

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 January 2019 to February 2019; and
- Special investigations/counter fraud activity.

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

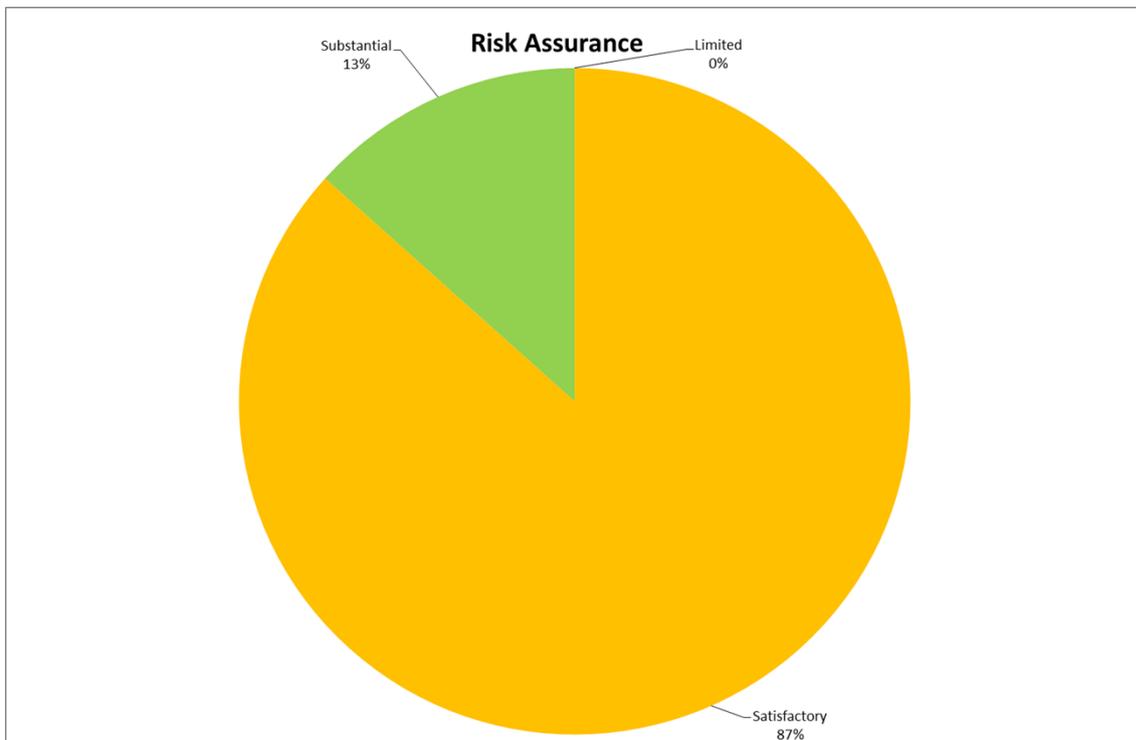
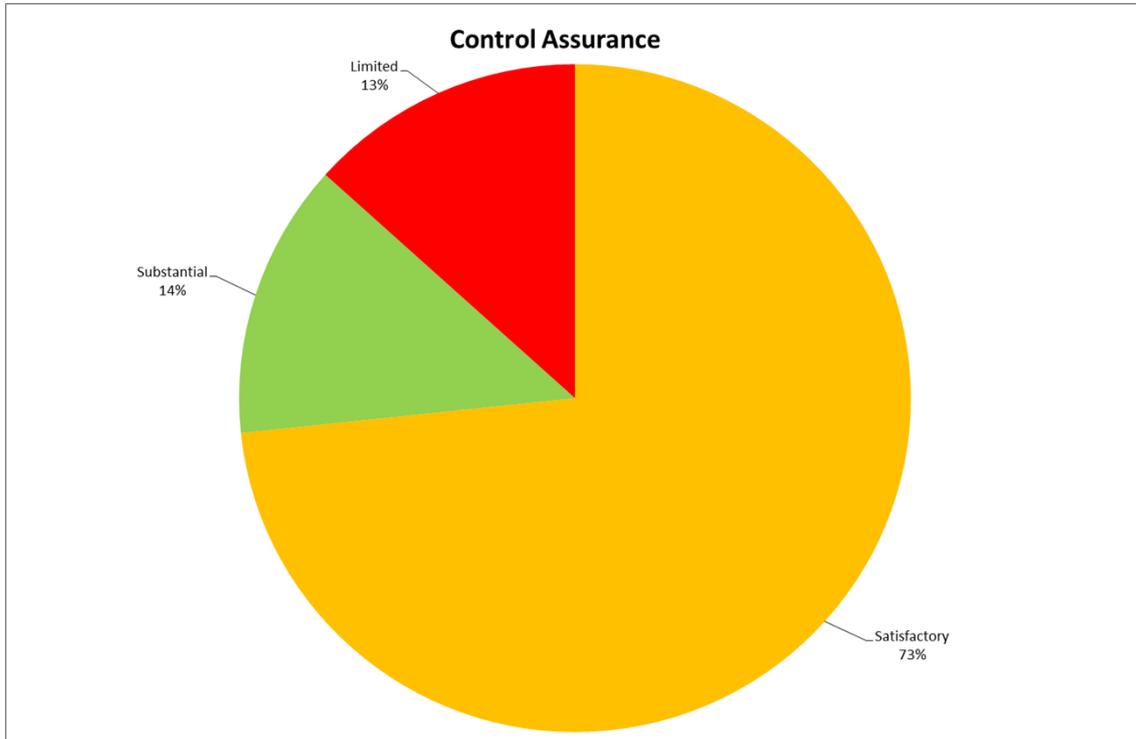
The schedule provided at **Attachment 1** provides the summary of 2018/19 audits which have not previously been reported to the Audit and Governance Committee.

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
Substantial	<p>Risk Managed Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Strategy.</p>	<ul style="list-style-type: none"> • System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved • Control Application – Controls are applied continuously or with minor lapses
Satisfactory	<p>Risk Aware Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff, however some key risks are not being accurately reported and monitored in line with the Council's Risk Management Strategy.</p>	<ul style="list-style-type: none"> • System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger • Control Application – Controls are applied but with some lapses
Limited	<p>Risk Naïve Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council's Risk Management Strategy, the service area has not demonstrated an satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.</p>	<ul style="list-style-type: none"> • System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls • Control Application – Significant breakdown in the application of control

(4a) Summary of Internal Audit Assurance Opinions on Risk and Control

The pie charts provided below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the 2018/19 audit activity undertaken up to February 2019.



(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 January 2019 to February 2019, one audit review has been provided with a limited assurance opinion on control which relates to the Code of Conduct for Employees review.

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 January 2019 to February 2019 Internal Audit made, in total, 9 recommendations to improve the control environment, none of these being high priority recommendations i.e. 9 being medium priority recommendations (89% accepted by management).

One medium priority out of the four recommendations made within the Homelessness audit was not accepted by management, as it was deemed to be within their risk appetite. Please refer to the summary report below for further detail.

The Committee can take assurance that (where made) 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 January 2019 to February 2019, one limited assurance opinion 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 (where required).

Completed Internal Audit Activity during the period January 2019 to February 2019

Summary of Limited Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: Code of Conduct for Employees – Follow Up

Background

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

The 2017/18 Internal Audit report found that staff were conscious of the need to demonstrate correct and ethical behaviour and the risk opinion was satisfactory. A number of recommendations were made which, once completed, would raise the control opinion above limited. A Code of Conduct is in place (part of the Council's Constitution) but could be improved to address ambiguous phrasing and update the suite of supporting policies. There were also a number of procedural arrangements which need to be addressed.

Scope

This follow-up review will provide assurance that the remedial actions agreed with management following the 2017/18 audit review have been implemented to ensure that:

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

Risk Assurance – Satisfactory

Control Assurance – Limited

Key Findings

Internal Audit evaluated the position in implementing the agreed actions of the 2017/18 review based upon discussions held with officers and reference to supporting information / documents received. This review found:

- Action to update the Council's Code of Conduct for Employees (The Code) has begun but is yet to be fully completed.
- The policies referenced within the current Code have been reviewed and updated/replaced where necessary and in due course will be carried forward into the updated Code.
- The current Code and referenced policies are available in a central location accessible to all staff via the Intranet or NETconsent.
- New starters are now provided with the current Employee City Council Code of Conduct and as part of the new starter process are required to provide written confirmation that they have read and understood its contents and will abide by this.
- No changes have been made to the process for employees to register interests and therefore potential conflicts of interest may not be recorded and are not being monitored effectively.
- Guidance on the Council's approach to registering gifts and hospitality has been published and is centrally available to all staff via the Intranet. The new guidance is to be added to the updated Code once it is completed.

Conclusion

Behaving with integrity and demonstrating strong commitment to ethical values is one of the seven core principles of the Council's Code of Corporate Governance. It is the responsibility of the senior managers of the Council to establish the culture and to encourage integrity and strong positive ethical values within staff.

The Employee Code of Conduct is an integral part of forming culture within the Council to impact the behaviours, decisions, processes and operations, as well as manage the risk of ethical misconduct. To date a number of actions remain outstanding and until these are completed the limited assurance cannot be upgraded.

Internal Audit concludes that the completion of the remaining actions still needs to be progressed in order to strengthen management and governance arrangements. In particular:

- Completing the review and update the Employee Code of Conduct to include key sections and rephrase unclear wording and effectively communicate this to all current employees;
- Introduce procedures to enable employees to register any personal interests that could impact Council business and allow for management oversight; and
- Implement the guidance and procedure for registering gifts and hospitality into the Code of Conduct.

Management Actions

Management have acknowledged that some recommendations from the 2017/18 audit are still outstanding and have advised Internal Audit that the redraft of the Employee Code of Conduct has begun, however the redrafting exercise is being co-ordinated with the redraft of the Councillor Code of Conduct and the Protocol on Councillor/Officer to ensure consistency across the two policies. The remaining outstanding recommendations, concerning gifts and hospitality and employee register of interests will be built into the Employee Code of Conduct with appropriate processes in place to monitor these.

Summary of Satisfactory Assurance Opinions on Control

Service Area: Communities

Audit Activity: Homelessness

Background

The Homelessness Reduction Act 2017, came into effect on 3rd April 2018, and significantly reformed England's homelessness legislation resulting in extra duties for Local Authorities. The Acts central provision involves the introduction of a universal homelessness 'prevention' duty for all eligible households threatened with homelessness, as well as a 'relief' duty to take 'reasonable steps' to help to secure accommodation for eligible homeless applicants. Both these prevention and relief duties will apply regardless of priority need or intentionality status.

The Act also extends the definition of those considered 'threatened' with homelessness to encompass people likely to lose their home within 56 days, rather than 28 days as at present. Other provisions cover enhanced advisory services, and duties to agree and keep under review a 'personalised housing plan' with each eligible applicant.

Gloucester City Council's Housing Strategy and Enabling Service support the homeless and those facing homelessness in Gloucester. In 2017/18, the Housing Strategy and Enabling Service received 346 homeless applications and following government assessment guidelines 219 (63%) were classified as officially homeless and supported. In addition 384 households, who were threatened with homelessness, received support to prevent them from becoming homeless.

Scope

The objective of this review was to determine whether:

- The assessment of homeless applications to determine their eligibility, homelessness position, priority group and intentionality status is in line with Homelessness Reduction Act 2017;
- Eligible applicants receive a 'personalised housing plan'; and
- There is a robust process for lessons learned from the appeals procedure.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

Internal Audit can confirm that as required by the Homelessness Reduction Act 2017 the Housing Services team:

- Provide advice and information about homelessness and the prevention of homelessness, free of charge available to any person in their district;
- Understand how to assess:
 - eligibility for homelessness support;
 - whether an a homeless applicant is actually homeless;
 - if a homeless applicant has a priority need including whether they are vulnerable; and
 - if a homeless applicant has made themselves intentionally homeless.

The Locata system supports Housing Services to document and manage homelessness applications, set-up personalised housing plans and monitor the requirement to support applicants for 56 days.

Adverse decisions are when an officer assesses an applicant and disagrees with the applicant's opinion that they have:

- A priority need;
- Are vulnerable; and/or
- Are not intentionally homeless.

An officer's adverse decision does not go through a formal review process.

Government legislation has an expectation that all eligible homeless applicants receive a personalised housing plan, which does not currently happen.

Housing Services have a robust appeals process which could be further enhanced with a 'lessons learned' process.

Conclusion

Internal Audit is able to conclude that there is an appropriate framework for assessing and managing homelessness applicants in line with Homelessness Reduction Act 2017 however this framework could be enhanced by:

- Ensuring that all relevant documentation is uploaded to Locata;
- An independent review of adverse decisions;
- Ensuring that all eligible applicants receive a personalised housing plan; and
- Empowering improvements through an appeals lessons learned process.

Management Actions

Management have responded positively to three of the four recommendations made however believe that a review of adverse decisions is not required as they are confident in their current risk management measures for these decisions.

Service Area: Cultural and Trading

Audit Activity: Gloucestershire Airport

Background

Gloucestershire Airport Ltd (GAL) is jointly owned by Gloucester City Council (GCC) and Cheltenham Borough Council (CBC), who are the Shareholders.

The Shareholders Forum oversees the direction and management of the airport in line with their strategic aims, with the GAL Board of Directors supporting the delivery of the airport's strategic aims, the business plan and financial management and projections.

In early 2017, the Shareholders commissioned a series of independent reviews into the governance issues arrangements of the GAL Board of Directors. The reports, completed in March 2017, identified that opportunities and actions should be taken to strengthen the existing governance arrangements.

A subsequent governance review was undertaken in September 2017 by CBC to examine the findings from the independent reports in respect of the GAL leadership and management. This review resulted in 27 recommendations which were to form the basis of an action plan to be monitored by the Shareholder Forum.

Scope

The objective of this review was to determine whether an action plan had been developed that takes into consideration the recommendations made; that the action plan is progressing, regularly monitored, updated and is accurate.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- The Board of Directors has produced an action plan to address the 27 recommendations made by the Governance Review, and from June 2018 this is overseen by the Chairman with the Commercial Finance Director.
- The latest action plan, dated April 2018, is comprehensive and considers all of the 27 recommendations made and documents the 61 proposed actions to be taken.
- Internal Audit reviewed the action plan and concludes the actions, when completed, would address 24 of the recommendations with the remaining three requiring more detailed actions.
- From April 2018 the action plan has been monitored by the GAL Board of Directors. The Shareholder Forum formally approved the action plan at their meeting on 4th December 2017; and receives governance updates but not updates on the progress of the action plan.

Gloucester City Council's Overview and Scrutiny Committee on 27th November 2017 received a GAL Governance Review update that included information about the action plan however no further updates have been received since.

Conclusion

The review concluded that an action plan had been developed and it takes into consideration the recommendations made.

Internal Audit reviewed the action plan to determine whether the 61 actions had been completed and recommendations implemented. Internal Audit was able to determine that:

- 17 of the 27 recommendations are still being implemented as not all actions have been completed; and
- 10 of the 27 recommendations have been implemented as the original actions are completed.

In addition the action plan could be improved by:

- Reviewing three of the 27 recommendation's actions to ensure they address the recommendation;
- Reviewing eight of the 27 recommendations to verify that there is evidence that they have been implemented; and
- Being reviewed and updated, and reported regularly to the Shareholder Forum.

Overall the action plan is progressing and is being monitored, however a complete review and update of the plan is also recommended.

Management Actions

Management have responded positively to the three recommendations made.

Service Area: Policy and Resources

Audit Activity: Treasury Management

Background

Gloucester City Council is required to operate a balanced budget, meaning that cash raised during the year will meet cash expenditure and the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return. The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice as part of the Financial Regulations set out in the Constitution.

Scope

The objectives of the audit were to review:

- The Council's treasury management strategy, policy and procedure to confirm compliance with the CIPFA Code of Practice; and
- The processes and internal controls in operation for:
 - a) Day to day operation and management of the function (including transaction decision making, authorisation and audit trail);
 - b) Use of brokers and specialist advisers;
 - c) Reconciliation of control accounts; and
 - d) Performance reporting to relevant stakeholders.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- A Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 have been approved by Members in accordance with the CIPFA Code of Practice (Code).
- The Code recommends as the “cornerstone of effective treasury management” Local Authorities maintain a Treasury Management Policy Statement and Treasury Management Practices and schedules.

These documents define the treasury management function and its daily operations across key areas recommended by CIPFA. Whilst the Treasury Management Strategy does cover elements of both the Policy Statement and Treasury Management Practices, omissions include the Council's stance and process for fraud, error and corruption and contingency management, ongoing performance measurement and organisation, clarity and segregation of responsibilities.

- The deals relating to investments and borrowings are in line with the treasury management strategy, including investment limits for counterparties/indicators and appropriate supporting documentation was available.
- In accordance with good practice the Council has appointed treasury management advisors i.e. Link Asset Services. From review it was identified that the initial contract period expired on 31st March 2018 with the arrangement now continuing until it is terminated by either party, giving no less than six months written notice. If the agreement is to continue beyond March 2019, the Head of Policy and Resources should consider obtaining alternative quotes by way of comparison to demonstrate that this continues to represent value for money for the Council.
- The Council has a fidelity guarantee insurance policy (which protects the Council against fraud). At the commencement of the audit, the designated officers listed within the policy did not match the current job roles at the Council (however following this being brought to the attention of the Accountancy Manager arrangements are in hand for this to be updated).
- Reconciliations between the daily cash flow statements, treasury management spreadsheet and general ledger are completed weekly and were found to be accurate.
- Performance reporting on the Council's treasury management activities is being reported to the Audit and Governance Committee at the required frequency as outlined in the Code.

Conclusion

Overall the treasury management activities are well managed and the day to day procedures to identify potential investment opportunities and/or borrowing requirements are working as envisaged.

The strategy for treasury management is clearly set out and has been agreed with the Audit and Governance Committee.

However, the Policy Statement and Treasury Management Practices (detailing how the treasury management activity will achieve its objectives and manage risks associated with the daily operations) have not been fully documented in line with recommended practice.

Moving forward, this review has also highlighted the opportunity to strengthen the existing controls through an enhancement of the segregation of duty between the deal function (Front Office) and the Treasury Administration function (Back Office). In particular Internal Audit recommends that the current practice is changed to ensure that:

- Existing treasury management practices documentation to be updated including stating that the treasury management dealer does not approve a payment for a deal they have selected with brokers / investment institutions;
- Standard Settlement Instructions are retained and issued by the Accountancy Manager / Head of Policy and Resources; and
- A system change is made to prevent amendments to a payment template being actioned solely by the main treasury dealer.

Management Actions

Management have responded positively to the two recommendations made. The treasury management guidance will be updated to include areas highlighted within the report. This will confirm that the treasury management dealer should not approve payment transactions within the banking system for deals which they have selected. Procedure notes have been updated to reflect this and this change has been communicated to the Finance Team.

It has been decided that no changes to the retention of the Standard Settlement Instructions will be made due to existing compensatory controls which management consider would immediately highlight any misuse and enable intervention.

Whilst a change to the payment templates has been considered management have stated this is not feasible as the software does not allow for this to be done.

Service Area: Policy and Resources

Audit Activity: Cash and Bank follow-up

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 Axis Income Management system, which is administered by Civica on the Council's behalf. Income at outstations such as the Guildhall, Tourist Information Centre and museums is recorded via the SeetGeek Enterprise Standing Room Only (SRO, was previously Toptix) box office software.

The income recorded in each of these systems is a significant sum, and consequently the 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 must be mirrored within the Council's main accounting system and represents a key financial control. This is to ensure the Council's financial position is correctly determined and that the Council makes informed decisions on sound financial information.

In December 2017, Internal Audit reviewed the arrangements in place for banking and to secure and account for income. Whilst overall (due to the wide scope of the review) a satisfactory assurance level for the control environment was obtained, a number of concerns were also identified where further action was required to strengthen the control environment for some aspects of this high risk activity.

Scope

To provide assurance that the recommendations raised in the 2017-18 audit of cash and bank have been fully implemented.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

The follow-up review established that:

- One high and two medium priority recommendations had been implemented;
- One medium priority recommendation was still progressing to completion;

- One medium priority recommendation had been superseded following the introduction of new processes and controls;
- One medium priority recommendation had not been accepted by management (previously reported) and the risk accepted as being within their risk appetite; and
- One medium priority recommendation had not been implemented at the time of this follow-up audit review in December 2018.

Outstanding Medium priority recommendation 2 – Risk assessment for cash handling arrangements. Internal Audit opinion – Recommendation not completed at the time of this review.

Original completion date – 30th June 2018.

Risk assessments for cash handling have not been completed at the time of this review for each of the visitor experience sites, cashiers and shop mobility. Although the risk impact has been reduced following changes to the payment arrangements for the markets i.e. card and bank payments now only accepted, it is important that these assessments are performed for the other sites to demonstrate that risks relating to cash handling and security have been considered appropriately such as loss of income, failure to comply with financial regulations, staff risks, etc.

The Accountancy Manager has, subsequent to this review, drafted a risk assessment template and guidance for completion of the form by Visitor Experience management. In addition the Visitor Experience Manager has provided confirmation that a risk assessment for each of the cash handling sites will be completed by the end of February 2019.

Outstanding Medium priority recommendation 4 – Contract arrangements for cash collection service. Internal Audit opinion – Recommendation progressing

Original completion date – 31st December 2018.

The contract for the cash collection service with Group 4 Security (G4S) could not be located by Finance. Therefore value for money, compliance with the Council's procurement and contract rules could not be confirmed by Internal Audit. The Accountancy Manager has instructed the Procurement Officer during December 2018 to commence a procurement exercise for this service.

Conclusion

Positive progress has been made by management and officers in implementing the majority of the recommendations as raised by Internal Audit in the May 2018 audit report.

This has resulted in improvements in the control environment, but further work is still required to fully implement and complete the remaining two outstanding medium priority recommendations.

Management Actions

Management has provided positive assurance and commitment to fully implement the two outstanding medium priority recommendations and improvements to the current processes suggested by Internal Audit.

Summary of Special Investigations/Counter Fraud Activities

Current Status

One referral has been received by Internal Audit (IA) for investigation during 2018/19 to date, and IA continued to work with one referral brought forward from 2017/18. Both cases have now been closed, details of which have previously been provided to Audit and Governance Committee.

In February 2019 ARA appointed a new Counter Fraud Specialist to the team increasing the resource to 2.6 equivalent FTE's and therefore increasing the resilience and expertise in this area. The team will be raising the profile of the service by actively engaging with Gloucester City staff over the next six months by attending staff meetings and running fraud awareness training sessions. By raising the profile of the service it is expected that this will generate referrals from across the City Council.

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.

The review of the Council's Social housing waiting list is now complete and a final report is expected to be issued by the Counter Fraud Unit (CFU) to Internal Audit by the end of February. A summary of the findings will be reported to Audit and Governance Committee.

In addition, work to review the Council's listed empty properties and Small Business Rate properties have now been completed by the CFU and reports of the detailed findings will be issued to Internal Audit by the end of February 2019.

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office.

Attachment 1

The 2018/19 data collections have been successfully uploaded to the Cabinet Office during October 2018 and the data matching reports were released on 31st January 2019 and the relevant staff at Gloucester City have been informed and any significant outcomes will be reported to the Committee. 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.