

Internal Audit Activity Progress Report 2019-2020



(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 2019/20 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period July 2019 to August 2019; and
- Special investigations/counter fraud activity.

(4) Progress against the 2019/20 Internal Audit Plan, including the assurance opinions on risk and control

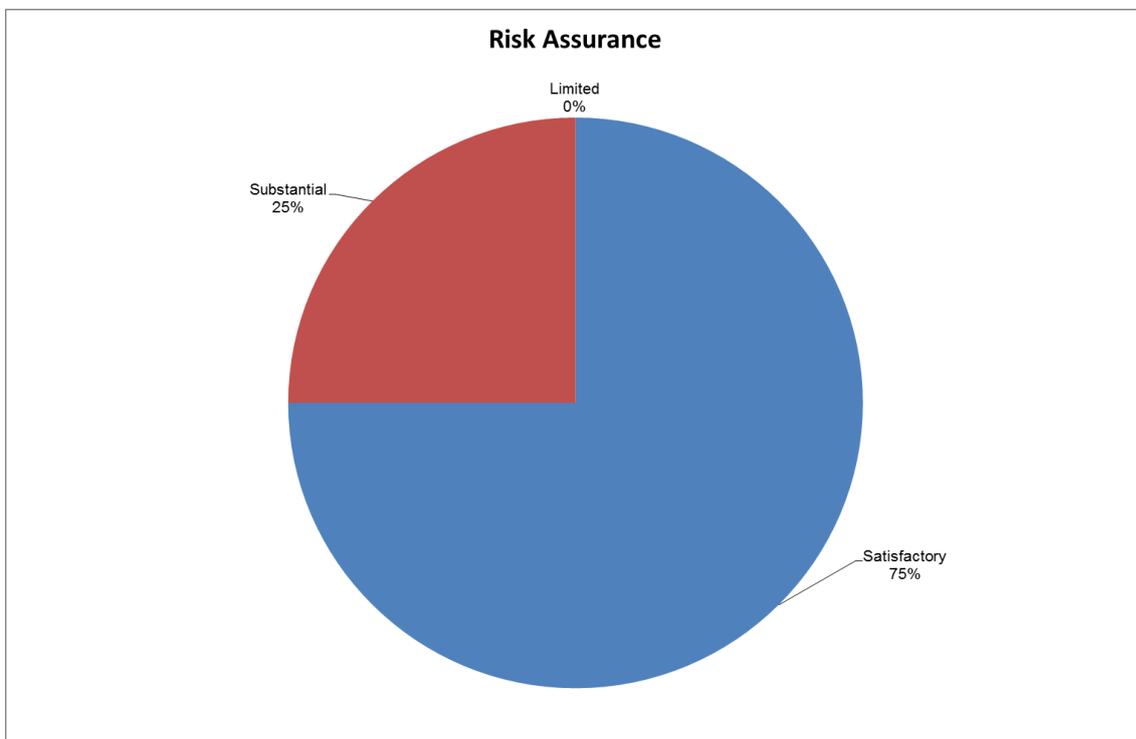
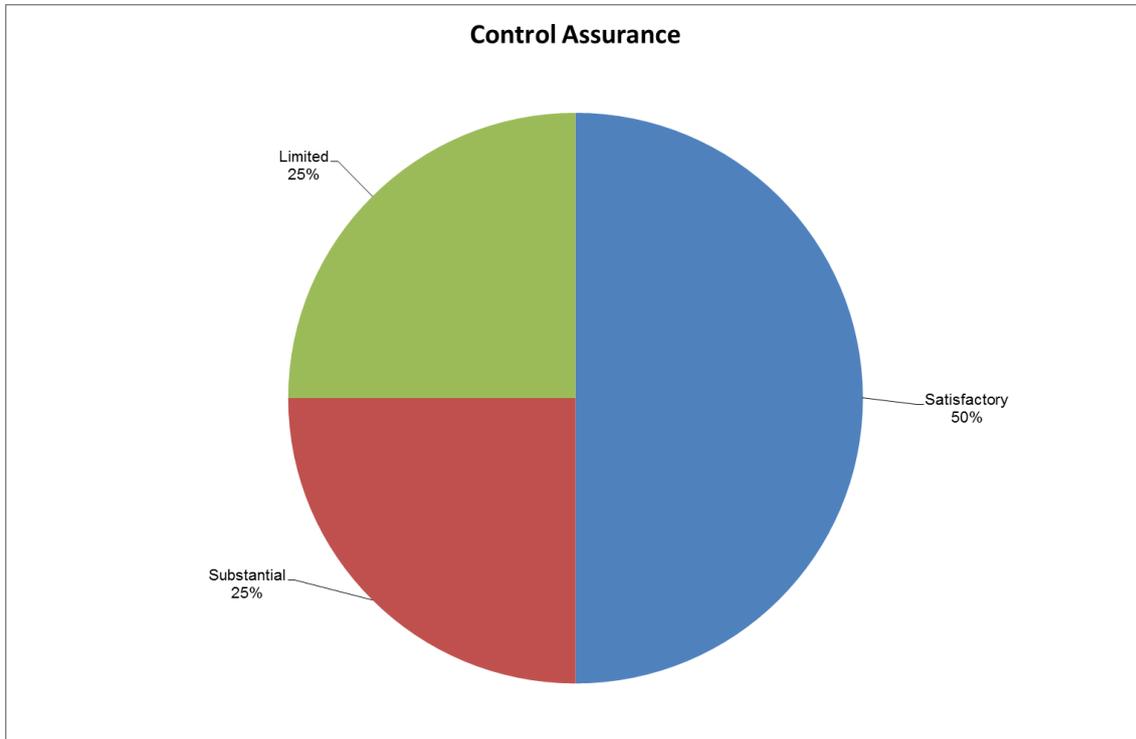
The schedule provided at **Attachment 1** provides the summary of 2019/20 audits which have not previously been reported to the Audit and Governance Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2019/20 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 2019/20 audit activity undertaken up to August 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 July 2019 to August 2019, one audit review has been provided with a limited assurance opinion on control which relates to Shopmobility Fees and Charges.

It is important to note that whilst a limited assurance opinion has been provided in this instance, management have responded positively to the recommendations made and have provided assurance to Internal Audit (through management response to the recommendations raised within the report and verbal assurance) that all recommendations have now been implemented.

(4d) Satisfactory Control Assurance Opinions

Where audit activities record that a satisfactory assurance opinion on control has been provided, where recommendations have been made to reflect some improvements in control, the Committee can take assurance that improvement actions have been agreed with management to address these.

(4e) Internal Audit Recommendations

During the period July 2019 to August 2019 Internal Audit made, in total, **13** recommendations to improve the control environment, **3** of these being high priority recommendations i.e. **10** being medium priority recommendations (**100%** accepted by management).

The Committee can take assurance that all high priority recommendations will remain under review by Internal Audit, by obtaining regular management updates, until the required action has been fully completed.

(4f) Risk Assurance Opinions

During the period July 2019 to August 2019, it is pleasing to report that no limited assurance opinions on risk have been provided on completed audits from the 2019/20 Internal Audit Plan.

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

Completed Internal Audit Activity during the period July 2019 to August 2019

Summary of Limited Assurance Opinions on Control

Service Area: Cultural and Trading

Audit Activity: Shopmobility Fees and Charges

Background

Shopmobility provide battery powered scooters, wheelchairs, battery chairs, power chairs and rollators to help people who have limited mobility. Charges were introduced in 2012 and remained unchanged until February 2018, when Cabinet agreed to adopt a new 'fees and charges' structure for the service effective from April 2018 in order to make the arrangements in place to be more commercially focussed. Shopmobility collected approximately £24k of income in the 2018/19 financial year.

Scope

The overarching objective of the audit was to ascertain details of the registration process, hire fees charged, equipment maintenance and the processing of personal information relating to the services provided by Shopmobility. In particular that:

- Service user data and records are appropriately held and used in accordance with the requisite guidelines;
- Any equipment hired is in good working order, and training is provided to the user where applicable; and
- Arrangements are in place to assess, apply, collect and account for the correct fees charged to service users.

Risk Assurance – Satisfactory

Control Assurance – Limited

Key findings

Service User Data:

- Users complete a registration form depending on their choice of membership i.e annual or occasional. Both forms are designed to collect personal identifiable information required for the user to complete a hire agreement;
- Service users who wish to claim relief from value added tax for the hire of a powered scooter/power chair/wheel chair are required to complete an eligibility declaration for goods and services for disabled people and charities serving their needs. In line with HMRC guidelines this declaration is accepted on face value and no evidence is requested;
- Data collected is held in both electronic and hard copy formats, is held securely in a locked filing cabinet, and/or on a secure server which is access controlled. However, from review of the records it was highlighted that:
 - They are inconsistently updated which may lead to incorrect charges being applied;
 - The service currently collects data that is surplus to that required for a hire agreement;
 - The service statement concerning data deletion after two years of non-participation contradicts the Council Retention Schedule for occasional users which states that service user details must be destroyed after one year of non-participation;
 - The service does not provide a link to the Council's Privacy Notice on the user registration forms; and
 - The service does not routinely review the data held and delete data that is no longer required after two years of non-participation in the Shopmobility Membership Service.

Equipment Hired

- The equipment available for hire from Shopmobility is donated by members of the public or from the Friends of Shopmobility;
- Apart from an initial inspection/service, any repairs are made on a reactive basis, instead of a planned maintenance/servicing schedule; and

- Because a maintenance log book is not maintained for each piece of equipment a comprehensive service history is not readily available in the event of an incident and subsequent claim being received.

Service User Training

- Internal Audit was informed that prior to any equipment being used, the Shopmobility assistants provide appropriate training if the user is new to the service and/or the equipment hired (and this should be recorded on the corresponding user registration form); and
- Whilst it was confirmed that training/familiarisation is provided to the service user as required, the subsequent requirement to document this process is inconsistently completed.

Income Collection

- Income generated by donations and bric a brac sales are collected as and when a purchase or donation is made at varying amounts, with long term hire, annual membership and day rate charges being applied as per the Council pricing in effect from 1st April 2018;
- Annual membership is subject to a yearly fee and a reduced day rate is then applied, while occasional users are charged a flat daily rate; both service user types can apply for relief from value added tax;
- Income is collected via both cash and wireless card terminal methods; cash is banked daily when possible and held securely when this isn't possible. Any card payments are transposed to a journal weekly for allocation to the correct cost centre code from the Council's fund account;
- Income is banked as expected and reconciles to the Council's General Ledger, and is held securely prior to banking; and
- Income documents in the form of till receipts are not retained and stored for a defined period in line with the Council Retention Schedule and HMRC guidelines.

Conclusion

It is evident that the staff delivering the Shopmobility Service are dedicated and passionate about providing a quality service for the users. However, the review has highlighted an inconsistent approach by team members to some daily practices and the correct completion and retention of service user data indicating that the management oversight of the service needs to be enhanced.

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 Satisfactory Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: Honorariums and Temporary Promotions

Background

The Council is committed to creating a fair and consistent process that recognises and rewards individuals appropriately for performance and contribution. Honorariums are designed to reward employees who have taken on significant additional work above their usual responsibilities, in exceptional circumstances; whilst temporary promotions are designed to reward an employee who has been asked to carry out the full duties of a more senior post.

Scope

Failure by employees to follow agreed Council policies and procedures can expose the Council to unnecessary financial risk and cause damage to its reputation. The overarching objective of the review is to evaluate compliance with the Council's honorarium and temporary promotion policies. In particular:

- The defined approval process has been adhered to and appropriately documented; and
- To verify that payments made to individuals are correct.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key findings

- Clear policies are available for the award of honorarium payments and temporary promotions which document the criteria for the award and the management of the process required;

- Honorariums and temporary promotions are initially assessed by the service manager and approved by the Head of Service;
- Under normal circumstances honorariums and temporary promotions are designed to be short term in nature and set up for a maximum of three months at any one time. Extensions to payments must be supported by a business case and approved by the service manager and Head of Service;
- During the period 01 April 2018 to 01 April 2019 six members of staff received honorarium payments to the value of £9,224.08. No payments were identified relating to temporary promotions; and
- The award of an honorarium or temporary promotion is recorded on a contract change form, which is sent via email to the County Council's Business Service Centre (payroll provider) for processing.

Conclusion

Three of the six honorariums were awarded during the period 01 April 2018 to 01 April 2019, and all have been authorised by the service managers/Heads of Service and the correct amount was paid to the employees named.

The policy states that awards should be short term in nature and set up for a maximum of three months at a time. Internal Audit identified three honorariums were ongoing having been awarded in previous years but rolled through to the 2018/2019 period reviewed. In one case the original requirement for an honorarium to be awarded on a short-term basis is understandable; however, the payment has continued since October 2014 without review. This indicates that the duties should now form part of the base salary/job description, or alternatively, a review should take place to ascertain whether an honorarium payment is still appropriate.

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: Cultural and Trading

Audit Activity: Markets (Limited Assurance follow-up)

Background

Gloucester's Eastgate Indoor Market is situated in the centre of the City and stalls are available for rent on a weekly basis for a maximum of a three month period. The cost of a weekly let is £150 per week payable in advance, inclusive of electricity, rent, service charge and business rates. During the three month period a weeks notice can be given by the stall holder at any time or by the Market Management.

Scope

In 2018/19 Internal Audit reviewed the cash handling and collection procedures from stall holders in respect of rent for pitches at Eastgate Market and a number of associated operational procedures. As a consequence ten recommendations were made by Internal Audit to strengthen the internal controls surrounding the receipt of income and administration procedures. This follow-up review was to provide assurance that the subsequent remedial actions agreed with management have been implemented and these are effective.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

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:

- Payments for stall rent are now made via a wireless card machine directly into the City Council bank account and no cash is accepted within the market office. Therefore, a banking run is no longer required to deposit cash. Procedure notes are now available to the Market Officers to direct them on the required processes and use of the wireless card machines. Audit testing confirmed that as at 10th May 2019 no cash payments had been accepted in 2019/20.

- Official Gloucester City Council receipts are now issued to indicate the receipt of a card payment for stall holder rent. A standard excel spreadsheet is used to record payments received by the Markets. The spreadsheet is available to Malvern Hills who are responsible for coding the income within the Financial Management System.
- The maximum term for a temporary trader has not been updated.
- Market trader contracts are now filed for each trader within the market office and retained in line with the corporate retention policy.
- Training has been conducted with the Market Officers to ensure that the updated procedures for receiving payments from market traders are understood and can be completed effectively and efficiently. Support to the Market Officers is ongoing including the opportunity for specific training sessions should it be needed.
- Management have completed a review of the current CCTV system in place within Eastgate Market, including the placement of the cameras and the retention period that footage is stored for. Whilst the positioning of the cameras was found to be appropriate to cover Eastgate market, the current CCTV system does not retain the footage for a suitable period of time.
- The Business Support Team are used to provide cover when a Market Officer is not available or on a break. However, if this is not possible, arrangements with a market trader has been put in place.
- There is no longer a petty cash float in operation at the market office.

Conclusion

Overall eight of ten recommendations have been fully implemented, strengthening the control environment regarding the receipt and monitoring of income within the market. The completion of the remaining actions still needs to be progressed in order to further strengthen working arrangements and security measures, in particular:

- The period of time that stall holders can occupy a stall on a temporary license should be reviewed.
- The CCTV equipment currently in operation to be reviewed and replaced to ensure they are fit for purpose and compliant with GDPR regulations.

The Visitor Experience Manager advised Internal Audit that there is an informal arrangement in which a market trader is (in the absence of Council employees being on-site) performing duties within Eastgate Market on behalf of the Council.

If this informal arrangement continues it represents potential risk, including conflicts of interest and potential tax implications due to the way in which the market trader is being paid. It is recommended that management consult One Legal to evaluate the legal implications of such arrangements and if they are expected to continue, to formalise the agreement.

Management Actions

Management have acknowledged that two recommendations from the 2018/19 audit are still outstanding and have advised Internal Audit that their completion will be influenced by the future commercial operation of the market once this is agreed. Internal Audit have provided one additional recommendation as summarised above to which management have responded positively to.

Summary of Substantial Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: General Data Protection Regulations

Background

The General Data Protection Regulation (GDPR) is a legal framework that sets guidelines for the collection and processing of personal information of individuals within the European Union (EU). GDPR sets out the principles for data management and the rights of the individual, while also imposing fines that can be revenue based. GDPR regulation covers all organisations that deal with data of EU citizens, so it is a critical regulation for corporate compliance. The regulation became enforceable from 25 May 2018.

Scope

To ascertain if there is an effective framework in place for ensuring that personal information gathered is only used for the purpose for which it was originally intended. In particular to assess compliance with the key GDPR elements including:

- Data Protection Policy;
- User Awareness;
- Documenting data type, source and with whom it's shared;
- Individual's Rights;

- Subject Access Requests;
- Protection of Children's data; Data Breaches; and
- Appointment of a Data Protection Officer.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- An action plan based on the Information Commissioners Office guidance including the '12 Step Plan for GDPR' was found to be in place to manage and monitor the progress of required GDPR actions;
- Council staff have been made aware of GDPR requirements via a variety of methods. These include staff training sessions, the use of a range of posters based on ICO GDPR guidance, communications issued by email and the intranet and the use of the NETconsent policy management tool to deliver GDPR related updates. Staff are also required to complete an online GDPR and Cyber Security e-learning training package that has been updated with GDPR/Data Protection Act 2018 requirements;
- A 'Retention Schedule' document is maintained that records all information assets processed by Council departments and detailed information including the asset owner, data format, the purpose of retaining the data and retention requirements;
- The GDPR defines eight fundamental rights held by individuals/data subjects. The Council's approach to dealing/complying with each of these eight rights is documented as part of the updated 'Data Protection Policy' and its obligations to data subjects are published online on the data protection section of the Council website;
- A defined process was found to be in place for the handling of subject access requests and a log of access requests is maintained. Leaflets and internet guidance detailing the Council's responsibilities to data subjects are in place and include a form to be used in the process of making subject access requests;
- A documented procedure is in place for the handling and reporting of personal data breaches. By review, the Council's 'Information Security and Breach Reporting Procedure' was found to be up to date and covered the key GDPR requirements; and

- A designated Data Protection Officer is in place with the defined responsibility for monitoring data protection compliance and providing relevant training, advice and assistance to Council staff and the Senior Information Risk Owner (SIRO).

Conclusion

A significant amount of work has been undertaken by Gloucester City Council to achieve compliance with GDPR requirements and management were able to demonstrate a good level of knowledge and awareness of their obligations under GDPR. Based on this, substantial assurance has been applied to the audit activity.

Internal Audit identified the following areas for consideration by management:

- Ensuring regular reporting around the completion of GDPR training is produced and distributed;
- Introducing a process to ensure Information Asset Owners review information asset data (at least annually) and ensure this is accurate and up-to-date; and
- Reallocating the ownership of the GDPR action plan to a new owner and that the plan is updated on a regular basis.

Management Actions

The findings were considered by the Council's Information Governance Board and it was agreed to implement the three recommendations made within the report.

Summary of Consulting Activity and/or Support where no opinions are Provided

Service Area: Cultural and Traded Services

Audit Activity: Turnover Certificate for Blackfriars Priory

Background

In March 2012 the Council entered into a lease with English Heritage to use the Blackfriars Priory site and open it as a visitor attraction, provide educational visits, develop an events programme, run and facilitate workshops and develop a meetings and conference trade. It is also now an established wedding venue.

The lease allowed a peppercorn rent for the first two years of operation, with the following years' rental to be a percentage of Gross Turnover, as defined in the lease agreement. On an annual basis, the Council is required to provide English Heritage with a Turnover Certificate (signed by a professionally competent auditor), certifying the amount of Gross Turnover for the relevant year.

Scope

To provide assurance that:

- In all significant respects, the Gross Turnover values for 2018/19 provided to English Heritage are accurate and in accordance with the requirements of the lease agreement; and
- A certificate confirming the Gross Turnover for the Turnover Period may be signed.

Risk Assurance – N/A (Certification)

Control Assurance – N/A (Certification)

Key findings

- The Provisional Gross Turnover figure, prepared by Accountancy, for the financial year 2018/19 is £118,906.12.
- The Gross Turnover figure to be provided to English Heritage is based on the net balances for income account codes in use for Blackfriars.
- The Council completes journals at year end to transfer deposits or other items to the financial year to which they relate, in accordance with standard accounting practice. However, the lease agreement (clause 6.2) requires that deposits are included in Gross Turnover at the time of receipt. Therefore an adjustment of £11,705.66 was made; the revised gross turnover figure is now calculated as £107,200.46.

Conclusion

The requirements of the lease agreement have been met with appropriate adjustments made for the accruals accounting in relation to deposits received. Internal Audit has therefore gained assurance that the requirements of the lease have been met with regard to the revised Gross Turnover Value of £107,200.46.

Management Actions - Not applicable.

Summary of Special Investigations/Counter Fraud Activities

Current Status

As at 19th August 2019 there have been no fraud/irregularity referrals received by Audit Risk Assurance (ARA) for investigation.

The ARA Counter Fraud team currently comprises of 2.6 equivalent FTE's. The recruitment of a second FTE has increased the resilience and expertise in this area. The team is continuing to raise the profile of the service by actively engaging with Gloucester City staff and plans to attend staff meetings, run fraud awareness training sessions and other fraud initiatives such as the promotion of International Fraud Awareness week (IFAW) in November 2019. By raising the profile of the service it is expected that this may generate referrals from across the City Council.

The 2017-19 Counter Fraud Policy and Strategy together with the Fraud Risk Registers are under review and will be provided to the Audit and Governance Committee once completed. The 2016-19 CIPFA Fighting Fraud and Corruption Locally Strategy (the counter fraud and corruption strategy for local government) which is referred to in the policy and strategy has not yet been updated and ARA have been advised that this document will not be available before October 2019.

Any fraud alerts received by Internal Audit from National Anti-Fraud Network (NAFN) are passed onto the relevant service areas within the Council, to alert staff to the potential fraud.

National Fraud Initiative (NFI)

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

ARA has been advised by the Policy and Resources Intelligent Client Officer that the Gloucestershire Counter Fraud Unit (CFU) (procured via ARA) have been tasked with reviewing the NFI single person discount (SPD) matches. The majority of these matches are those between electoral register and those who receive a 25% discount from their Council Tax (CTAX) for being the single occupant of a property.

The number of matches was quite significant, speculatively this could be attributable to the fact that more people registered on the electoral in the lead up to the Brexit vote in 2017. The CFU conducted an initial overview of the matches and were quite quickly able to discount any 'incorrect' matches – e.g. those who are 'legitimately' exempted from being included on a CTAX charge but can still register to vote.

Letters were then issued to all of the remaining people seeking clarification of their entitlement to the reduction in council tax by way of single person discount. A dedicated email address was created for this so people could respond by email if they chose to do so. The CFU maintained a "real time" spreadsheet of the letter and telephone responses. This work has now been transferred to the Revenues team to continue with the project and any bills will be amended as required. The NFI records will be updated in due course.

Gloucester City Council has introduced an Empty Homes premium on all unoccupied properties which have been unoccupied for in excess of 2 years. This came into force with effect from 01.04.2019 – for further information about the Empty Homes Premium – please follow this link - <https://www.gloucester.gov.uk/council-tax-benefits/council-tax/council-tax-premium-on-long-term-empty-properties/>

Prior to the premium being introduced the CFU undertook a special exercise to visit all of those properties said to have been unoccupied for >2 years. The Revenues team are currently undertaking a project to visit all homes in the city listed as unoccupied in order to ensure that the Council Tax records are updated as soon as possible. This project will also include those homes which are said to have been unoccupied for less than two years.

Outcomes of the above two projects will be reported to the Committee when finalised.