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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 2018/19 and the Annual Report on Risk Management Activity 2018/19 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 2018/19 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 2019, 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 2019 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 2018/19 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.

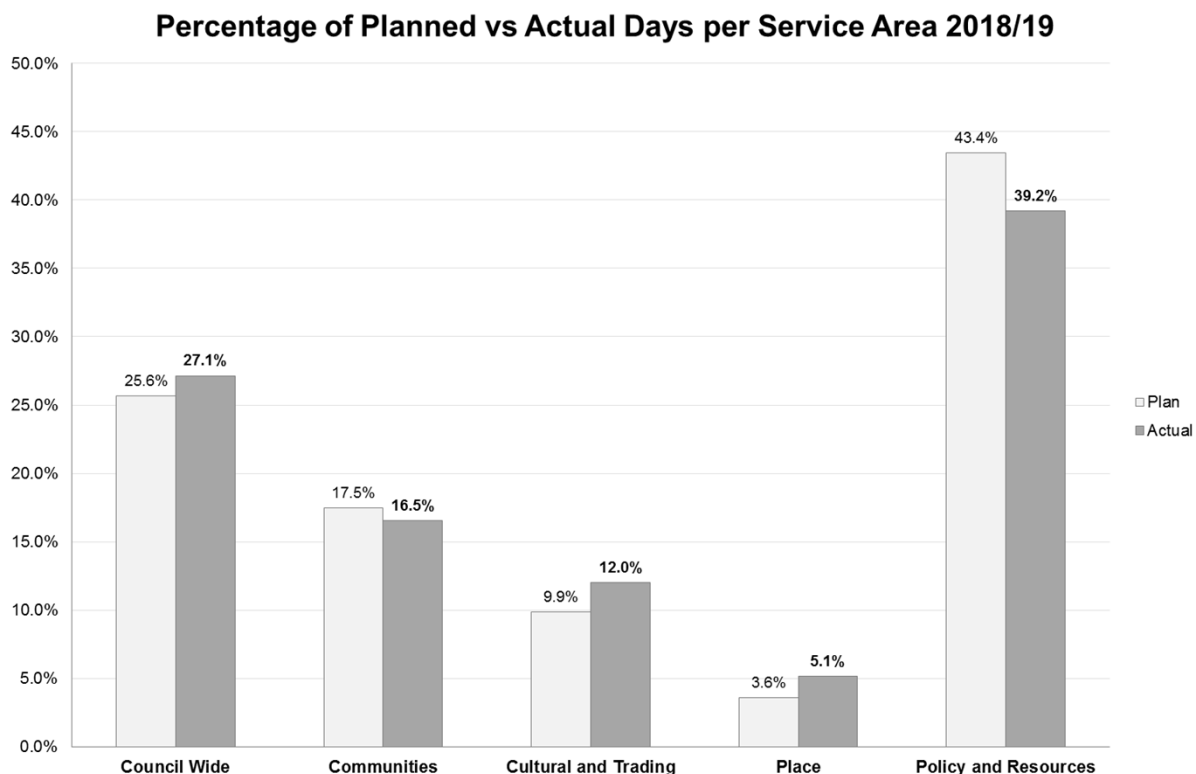
(5) Summary of Internal Audit Activity undertaken compared to that planned

The underlying principle to the 2018/19 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 2018 by the Audit and Governance Committee, three brought forward activities from 2017/18 have been completed and reported within 2018/19 (Scheme of Delegation, Network Access Controls and Payroll) and some of the original planned audits have been deferred into the 2019/20 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 2018/19).

The net effect is that although the work undertaken was slightly different to that originally planned we are able to report that we achieved **88.9%** of the overall revised plan 2018/19, against a target of 85%.

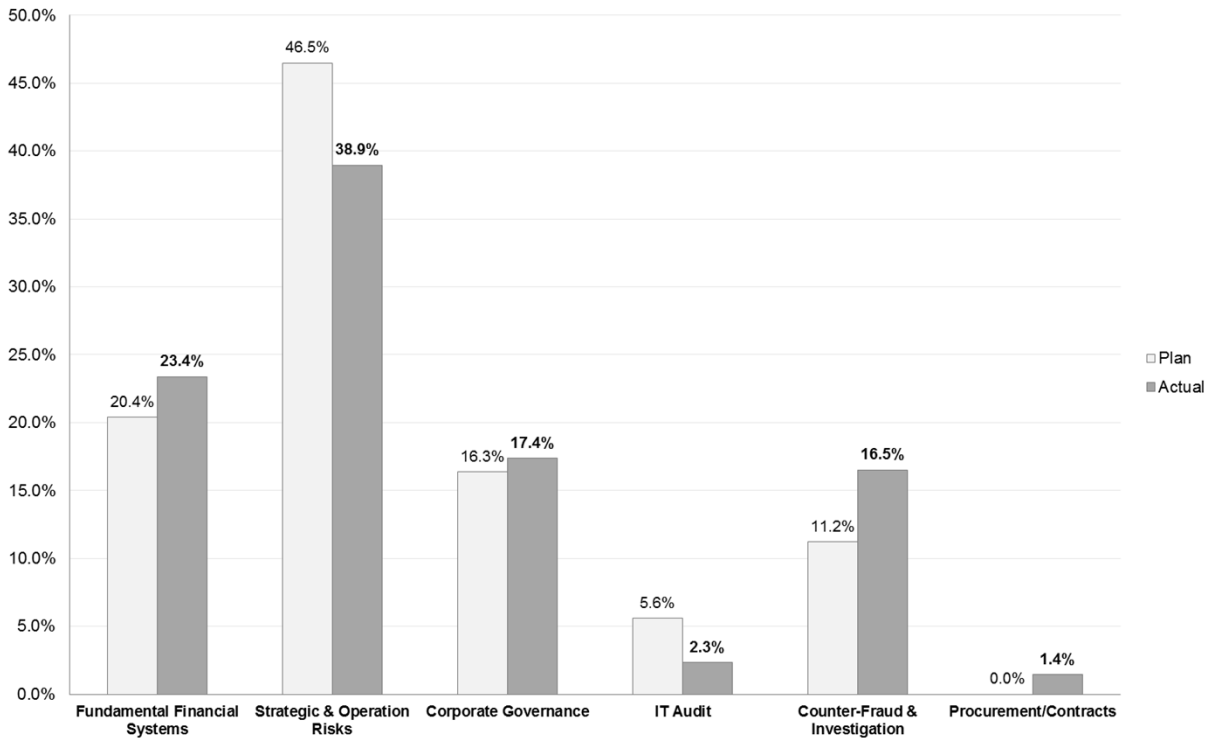
The bar charts below summarise the percentages of planned audits per service area (i.e. Council Wide, Communities, Cultural and Trading, Place and Policy and Resources) and category of activity (i.e. fundamental financial systems, governance etc.) compared with the percentage of actual audits completed.



Example rationale for the variance between 2018/19 planned and actual days per service area include (but are not exclusive to):

- Audit activity where actual days were in excess of those originally budgeted, due to the findings and outcomes of the audit work e.g. Treasury Management and Great Place Funding.
- Agreed audit deferrals into the 2019/20 Plan (e.g. Civil Parking Enforcement) and the cancellation of the Leavers Processes internal audit, in order to provide the required assurance through the Network Access Controls limited assurance follow up review within 2019/20 (improving the efficiency of audit scope delivery and adding value).
- 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). The outcomes of this work is detailed within section 7 of this report.

Percentage of Planned vs Actual Days per Category 2018/19



Example rationale for the variance between 2018/19 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;
- Audit activity where actual days were less than those originally budgeted, or the audit findings and outcomes e.g. Project Solace and Service Planning; and
- Agreed audit deferrals into the 2019/20 Plan (e.g. Civil Parking Enforcement, Ongoing Cyber Resilience and IT Disaster Recovery and Business Continuity).

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

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

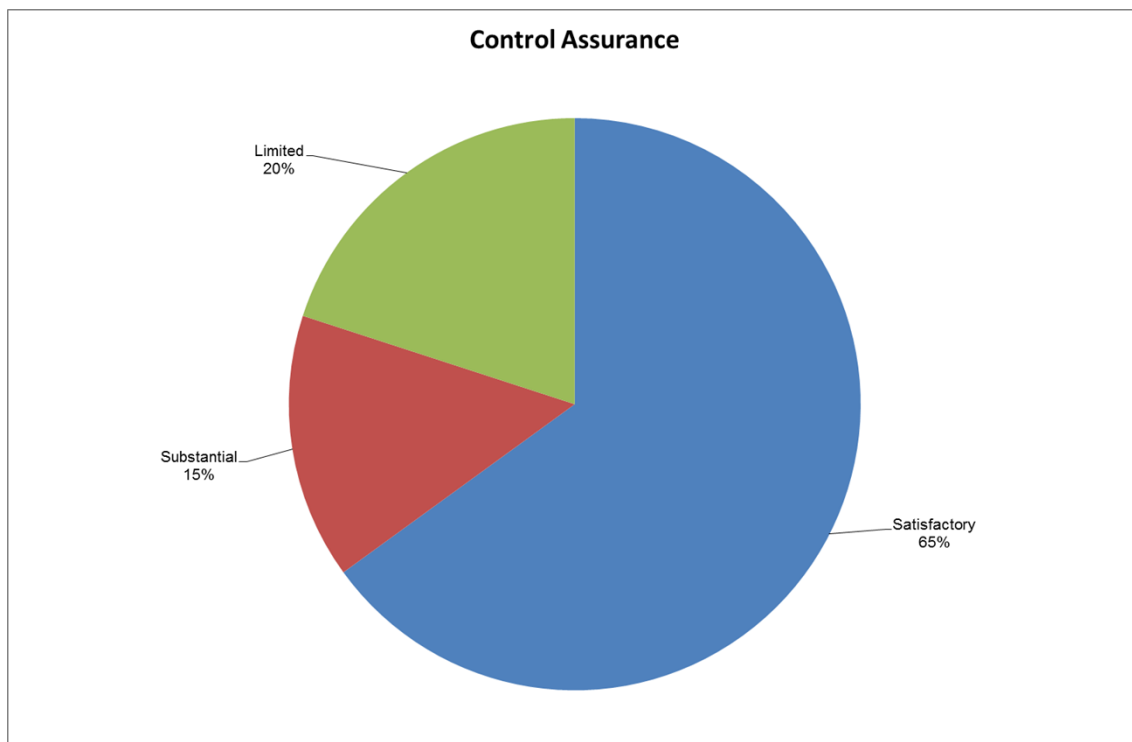
The schedule provided at **Appendix 2** contains a list of all of the audit activity undertaken during 2018/19, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Governance Committee. Explanations of the meaning of these opinions are shown below.

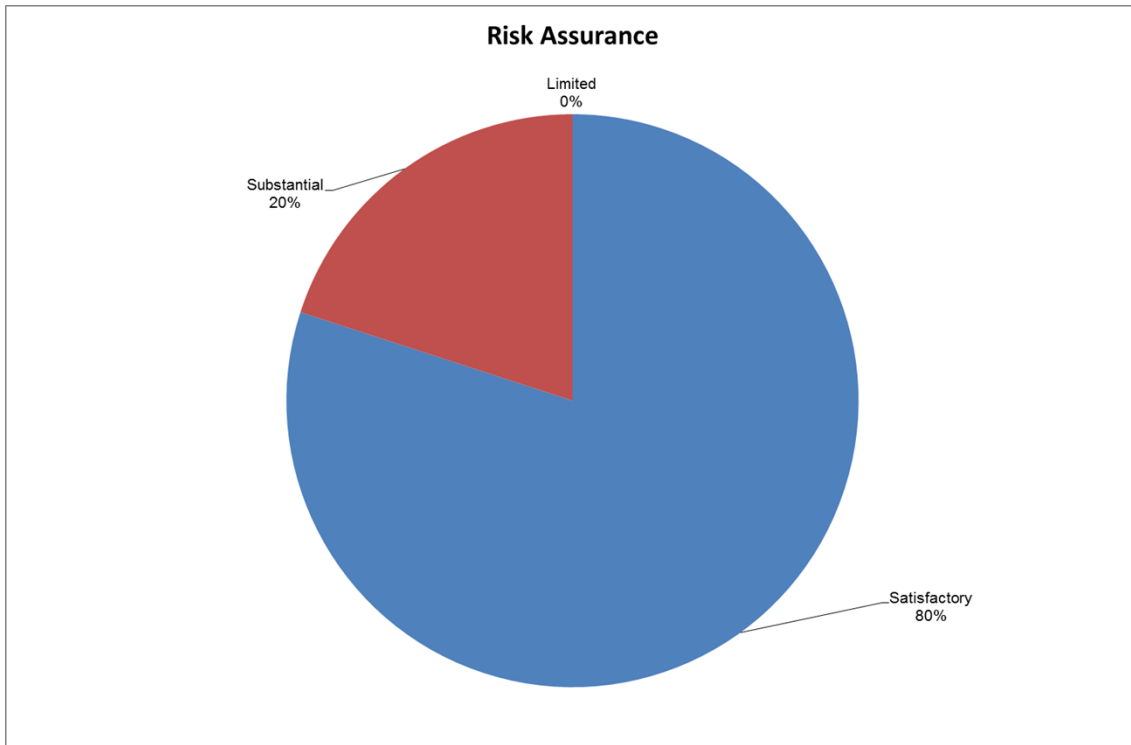
| Assurance Levels | Risk Identification Maturity | Control Environment |
|---------------------|--|---|
| Substantial | <p>Risk Managed Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other services, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Corporate Risk Management Strategy.</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 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.</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 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.</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 |

(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 **80%** of the activities reviewed have received a **substantial (15%)** or **satisfactory (65%)** opinion on control. Whilst **20%** of the opinions on control are limited, this may be 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 2018/19





(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 2018/19, four limited opinions on control were provided. These related to:

| Audited Service Area | Date reported to Audit and Governance Committee |
|---|--|
| Health and Safety | 22 nd July 2019 |
| Purchasing: Low and Intermediate Value Transactions | 22 nd July 2019 |
| Code of Conduct for Employees - Follow Up | 11 th March 2019 |
| Network Access Controls | 17 th September 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 |
|----------------|---|--|---|--|--------------------------------|
| 2017/18 | 7 | 100% | 52 | 100% | 59 |
| 2018/19 | 9 | 100% | 34 | 100% | 43 |

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 2018/19, 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.

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 2018/19, **100%** of the audited areas rated the effectiveness of risk management arrangements as **substantial (20%)** or **satisfactory (80%)** 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 from the 2016/17 financial year onwards. 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 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 2018/19. 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 2018/19 governance matters identified related to: Future Financial Stability / Efficiency Savings, Together Gloucester Service Transformation and Together Gloucester 2 (TG2) (of which all elements of the programme are underway).

The actions to be taken to address the above can be found within the Council's Annual Governance Statement 2018/19.

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 2018/19 (1st April 2018 to 31st March 2019) one potential financial irregularity was referred to Internal Audit (IA). The area investigated occurred within the Visitor Experiences service area and related to an allegation of theft of cash. Whilst the theft could not be proven, a number of recommendations were made to strengthen the controls around the handling of cash. Internal Audit has been advised that these recommendations have been implemented and there is a follow-up audit of this area included in the 2019/20 Internal Audit Plan. This irregularity has previously been reported to the Audit and Governance Committee.

Any fraud alerts received by Internal Audit from the National Anti Fraud Network (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 has been produced, the outcomes of this are used to inform future Internal Audit activity.

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The data collections were collected throughout October 2018 and reports have started to be received and reviewed. Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

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

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 Head of Finance 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 continues to undertake a self-assessment against the guidance to measure the Council's counter fraud and corruption culture and response and propose enhancements as required.

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 2018/19 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. | N/A |
| Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud. | 1.6 FTE fraud investigators and access to the Gloucestershire Counter Fraud Hub (CFU) as part of the Internal Audit shared service arrangement with Gloucestershire County Council and Stroud District Council i.e. Audit Risk Assurance (ARA). |
| Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists. | One FTE employed by the City Council with 1.6 FTE fraud investigators employed by ARA and access to the Gloucestershire CFU as part of the Internal Audit shared service arrangement. |
| Total amount spent by the authority on the investigation and prosecution of fraud / <u>irregularity</u> .. | £32,535 (includes an element of costs for the services of ARA and the Gloucestershire CFU as part of the Internal Audit, ARA shared service arrangement. Excludes Gloucester City Council staff costs). |
| Total number of fraud cases investigated. | 0 |

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 |
|----------|----------------------------------|
|----------|----------------------------------|

| | |
|--|---|
| <p>Total number of cases of irregularity investigated.</p> | <p>109 Housing Benefit (HB) cases referred to the Department for Work and Pensions (DWP) for their investigation.</p> <p>130 HB cases recalculated due to HB Matching Service (HBMS).</p> <p>276 HB cases recalculated due to Real Time Information/ Validate Earnings and Pensions Alerts Service (RTI/VEP).</p> <p>78 cases received from the DWP as a direct result of their investigations.</p> <p>1 case of theft of cash.</p> |
| <p>Total number of occasions on which a) fraud and b) irregularity was identified.</p> | <p>a) 0</p> <p>b) 1 + As a local authority there is an obligation to refer our HB fraud allegations to DWP for their consideration as to whether an investigation should take place. The City Council has no control over which cases the DWP choose to (or choose not to, investigate).</p> |
| <p>Total monetary value of a) the fraud and b) the irregularity that was detected.</p> | <p>a) 0</p> <p>b) £3,000 + Referred to DWP £334,657.71 Housing Benefit overpayments (overpayments referred to DWP for their consideration of investigation must all be over £2K to meet the referral threshold).</p> <p>Received from DWP £31,949.99 Housing Benefit overpayments.</p> <p>HBMS £213,689.76 of HB overpayments.</p> <p>(RTI/VEP) - £130,657.66 of HB overpayments.</p> |
| <p>Total monetary value of a) the fraud and b) the irregularity that was recovered</p> | <p>a) 0</p> <p>b) Recovery will be sought from all those who have been overpaid</p> |

| | |
|--|--|
| | Housing Benefit as a result of fraud / irregularity. |
|--|--|

Full details about the code and its requirements can be found at:

<https://www.gov.uk/government/publications/local-government-transparency-code-2015>

(7c) Gloucester City Council’s participation in Gloucestershire’s Counter Fraud Unit (CFU)

National Context

In 2011, the Cabinet Office Counter Fraud Taskforce issued a report on ‘Illuminating Public Sector Fraud’ which outlined four strategic priorities:

- Collaboration;
- Assessment of Risk;
- Prevention; and
- Zero Tolerance.

‘The scale of fraud against Local Government is extensive and hard to quantify with precision. Fraud costs UK public services an estimated £21 billion per year, of which £2.1 billion is the estimated cost to Local Government. A further £14 billion is lost to tax fraud and vehicle excise fraud and £1.9 billion to benefit and tax credit fraud. Reducing this is now a major priority across all areas of government.’ Cabinet Office 2016.

The National Fraud Authority and the Audit Commission have closed. However, fraudsters are becoming increasingly sophisticated. All public service organisations are more vulnerable than ever to criminal activity.

Although resources remain stretched, the reduction of fraud within the public sector is a priority and is reflected by the CIPFA Counter Fraud Centre which was launched in 2014 to lead and coordinate the fight against fraud and corruption across local and central government.

Local Context

The CFU has been engaged through ARA in 2018/19 to undertake work on behalf of the Council. All counter fraud activity undertaken by the CFU has been agreed with the S151 Officer and relevant Service Managers, and overseen by the Chief Internal Auditor.

Work streams reviewed by the CFU, in liaison with the Policy and Resources Intelligent Officer and ARA have included:

- Small Business Rate Review (SBRR) - some of this work is ongoing however to date there have been 1,292 review forms issued and 954 cases reviewed. Work is ongoing to chase the outstanding non responders. Outcomes will be reported once the work is complete.
- Council Tax Long Term Empty Property Review - 218 properties were referred for a visit. 71 of which reported to the revenues team as occupied at approximately £5,000 per property over four years, this equates to circa £355,000. The Council has introduced an empty homes premium on those empty and unfurnished properties >2years. All those that were genuinely empty are now subject to a Council Tax charge of 150%.
- Housing List Review – 557 cases were referred for urgent review or removal. The National Fraud Initiative (NFI) apply a figure of £3,240 (estimated figure used as an average basis for the calculation of the amount lost attributable to fraud and error), for each application removed, for future losses prevented as a result of removing an applicant because there is no need for temporary accommodation to be utilised. In addition, the result of the band reprioritisation is that those families who are correctly banded have a greater chance of being housed and more speedily. Based on the NFI estimate, this equates to £1,804,680.

(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, Quality Assurance and Improvement Programme (QAIP), Code of Ethics and the Audit and Governance Committee's Terms of Reference all reflect the requirements of the standards.

External Quality Assessment of the Effectiveness of Internal Audit

There is a requirement under the PSIAS i.e. Standard Ref '1312 External Assessments' for internal audit to have an external quality assessment which must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The standards require the Chief Internal Auditor to discuss the following with the Audit and Governance Committee:

- The form of external assessment; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

The review undertaken during May 2015 by the Chartered Institute of Internal Auditors (CIIA) 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.

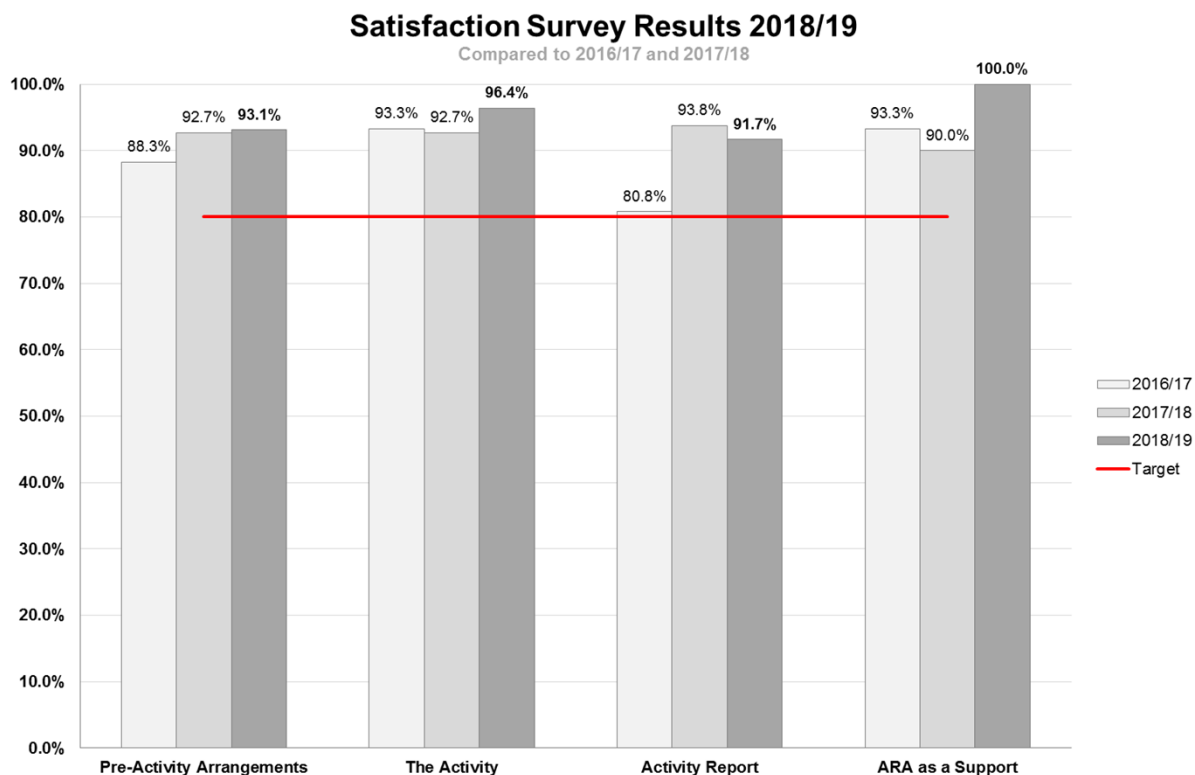
During 2018/19 the Chief Internal Auditor assessed Internal Audit's performance against the Internal Audit QAIP as required by the PSIAS. The QAIP confirmed compliance against the PSIAS.

The last External Quality Assessment (EQA) was undertaken by the CIIA in May 2015, therefore the second assessment being due during May 2020. The review will cover the three ARA partners: Gloucestershire County Council, Stroud District Council and Gloucester City Council. The outcomes will be reported to the Committee.

Internal Assessment - Customer Satisfaction Survey results 2018/19

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 **100%** reflecting Internal Audit as being a positive support to their service.



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

- *“I thought the way the auditor conducted himself was really good. He was approachable and always gave clear directions on what he wanted”.*
- *“Your audit of BCM has been really useful thank you”.*
- *“I was happy with the final report”.*
- *“Clear concise and opportunity to discuss, without pre-conceived ideas”.*
- *“Thanks to you and the other auditor for making internal audits an enjoyable and valuable process”.*

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 2018/19, 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 2018/19 ARA has been in a position to be able to provide a dividend to the Council in the sum of £ 13,375.86. This is due to efficiencies achieved by the shared service during this period.

Internal Audit's relationship with the Audit and Governance Committee

The Chief Internal Auditor functionally reports to the Audit and Governance Committee and supports the Committee in fulfilling its role as an independent assurance provider.

The Chartered Institute of Public Finance and Accountancy, CIPFA, have recently produced revised guidance on the function and operation of audit committees; "Audit Committees in Local Authorities and Police, 2018 edition". The guidance represents CIPFA's view of best practice for Audit Committees in local authorities throughout the UK and replaces the Position Statement of Audit Committees in Local Government issued in 2013. In the guidance, CIPFA provide a suggested self-assessment against recommended practice.

By reviewing the Committee's effectiveness against a good practice self-assessment on an annual basis, the Committee can demonstrate a high degree of performance and evidence that the Committee is soundly based with a knowledgeable membership that is not impaired in any way. Completion of the self-assessment can also be used to support the planning of the Committee's work programme and training plans and inform the Committee's annual report to Council.

Internal Audit led on a review of their effectiveness which enabled members of the Committee to undertake a self assessment against the good practice principles. An action plan has been developed which summarises the next steps to further enhance the Committees effectiveness.

Green Impact Award

Green Impact is a sustainability accreditation scheme with an awards element. Green Impact supports organisations in meeting the reduction in energy and fuel use, cost and resulting CO2 emissions.

ARA achieved a bronze award in 2017 demonstrating and evidencing change across the team and its activities making improvements in managing waste and recycling, reduction of energy use, reduction in water usage including preventing water wastage, reusing before procuring new, alternative travel use and improving overall team health and well-being.

ARA was also identified by the scheme in 2017 by being awarded the Green Impact special award for its proactive approach in making positive changes to its processes to benefit the Council as a whole.

In 2018 ARA has further demonstrated its commitment in meeting this objective and received the gold award, the highest award within the scheme.

Completed Internal Audit Activity during the period April – June 2019

Summary of Limited Assurance Opinions on Control

| | |
|------------------------|--------------------------|
| Service Area: | Council Wide |
| Audit Activity: | Health and Safety |

Background

Gloucester City Council is committed to managing health and safety at work as an integral part of its business; to foster and promote a positive and caring attitude to health and safety in the work place.

Scope

The overarching objective was to ascertain details of the arrangements and procedures established by the Council to meet its commitment to health and safety, and fulfilment of legal requirements. In particular, to review:

- The governance framework and corporate oversight arrangements;
- Roles and responsibilities within the service areas, and compliance with the Health and Safety Policy; and
- How property related health and safety risks are being managed.

Risk Assurance – Satisfactory

Control Assurance – Limited

Key Findings

- There is a clear and documented policy outlining the Council's commitment to managing health and safety at work, which is accessible to all staff via the NET consent Policy Management Centre. The policy was last formally activated via NET consent for staff to read on 20th December 2017.
- Records confirm that all Service Managers and Heads of Service have read the policy and confirmed their understanding of this.
- Corporate oversight is partially provided by the Strategic Health and Safety Management Group. The policy also requires the formation of the Operational

Health and Safety Management Group (to support the Strategic Group), however, at the time of the audit this group has not yet been formed.

- The Community Wellbeing Officer has specific responsibilities regarding health and safety, assisting the Head of Communities and Community Wellbeing Manager, and to provide advice and support to service managers, as required. This includes a requirement to carry out annual health and safety audits. However, this review has highlighted that these fundamental audits have not been completed for at least 12 months.
- An established system is in place for staff to report incidents to the Community and Wellbeing Officer for any further investigation/action to be taken. Statistical data on incidents is provided to the Strategic Health and Safety Management Group, although at the time of the audit, this did not capture any near misses.
- The majority of managers have not received relevant corporate health and safety training, or received any recent guidance on the records that should be maintained by them, and in what format. It has been recommended that the Head of Communities (in consultation with the Community Wellbeing Officer) undertake a knowledge gap analysis and arrange for appropriate training to be provided as soon as is practical.
- Where managers have additional responsibility for operations within a Council building, clarity is required on where the division of responsibilities lay between themselves and the Assets and Property Service.
- There has been a significant breakdown in the oversight provided by the Assets and Property Service relating to the statutory requirements of Council buildings. Internal Audit was advised that a concerted effort is now being made to produce a gap analysis of all Council asset statutory records and, where appropriate, any remedial works that are required.

Conclusion

Internal Audit's review has confirmed that service managers displayed a positive attitude towards the wellbeing of their team members. However, it has also highlighted that the control environment is currently ineffective and the day to day practical application of health and safety arrangements are not fully understood, or being consistently applied and documented across the Council.

Management Actions

Management have 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: Council Wide

Audit Activity: Purchasing: Low and Intermediate Value Transactions

Background

The Council undertakes a variety of purchasing activities to help deliver services and meet its key aims and objectives. Failure to operate a transparent process for the procurement activity (coupled with any non-compliance with the requirements of the Public Contract Regulations 2015) exposes the Council, officers and Members to significant risks in the event that the contract award is subject to challenge or does not provide value for money.

Scope

The objective of the audit was to review low and intermediate value purchases (not exceeding £50,000) made by the Council, in order to evaluate the level of compliance with the Contract Rules contained within Part 4 of the Council's Constitution.

Risk Assurance – Satisfactory

Control Assurance – Limited

Key Findings

- In the majority of cases:
 - ProContract (The Council's e-tendering system) is not being used to facilitate and record the receipt of any quotations received in accordance with the Contract Rules;
 - Alternative quotes are not being obtained; and
 - For amounts over £10,000 formal written contracts are not being prepared/ approved by the Council's Solicitor.
- There is strong evidence of the disaggregation of purchase orders raised to the same supplier on an ongoing basis; albeit, Internal Audit found that this was due to a lack of knowledge of the Contract Rules, rather than a deliberate attempt to circumvent the required process.
- A periodic review of purchase orders raised across the Council does not take place to identify opportunities for the establishment of corporate contracts, which when combined, could offer economies of scale and better value for money.

- For ongoing commitments, officers are not considering the total expenditure over a four year period, where in some instances; the value has exceeded the EU threshold.
- Where the Contract Rules have not been followed, an appropriate waiver is not being applied for, documented and authorised (following consultation with the Section 151 Officer and Council's Solicitor) and kept by the Procurement Adviser.
- The Contracts Register on ProContract (The Council's e-tendering system) is not being kept up to date.

Conclusion

Whilst there is evidence of some good practice, the level of compliance with the Council's Contract Rules is significantly lower than is required by Part 4 of the Council's Constitution. This level of non-compliance exposes the Council to potential challenge from alternative contractors who could deliver the required service.

Going forward, an enhanced level of corporate oversight is required; coupled with proactive action to identify any non-compliance and possible opportunities where a composite corporate contract could be procured. If the level of non-compliance with the Council's Constitution continues unchecked, then officers will view this to be normal practice and over time this is likely to undermine the Council's governance arrangements.

Management Actions

Management have recognised the audit findings and have begun to implement a plan of action. Once completed, the action plan will address the issues highlighted by this review.

Summary of Satisfactory Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: Business Continuity Management Planning

Background

The Civil Contingencies Act 2004 requires all local authorities to have Business Continuity Management (BCM) arrangements in place, designed to ensure that as far as possible it can continue to operate the critical elements of the service in the event of disruption such as power loss, flooded premises or high staff absence.

Scope

The objectives of the audit were to review the:

- Adequacy of the information recorded in the Corporate Strategic Risk Register for an unexpected service disruption;
- Maintenance and communication of the Business Continuity: Corporate Recovery Plan;
- Development of service Business Continuity Plans;
- Approach to simulation testing; and
- Reporting arrangements to senior management and the Audit and Governance Committee.

Risk Assurance – Satisfactory**Control Assurance – Satisfactory****Key Findings**

- The risk to Business Continuity and service delivery is fully acknowledged and is recorded on the Council's Strategic Risk Register 1.9: "Ability to respond to unexpected events in support of our communities". Changes affecting this risk are being monitored through the Council's established risk management reporting process;
- The Council's Business Continuity: Corporate Recovery Plan (BCCRP) is a strategic document which is continually evolving and was last formally updated in June 2018. It is now in need of further refresh and once completed consideration should be given to making this document accessible to all staff via the Council's intranet;
- Priority functions and targeted recovery timescales have been identified following a business impact assessment undertaken by each service area and these are recorded in the CRP and individual service plans. However, some inconsistencies were identified between the details in the CRP and service plans which need to be amended;
- At the time of the audit some service plans were still being developed and progress is being closely monitored by the Head of Communities; and
- Simulation testing has not taken place in 2018/19 due to changes resulting from the Together Gloucester programme and the planned move to Shire Hall. Internal

Audit was advised that this will recommence in 2019/20 following the updating of the CRP and the service plans affected by the changes.

Conclusion

The Council is aware of its responsibilities under the Civil Contingencies Act 2004 and has developed a framework to try and help manage and minimise the effect any significant disruption to service delivery should this occur.

Internal Audit review of these arrangements provides satisfactory assurance that the risks which are considered to be material to the achievement of the objectives for this area under review are adequately managed and controlled.

The engagement of the County's Civil Protection Team Officer to provide advice, guidance and challenge is considered positive and going forward should enable the existing arrangements to be further developed as required. The re-introduction of simulation testing should be a priority.

Management Actions

Management have responded positively to the audit findings and four recommendations have been made that when implemented, will address the issues highlighted by this review.

Service Area: Communities

Audit Activity: Houses in Multiple Occupation (HMOs) – Licensing and Enforcement

Background

A house in Multiple Occupation (HMO) is a property which is let to at least five tenants who form more than one household and who share a toilet, bathroom or kitchen facility. A landlord is obliged to apply for a licenced HMO, where they are considered a "fit and proper person" and their property meets the necessary quality standards, with the objective of protecting the well-being of private tenants.

Scope

The Licensing and Management of Houses in Multiple Occupation and Other Houses Regulations 2006 details the requirements for granting of a licence. The objectives of the audit were to provide assurance that an appropriate and effective control framework is in

place to manage the licensing of HMO property and the Council's responsibilities under the regulations.

Risk Assurance – Substantial**Control Assurance – Satisfactory****Key Findings**

- There are currently circa 300 licences issued by the Council and the Uniform database and the Information at Work system is used to manage the supporting evidence;
- From 2019/20, licences are issued for a five-year period requiring the applicant to complete an on-line application form and pay an advance fee of £820;
- The Housing Team are currently completing a comprehensive review of the procedures and controls to be used for new applications, renewals and for ensuring on-going compliance with the regulations;
- Sample testing of the application and renewal process for licences identified some non-compliance issues such as the absence of property measured floor plans, as required by the above regulations;
- The 2019/20 fee model is suitably documented to show the activity-based costing process used; and is considered materially accurate, with viable financial assumptions; and
- Complaints received from tenants are handled with an appropriate procedure which is consistent with the Regulatory Services Policy.

Conclusion

Overall, the management of the HMO licencing process is effective and as such Internal Audit concludes that substantial assurance can be given for risk identification maturity and satisfactory for the control environment. The additional resource provided to the Housing team should enable the Council to become more proactive in identifying any unlicensed properties that may exist and to then take appropriate action. Two recommendations have been made with the objective of further enhancing the existing arrangements.

Management Actions

Management have 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.

Summary of Substantial Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: Scheme of Delegation

Background

Gloucester City Council is required to operate within legal requirements for the delegation of decision making and also its own scheme of delegation as detailed in the Council's Constitution. The legislation, a limited body of case law, and the constitution details the extent to which, and the way in which, the Council can delegate its functions.

The procedures that are followed in support of effective governance should ensure the Council operates in an efficient, transparent and accountable manner.

Scope

The objectives of the audit were to confirm:

- The Council's scheme of delegation is periodically reviewed to ensure it meets the most recent legislative requirements and operating practices;
- The advice and guidance available to support and ensure compliance with the Council's delegation 'rules';
- That decisions by Members and Officers are in accordance with the scheme; and
- That decisions taken are recorded and made available (or restricted) in accordance with legislation and the constitution.

The audit scope was limited to Gloucester City Council's scheme of delegation to Members and Senior Officers as determined by the requirements of the Local Audit and Accountability Act 2014.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- There is a clear and documented process outlined in the Council's Constitution, notably part's 3 and 7 (Responsibility for Functions and Proper Officers and Scheme of Sub Delegation respectively);

- Report templates, guides and decision making advice are available upon request from the Policy and Governance Manager. Report writing guidance was provided by email to the Gloucester Management Team on 25th March 2019;
- OneLegal, in consultation with the Council, periodically review the Council's scheme of delegation and perform appropriate oversight of the decision making process;
- Nine of the decisions had been appropriately documented and published; one implementation decision, taken on 7th March 2019, had been documented and forwarded to legal services but not subsequently published. Following Internal Audit's query, the decision was subsequently published; and
- Two decision records contain typographical errors.

Conclusion

All decisions were taken in accordance with the Council's Scheme of Delegation as detailed within the constitution, and documented as required. Whilst one implementation decision had not been published, this appears to be an oversight and has now been rectified. Additionally, two decision records contained typographical errors and indicate a need for a closer scrutiny of the records prior to being published.

Management Actions

None.

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

Service Area: Council Wide

Audit Activity: Key ICT Project Governance (Position Statement)

Background

As part of the 2018/19 Internal Audit Plan, a review of Key ICT Project Governance is being undertaken.

A breadth of ICT projects are being delivered within 2018/19, including those supporting the Gloucester City Council accommodation review outcomes. For a selection of key ICT projects, the audit will provide assurance that the projects align with the strategic development plan, are appropriately managed and that expected benefits have been properly quantified and have been or will be realised.

Scope

The scope of the audit includes, but is not limited to, the following areas:

- The Council has a defined policy/process/framework for ICT project governance;
- All projects align to the Council's ICT Strategy and objectives;
- Projects are supported by a documented and authorised Business Case (including allocation of a lead officer and project sponsor at senior management level);
- Project scope and requirements are clearly defined;
- Costs have been reliably estimated and are subject to real time monitoring;
- Project monitoring is completed on a regular basis and at an appropriate level; and
- Project benefits are both visible and quantifiable.

Key Findings

From information provided by the Information Governance Board together with discussions with key ICT personnel, Internal Audit has confirmed that a documented and approved ICT Strategy is in place. All ICT projects should follow a standard methodology, be documented and authorised.

A framework agreement is in place to ensure the Council obtains optimum value for money on all ICT expenditure.

An ICT Strategy Board is in place to review, validate and approve all new ICT projects. Membership of the Board includes senior officers, with representation from both Finance and ICT. The ICT Strategy Board convenes monthly to proactively monitor project progress against agreed timescales and budgetary expenditure.

The current ICT workstack includes a number of key projects. Examples include, but are not exclusive to:

- New Gloucester City data centre to house all Council server hardware;
- Windows 10 system upgrade across all Council PCs and server;
- Replacement of the legacy Aspire telephony system; and
- Windows 2008 server upgrade programme.

Internal Audit has selected a sample of key ICT projects from the 2018/19 work stack, to review and test against the audit scope criteria. Audit review and testing is in progress at the point of this position statement.

Conclusion

At the point of Internal Audit Annual Report 2018/19, the Key ICT Project Governance internal audit is in progress. Completion of the internal audit within 2019/20 will be valuable, to enable review of the ICT project governance framework to an appropriate stage for each of the sampled projects.

Outcomes of the internal audit are planned to be discussed with the Information Governance Board, prior to final presentation to Audit and Governance Committee within 2019/20.

Service Area: Policy and Resources

Audit Activity: Service Planning and Performance Reporting

Background

Effective service planning to support and ensure the delivery of corporate objectives, along with robust performance management systems are a key component of effective governance. The Annual Governance Statement for both 2016/17 and 2017/18 made reference to required actions in respect of service planning and performance management.

The Council embarked upon a significant review and refresh of its approach to performance and risk measurement, management and reporting, including investing in new Performance and Risk Management Software system (Pentana Performance).

Scope

To review the progress made to date in implementing the new service planning system, along with the plans and milestones to support and ensure delivery of the full system in accordance with the objectives and timeframe set (i.e. direction of travel).

Key Findings**Overview**

The development of the Council's performance management framework has taken longer than originally planned due to the organisational impact of the 'Together Gloucester' project. Organisational structures changed during the intended implementation period and to progress elements of the development process would have resulted in abortive work. In

addition, focus was placed on the implementation of the service delivery and operating redesign resulting from the project.

A project framework operates, targeting implementation of service planning for 2019/20. On-going development will be an evolutionary process. As at mid-April 2019 service plans for 2019/20 were being entered onto the Performance Management System (PMS), when this task is complete service performance for the current year will be monitored and reported upon from the system direct. Access to a range of standard reports from the PMS will support more effective service performance monitoring for managers and Members.

Performance and Risk Management Software system

- The ongoing development of the system and associated processes has supported a formal and structured approach to service planning for the 2019/20 year.
- To utilise the system fully it has been identified that additional resource is required and a request to fund and source this resource is to be made in June 2019. Should this additional resource not be approved then we have been advised the development of the system will continue to progress but on a protracted timeline.

Service planning and monitoring

- A number of actions have occurred during 2018/19 that strengthens service planning and performance reporting for 2019/20. These actions and those planned support a structured planning and performance monitoring system, for example:
- A service planning template along with guidance notes on completion have been introduced. The template includes the links to corporate priorities, measurements (outputs and outcomes), inputs (budget and resources), interdependencies, constraints and risks. Review of the guidance and a sample of the completed service plans (developed in accordance with the template) show the process offer the base for effective service planning and performance monitoring.
- All service plans would be added to the software system and be monitored from the system in year. Service planning learning points from the current year will feed through to the service planning process for 2020/21.
- There is evidence of the development of clear links between the Council Plan to the four Theme Strategies (not all completed at the time of this review), to Service Plans. Outcomes and outputs support the delivery of priorities and a range of

performance indicators aid the monitoring of the 'business as usual' elements of service delivery.

- The staff performance appraisal guidelines identify the need to link the individual's contribution and performance targets to service plans, which in turn link to the corporate plan. The performance appraisal system is not included within the scope of this review.

Performance reporting

- In 2017/18 performance measurements maintained on the PMS by service areas were those that fed through to the formal performance reports considered by Cabinet.
- The 2018/19 first quarters monitoring report to Cabinet outlined that; 'Work towards ensuring meaningful presentation of performance data is ongoing with inclusion of more targets and thresholds to provide a RAG status for measures alongside direction of travel. Going forward, some measures may be revised to ensure that the data is presented with the appropriate context.' Internal Audit has confirmed these developments are being progressed, further development being linked to resources available.

Accountability

- Clear ownership and accountability for service planning, monitoring performance and the maintenance of the performance data rests with service managers. Projects headed by service managers will be included within their remit. Establishing the process for managing council wide projects within the system was under review, but assurance was given that clear ownership and responsibility for project performance targets, data and monitoring will be established, using the PMS.
- The Policy and Governance Team has responsibility for the administrative management of the software, developing the benefits that can derive from the system and for drawing together corporate performance monitoring reports.

Conclusion

The service planning process and the development of performance measurements has progressed during 2018/19.

There are clear plans to enhance performance reports to become a combination of performance indicators and outcome measures that evidence trends and progress in delivering service and council's priorities and objectives.

The performance and risk management IT system has been implemented. The associated systems and processes, although in their infancy, provide a sound base for effective service planning and performance monitoring arrangements leading to enhanced performance reporting. These arrangements should support effective performance management, being a key contributor to the Council's governance framework.

Within a performance management framework should be a 'golden thread' which links and evidences the contribution and performance from the individual through to the corporate wide attainment of the Council's goals. Although not examined in detail as part of this review evidence is available to indicate all the expected links will be incorporated within the system. Effective maintenance and unitisation of the PMS and compliance with the intended associated process will be key to turning the development and implementation phases into the desired operational service planning and, performance monitoring and reporting system.

The overall direction of travel is positive. Although Internal Audit has been advised the pace of continued development and enhancement will be reliant on resourcing levels.

It has been agreed that Internal Audit will undertake an assurance audit in during 2019/20 assessing the service planning and performance reporting system when more established.

Management Actions

None.