting sites.

Audit review and testing also identified the following opportunities where cash and bank processes and controls could be further strengthened by the Council, including:

- Documentation of a risk assessment for cash handling, including consideration of mitigating actions and their inclusion into relevant documented procedures;

- Review and update of the markets cash procedures to ensure that cash is banked promptly, transported for receipting safely and securely, and to capture previous recommended improvements relating to cash security;
- Confirmation that the current cash collection contract is in accordance with the Council's Contract Standing Orders;
- Review and update procedures regarding prompt notification to Civica of cash imbalances at the bank, to ensure timely investigation and resolution;
- Update of the visitor experience sites cash security and handling documentation to ensure that they are up to date and consistently apply good practice areas;
- Completion of reconciliations between SRO records to cash deposited at the bank, during the period of SRO integration development; and
- Consideration of kiosk cash counting approach changes, to enable processing and sealing of cash at the earliest opportunity and to reduce the complexity of float management.

The cash and bank internal audit report included an audit recommendation on each of the above themes.

Conclusion

The Council's Constitution states: Income can be a vulnerable asset and effective income collection systems are necessary to ensure that all of the income due is identified, collected, receipted and banked properly. The risk of failing to obtain income through misallocation, loss, theft or fraud could result in difficulties in achieving a balanced budget and impact on the Council's financial plans.

This audit reviewed the cash collection and receipting arrangements at the Docks main office and Guildhall bar, as well as the overall banking arrangements, in order to provide assurance that the control framework is sufficient to meet the Council's expectations. Overall, the key findings detailed above have led to a conclusion that current procedures are satisfactory, both in terms of risk management and control environment.

Management Actions

Management have responded positively to the audit recommendations raised.

Summary of Substantial Assurance Opinions on Control

Service Area: Policy and Resources

Audit Activity: Accounts Payable

Background

The Council operate the Civica Accounts Payable modules Purchasing and Financials. Purchasing manages requisitioning, orders and receipting of goods and services. The Financials module focuses on the invoicing and payment processes and control and during quarter three of the year, the total number of suppliers' invoices paid was circa 1,700. The Accounts Payable team receive financial systems support from Malvern Hills District Council and Civica.

Scope

The agreed audit scope was to provide the Council with assurance on verifying that key controls are operating effectively for Accounts Payable.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- Help guides provide a step-by-step transaction flow for the purchasing module. These guides are judged to be informative and cover the key salient points for members of staff.
- Hierarchical purchase order authorisation financial value limits are in place, so above those thresholds, orders are authorised by the next management level.
- There is differentiated staff access according to role with staff attached to user groups within the Civica Purchasing module, demonstrating appropriate segregation of duties.
- New supplier account registration requests from service departments are forwarded to the Accounts Payable team. Data checks of suppliers are completed by procurement and Accounts Payable staff.
- Automated controls are in place, which raise a warning that an account with the same post code and bank account is already in the database and any amendments to supplier details are independently checked with the supplier.
- Daily reconciliations take place between the Accounts Payable outstanding supplier financial balances with the General Ledger. The reconciliation is performed by the shared service Financial Systems Team at Malvern Hills District Council.

- Sample testing of invoices due for payment greater than £25,000 confirmed that purchase order/payment approval was obtained by the Head of Policy and Resources or his nominated deputy.
- Monitoring reports are used to assess performance to pay approved supplier invoices within 30 days.
- The expected controls around BACS submissions and the payment runs are in place. The payment run is appropriately checked and authorised by a senior member of the Finance Team.

Conclusion

Internal Audit review confirmed that the existing procedures and controls for Accounts Payable were compliant with the Council's Financial Procedure Rules. No improvement areas were identified, supporting the audit outcome of substantial assurance for both risk identification maturity and control environment.

Management Actions

Not Applicable

Service Area: Policy and Resources

Audit Activity: Procurement - Parking Management Contract

Background

The County Council has a contract for on street parking with APCOA Parking (UK) Ltd, which includes the option for call-off contracts at District level for off street car parking. The City Council has made use of this to action a separate call-off contract on the same terms for the daily management of its off street parking. The services provided by the contract are: Enforcement at our off street car parks, Back office processing of enforcement appeals, First line maintenance of the payment machines (e.g. clearing jams), Cash collection and replacement of ticket rolls, Litter collection, Gritting and Car Park attendants where required.

On 7th February 2018 following the consideration of the available options, Cabinet resolved that Gloucester City Council would make its own contractual arrangements when the current contract concludes at the end of August 2018.

Scope

The objectives of this audit were to review the procurement of the new Parking Management Contract in order to provide assurance that the process was:

- Conducted in an open and transparent manner;
- Subject to competition; and
- In compliance with the Council's Constitution, Financial Regulations and relevant legislation.

Risk Assurance – Substantial

Control Assurance – Substantial

Key findings

- On 7th February 2018 Cabinet provided authority to the Head of Policy and Resources to procure and enter into a contract for the enforcement and management of the Council's car parks from 31st August 2018. The new contract would be for a maximum term of seven years (an initial five year period with two optional extensions for 12 month periods).
- Officers commissioned specialist parking services consultants (RTA Associates Limited) to conduct a soft marketing exercise and to provide options for service delivery when the current arrangements ceased. This engagement was then extended to assist in the preparation of tender documentation and to provide support and advice to officers during the evaluation process.
- This opportunity was formally advertised by the issuing of a Contract Notice (for publication in OJEU) on 27th March 2018 and through its publication on Contracts Finder the following day. An OPEN Procedure was advertised with the closing date for receipt of tender submissions set as 26th April 2018.
- The basis on which the tender submissions would be evaluated was made clear within the Invitation to Tender (ITT) documentation and instructions. This included the evaluation criteria and the scoring methodology with the preferred bidder selected by a combination of (a) Price 40% and (b) Quality 60%.
- Tender submissions were received from three potential providers.
- No tender submissions were received after the deadline. However on examination the evaluation team considered that one of the bids to be invalid and was therefore discounted from the full evaluation process.
- Following the tender evaluation process, Indigo Park Services UK Ltd became the preferred bidder for this contract. This recommendation was approved by the Head of Policy and Resources (under delegated powers received from Cabinet).
- The bidders were notified on 17th May 2018 that the Council's preferred bidder was Indigo Park Services UK Ltd and that prior to completing the contract arrangements a 'Standstill' period would commence immediately ending on 28th May 2018.

- A challenge to the proposed contract award was not received.

Conclusions

Audit review has confirmed the procurement of the new Parking Management Contract has been conducted in an open and transparent manner and subject to competition. The evaluation was undertaken by appropriate officers, adequately documented (to support the outcome) and scored in accordance with the published criteria and methodology.

Management Actions

Not applicable.

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

Service Area: Council Wide

Audit Activity: ICT Assurance Mapping (including policy review)

Background

The Council Information Governance Board action plan for 2017/18 included the task to review and update the Council's suite of ICT policies, with the target for updated policy release to staff through NetConsent (the Council's policy management system) from quarter 1 2018/19 onwards.

The task was led by the Head of Policy and Resources and the Intelligent Client Officer IT, in liaison with Civica (the Council's ICT contract provider).

Scope

ARA input was requested to review the seven draft ICT policies and feedback to the lead client officers. The policies included the:

- Hardware and Software Policy;
- Password Protection Policy;
- IT and Secure Network Usage Policy;
- Removable Media Policy;
- Security Incident Management Policy;
- Mobile Device Security Policy; and

➤ Information Protective Marking Policy.

In addition to the above, the ICT audit scope also required completion of ICT assurance mapping to support policy review and also identify areas for internal audit within future years.

Key Findings

Internal Audit feedback (compiled by the ICT Audit Manager) on the seven draft ICT policies was provided to the lead client officers within quarter 3 2017/18. The ICT policies were then finalised by the Council, prior to roll out to both officers and Members through NetConsent from June 2018 onwards.

A draft ICT assurance map has been compiled and shared with the lead client officers. The map is scheduled to be discussed at the June 2018 Information Governance Board. A target outcome from the meeting will be agreement of ICT internal audit areas for the 2018/19 Internal Audit Plan.

Conclusion

The Council has successfully achieved their target of ICT policy update and roll out to staff and Members from quarter 1 2018/19.

2018/19 ICT internal audits will be confirmed at the June 2018 Information Governance Board. The outcome will be shared with Audit and Governance Committee.