

# Internal Audit Activity Progress Report

2018-2019



## **(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 2018/19 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 July 2018 to September 2018; and
- Special investigations/counter fraud activity.

#### (4) Progress against the 2018/19 Internal Audit Plan, including the assurance opinions on risk and control

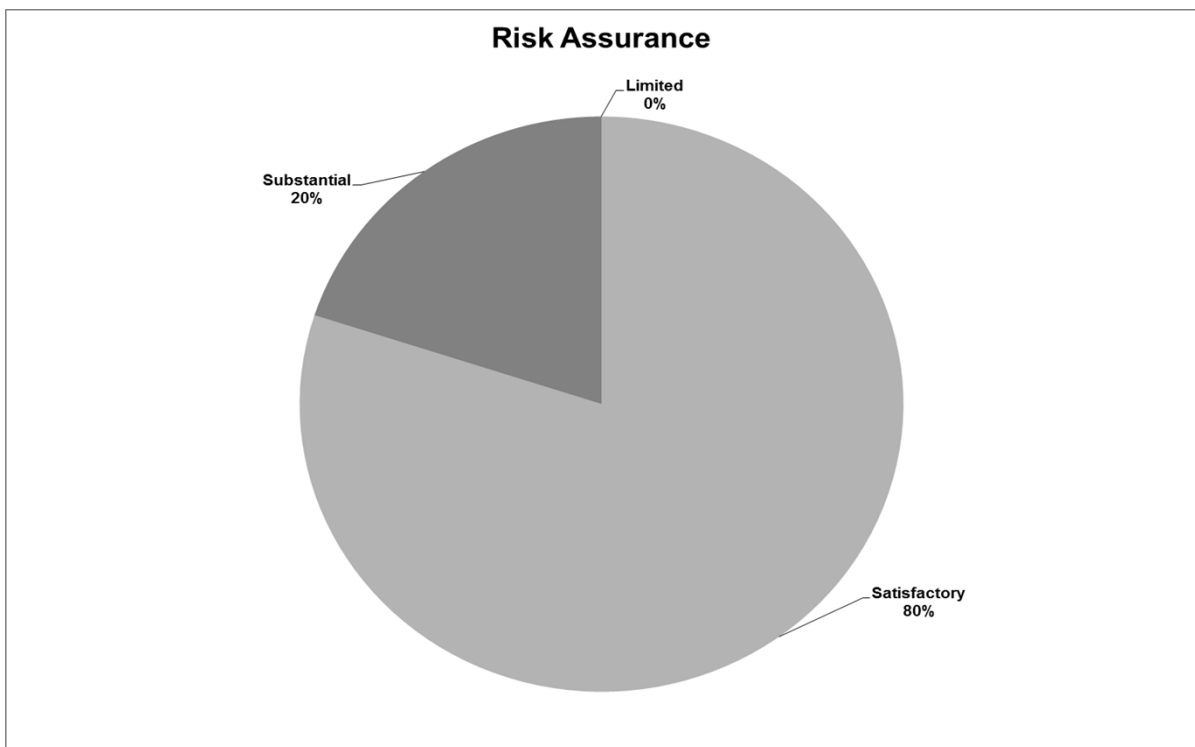
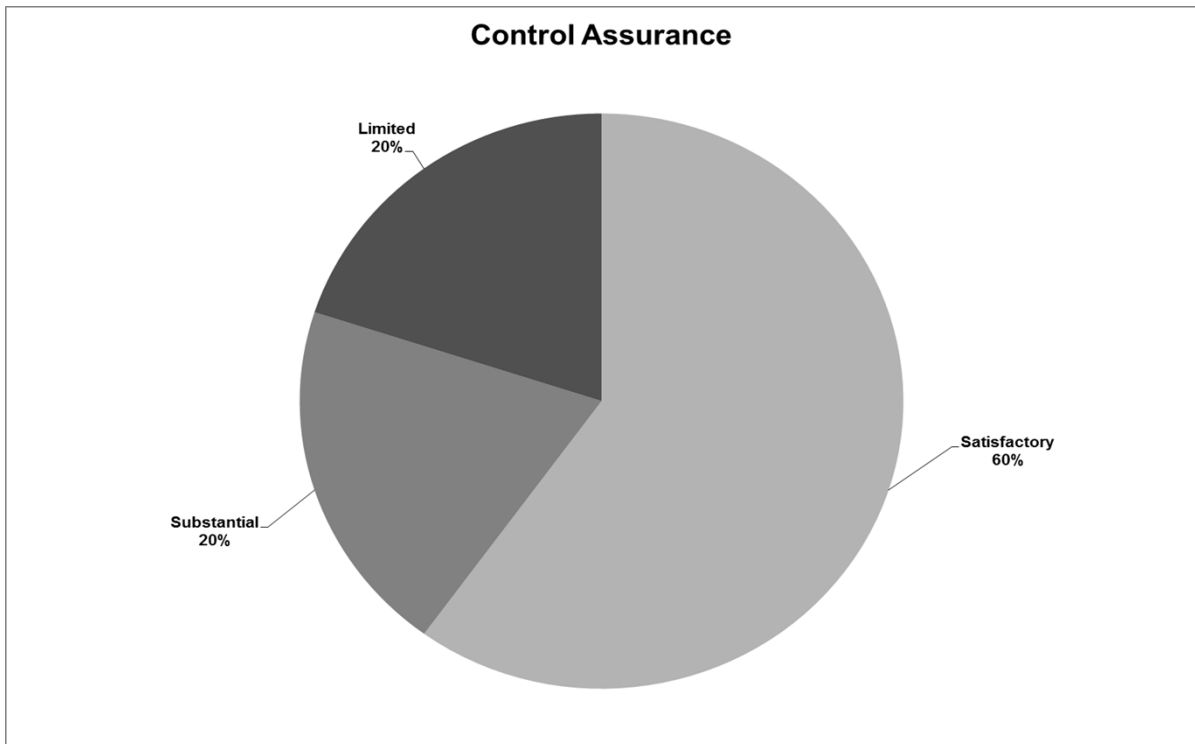
The schedule provided at **Attachment 1** provides the summary of 2018/19 audits which have not previously been reported to the Audit and Governance Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2018/19 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
<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 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"> <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 2018/19 audit activity undertaken up to September 2018.



#### **(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 July 2018 to September 2018, one audit review has been provided with a limited assurance opinion on control which relates to Network Access Controls.

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 have provided assurance to Internal Audit (through management response to the recommendations raised within the report and verbal assurance) that all recommendations have now been implemented.

#### **(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 July 2018 to September 2018 Internal Audit made, in total, **11** recommendations to improve the control environment, **2** 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 July 2018 to September 2018, it is pleasing to report that no limited assurance opinions on risk have been provided on completed audits from the 2018/19 Internal Audit Plan.

Where a limited assurance opinion is given, the Shared Service Senior Risk Management Advisor will be informed to enable the prioritisation of risk management support.

## Completed Internal Audit Activity during the period July 2018 to September 2018

### Summary of Limited Assurance Opinions on Control

<b>Service Area:</b>	<b>Council Wide</b>
<b>Audit Activity:</b>	<b>Network Access Controls</b>

#### Background

As part of the 2017/18 internal audit plan approved by the Gloucester City Council Audit and Governance Committee, a review of Network Access Controls was undertaken.

#### Scope

The scope of this review encompassed:

- Active Directory logical security settings have been invoked including password policies, account lockout policies and audit policies;
- Active Directory access requests are documented and authorised for all new starters, access is restricted to valid and uniquely identifiable user-ids and leaver accounts are promptly disabled;
- Management of superuser access rights across the Active Directory domain;
- No unnecessary or potentially insecure services are running on the live server estate; and
- Follow up of all recommendations arising from the 2016/17 Network Access Controls report.

#### Risk Assurance – Satisfactory

#### Control Assurance – Limited

#### Key Findings

The 2016/17 Network Access Controls audit review made a total of eight audit recommendations. At the point of the 2017/18 review, five were found to be fully implemented and three confirmed as outstanding.

The audit found that there had been a complete review of all ICT policies which included policies related to this audit scope, for example IT Secure Network Usage and the Password Policy.

The audit also identified that the process for admitting new users onto the network, by ICT following the request for a user account, was satisfactory.

Password complexity settings were enabled invoking a stronger password function.

It should be noted that this review had a stronger technical element to it than that which was applied in 2016/17, predominantly due to the use of computer assisted audit techniques (CAATs). For example the 2017/18 review included Microsoft Baseline Security Analyzer (MBSA) and Power Shell reports which provided an analysis of the whole Active Directory population, rather than a smaller selection as was the case previously. This has resulted in additional audit findings.

In addition, some of the 2017/18 findings relate to the processes that take place outside the ICT area of responsibility; such as notification of a new user, or more importantly, leavers or changes within the user population. ICT is reliant on timely information provision from within Council processes to process these requests.

Consolidation of the audit findings has identified a number of Network Access Controls improvement actions. The main areas that require attention are:

- The existence of accounts where the Password Not Required is set to TRUE;
- 314 Active Directory accounts with non-expiring passwords;
- No review of user access rights and the lack of a documented process to promptly disable leaver access rights; and
- Failure to rename and/or disable the default Administrator account.

The audit raised five recommendations (one High priority and four Medium priority) to strengthen controls on the identified areas.

### **Conclusion**

The matters identified and outlined in the key findings section above limit the assurance that can be given about the effectiveness of the control activities, in particular the ability to set up user accounts with blank passwords and lack of a process to identify and promptly disable leavers access rights on the Gloucester City Active Directory domain.

### **Management Actions**



Management have responded positively to the Internal Audit recommendations made and have provided assurance to Internal Audit (through management response to the recommendations raised within the report and verbal assurance) that all recommendations have been immediately progressed and resolved.

**Due to management assurance received at the point of Internal Audit Progress Report (i.e. that all recommendations have been actioned), it is recommended that a follow up internal audit is scheduled during 2019/20 to confirm recommendation implementation and provide relevant assurance to Audit and Governance Committee.**

## **Summary of Satisfactory Assurance Opinions on Control**

### **Service Area: Communities**

### **Audit Activity: Licensing (Hackney Carriage and Private Hire)**

#### **Background**

The Licensing Service supports the local economy by ensuring that businesses providing licensable services are regulated to protect the public or others from harm. Licences are generally subject to a fee designed to cover service costs. The indicative budgeted income for 2018/19 totals £120,800. Business licensing transferred from the former Food Safety, Licensing and Markets team to the City Improvement and Environment Team in June 2017. This team is responsible for managing licensable activities for taxis and private hire vehicles.

#### **Scope**

The audit objective was to provide assurance that:

- Licences issued to regulate Hackney Carriages and Private Hire business activities, are managed in accordance with the law, and protect the public;
- Fees are paid in advance of issue or renewal of licence; and
- The fee setting arrangements are appropriate to cover the costs of service provision and are in compliance with legislative requirements.

#### **Risk Assurance – Satisfactory**

#### **Control Assurance – Satisfactory**

#### **Key Findings**

- The administration of licensing arrangements for Hackney Carriage and Private Hire is substantially operating in compliance with the Rule Book approved by the Licensing and Enforcement Committee.
- Licensing fees are correctly calculated and paid in advance of issue of the licence issued. However, the fee model for 2018/19 has been carried forward from 2017/18, due to the impact of restructuring of services and staff during 2017 and the 1st quarter of 2018.
- The existence of licensing registers would enable the Council to meet its responsibilities under the Licensing Act 2003 and Local Government Transparency Code 2015 and fundamentally allows members of the public access to the record of issued taxi, private hire and operator licences. The audit highlighted that these registers are not accessible to members of the public.

### Conclusion

Overall effective controls are in place resulting in the audit outcome of satisfactory assurance for both risk identification maturity and control environment. The control environment could be further enhanced by; providing members of the public access to licence registers; the inspection and control review of licensing staff note books; and re-developing the licence fee setting model for 2019/20. As a result, the audit report has raised three recommendations (one High priority and two Medium priority).

### Management Actions

Management has responded positively to the audit findings and a plan of action has been agreed, that when implemented, will address the issues highlighted by this review.

## Service Area: Communities

### Audit Activity: Solace – Follow Up

#### 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.

In Gloucester, a multi-agency team between Gloucester City Council and Gloucestershire Constabulary brings agencies together to deal with ASB involving

homeowners, private landlords and tenants, and in public places. Solace has been through a period of transition with the City Council taking over (from Gloucester City Homes) the operational day-to-day running in 2016 and also from the beginning of 2018 it was extended when Cheltenham Borough Council joined.

The 2017/18 audit identified a number of improvement actions and Internal Audit concluded that whilst enhancement of the control environment is planned, the ongoing delays and an absence of corporate oversight and performance monitoring resulted in only a limited assurance opinion that the risks are adequately managed and controlled.

### **Scope**

The Audit and Governance Committee considered the audit findings in January 2018 and a progress report from management in March 2018. Whilst members fully acknowledged and appreciated the positive action taken by management to that point in time it was agreed that Internal Audit would undertake a follow-up review as part of the 2018/19 Internal Audit work-plan. This follow-up review would provide assurance to members that the subsequent remedial actions agreed with management have been implemented.

### **Risk Assurance – Satisfactory**

### **Control Assurance – Satisfactory**

### **Key Findings**

- The Governance arrangements for Solace have been formalised with the Governance Group meeting every month. The City Council is represented on this group by the Community and Wellbeing Manager.
- Solace is pro-actively engaged with other agencies, partnerships and ASB related initiatives taking place within Gloucester and Cheltenham.
- A Specific Information Sharing Agreement has been prepared for Solace which was signed by representatives of Gloucestershire Constabulary, Cheltenham Borough Council and Gloucester City Council on 29th January 2018.
- A number of KPIs have been provisionally agreed by the Governance Group. To enable this information to be easily accessible, the provider of the case management system for Solace has been requested to develop an enhanced reporting functionality.

Once available this will enable the Team Leader to monitor both an

individuals and/or overall team performance across the whole process.

### **Conclusion**

Overall, positive action to enhance the management and oversight of Solace has been taken and this has been effective.

Internal Audit's principal conclusion is that the management oversight of Solace has been significantly strengthened during the previous seven months with the current findings now supporting an upgrade from the previous 'limited' assurance audit opinion on control given in 2017/18. Consequently, based upon the findings from this follow-up review Internal Audit is now able to conclude that satisfactory assurance can be provided that the risks which are considered to be material to the achievement of the service objectives for this area under review are adequately managed and controlled.

The completion of the remaining actions will further strengthen the management and governance arrangements and these should be continued to be progressed by management to their completion. In particular:

- Development of a bespoke reporting functionality for the case management system to monitor KPIs and performance; and
- The signing of a Service Level Agreement between the three parties (which has been developed and subject to some minor tweaks is anticipated to be signed by the end of August 2018).

### **Management Actions**

Management have given assurance to Internal Audit that the outstanding actions will continue to be progressed.

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

### **Audit Activity: Payroll**

#### **Background**

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

The payroll service for Gloucester City Council is provided by Gloucestershire

County Council's Business Service Centre (BSC).

### **Scope**

The objectives of the audit were to ensure:

- Data entered into the payroll system is accurate and justified to support the payment of new starters, removal of leavers, and any changes to ongoing employment;
- Salary payments are made accurately, following appropriate approval and in accordance with an agreed schedule;
- Reconciliations between the payroll and finance system demonstrate that finance system records are accurate; and
- Any previously agreed actions to improve the control environment have been completed satisfactorily.

### **Risk Assurance – Satisfactory**

### **Control Assurance – Satisfactory**

### **Key Findings**

A draft contract is currently with the City Council Legal team for review, to ensure the terms and conditions define the responsibilities for both parties and the governance arrangements for oversight and performance.

The City Pay Policy does not state the authorisation required to place a new appointment on a column point above the minimum of a given grade. This was raised with the HR Business Partner who confirmed that this would be reviewed as well as the consideration for the need of a starting salaries policy.

The City Council has an agreed starter process to ensure that information on new employees is passed to the BSC. This process is currently being reviewed by the HR Business Partner aiming to streamline the process of enrolling a new starter for service managers including information for use outside of the payroll process.

Appropriate and timely information for new starters and changes to individuals' payroll data is being provided to the BSC and input accurately into the payroll system.

In relation to leavers a number of instances were highlighted where City Council managers had not notified the BSC within the agreed time schedules, resulting in overpayments being made to the employee.

Internal Audit confirmed the majority of these overpayments had been recovered. In

In addition one redundancy payment had been paid twice due to an administration error within the BSC resulting in an overpayment. The error was spotted and the overpayment has been reclaimed. The BSC have confirmed that they have adjusted the controls in place for processing these payments to mitigate the risk of this occurring again.

Reconciliations between the payroll and expenditure account records within the general ledger are completed on a monthly basis by the City Council, with reliance placed on bank reconciliations (completed by Malvern Hills District Council) to confirm the expenditure account is accurate.

### **Conclusion**

Overall the City Council can take positive assurance that the controls in place at the County Council for the preparation and processing of the payroll payment file are appropriate and operating effectively.

Good progress has been made on implementing the recommendations from the 2016/17 audit review which has strengthened the overall control environment for this area.

The revised contractual documentation, once finalised, will further enhance the governance arrangements and clarify the responsibilities and authority of both parties in relation to the operation of the payroll system (including key financial controls and authorisation for salary changes).

### **Management Actions**

Management responded positively to the recommendation in the report, regarding updating the Pay Policy for City Council employees.

## Summary of Substantial Assurance Opinions on Control

### Service Area: Policy and Resources

### Audit Activity: Members' Allowances and Expenses

#### Background

Gloucester City Council currently has 39 elected Councillors (Members). Each Member is eligible to receive an annual Basic Allowance and where appropriate, Councillors who hold special responsibilities in relation to the authority are eligible to receive a Special Responsibility Allowance. Members are also entitled to claim expenses associated with their 'approved duties' as detailed within the Scheme. The details of the Scheme can be found in the Council's Constitution which is available on the Council's website. All payments made to Members should meet the requirements of this Scheme.

#### Scope

To provide assurance that the payments (i.e. Allowances and Expenses) made to Members in 2017/18 were in accordance with the approved Members' Scheme of Allowances.

#### Risk Assurance – Substantial

#### Control Assurance – Substantial

#### Key Findings

- Payment of allowances and reimbursement of appropriate expenses is completed via the payroll provider. This enables the correct treatment of taxation and national insurance contributions in relation to the payments received.
- The Scheme was reviewed by an Independent Remuneration Panel and the recommended changes for 2017/18 were approved by Cabinet on 23rd March 2017. The principal change being the introduction of a Special Responsibility Allowance of £1,714.00 per annum for the Chair of the General Purposes Committee.
- There were no bi-elections during 2017/18 and consequently all 39 Members were in place for the full period and entitled to receive a full Basic Allowance of £5,713.00.

- Following the Council meeting on 22nd May 2017 a number of changes affected the Special Responsibility Allowances that were paid to certain Members as they left or took up a new position within the Council and/or Political Party structure. Any adjustments affecting the payment of allowances to a councillor as a consequence of these changes were accounted for under the June 2017 payroll period.
- To receive an allowance there is an expectation that a councillor will attend two thirds of the Council meetings plus the meetings of any committee the member has been appointed to. Internal Audit review of the attendance records for the meetings held in 2017/18 confirmed an appropriate level of attendance by all councillors.
- The allowances paid to 38/39 (97%) of councillors during 2017/18 was as expected and in accordance with the Members Scheme of Allowances. The review also highlighted that one councillor had been underpaid by £57.04 due to an administrative error and non- application of the 1% increase from 1st April 2017. The Democratic Services Unit (DSU) are arranging for a one-off payment to be made via the Payroll Provider.
- The value of expenses claimed by Members within 2017/18 was £428. Internal Audit review confirmed that the underlying expenditure was reasonable and in line with the Members Scheme of Allowances 2017/18. All claims processed showed evidence of being scrutinised and challenged where appropriate (by the DSU) before approval at appropriate officer level. No errors were identified in the amounts processed and reimbursed to the claimant (via payroll).

### **Conclusion**

The Members' Scheme of Allowances 2017/18 operated as expected and this has been appropriately managed and controlled by the DSU. However, the absence of checks on the validity of vehicle documentation and licenses relating to the personal vehicles driven by Members may expose the Council to a risk of potential claims for vicarious liability, which if materialise could damage the Council's reputation and impact upon the Council's finances due to the risk of a claim and increased insurance premiums. Internal Audit recommended that management undertakes an evaluation (in consultation with the insurance providers) of this inherent risk in order to decide whether the current driver checks as expected for employees under the HR policy should now be extended to Members.



### **Management Actions**

The Management Accountant contacted the Council's Insurance Provider. It has been confirmed that in the event of such an incident occurring (if such a claim is received) this should be covered by the Council's motor policy. Consequently it has been decided that no additional preventative controls will be introduced and physical verification checks on documentation will not be undertaken.

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

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

#### **Audit Activity: Blackfriars Priory Turnover Certificate**

#### **Background**

In March 2012 the Council entered into a lease with English Heritage to use the Blackfriars Priory site and open it as a visitor attraction, provide educational visits, develop an events programme, run and facilitate workshops and develop a meetings and conference trade. It is also now an established wedding venue. The lease allowed a peppercorn rent for the first two years of operation, with the following years' rental to be a percentage of Gross Turnover, as defined in the lease agreement. On an annual basis, 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 2017/18 provided to English Heritage are accurate and in accordance with the requirements of the lease agreement; and
- A certificate confirming the Gross Turnover for the Turnover Period may be signed.

**Risk Assurance – N/A (Certification)**

**Control Assurance – N/A (Certification)**

### **Key Findings**

The provisional Gross Turnover figures identified income of £115,126 in 2017/18 across the two designated cost centres in use for Blackfriars Priory.

Detailed review identified a minor adjustment was 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 £113,126.

### **Conclusion**

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 appropriately signed and submitted.

### **Management Actions**

Not applicable.

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

### **Current Status**

One referral has been received by Internal Audit for investigation during 2018/19 to date, and the team continued to work with one referral brought forward from 2017/18. Both cases have now been closed and in respect of the in-year referral a report with recommendations has been provided to management. The referral related to possible missing cash although the person(s) responsible could not be identified and therefore recommendations to management centred on improving and strengthening financial systems, procedures and controls within the specific area (Cultural and Trading). In respect of the 2017/18 referral within Place, management was provided with a report of findings which resulted in the dismissal of a member of staff and another receiving a written warning.

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 next data collections are due to be collected in October 2018 and reports are due to be received from January 2019 for review. 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.

## **Attachment 1**

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.

Current outstanding matches from the 2016/17 exercise are due to be reviewed in September/October 2018, and findings will be reported to the Audit and Governance Committee on completion.