

# Internal Audit Activity Progress Report

2021-2022



## **(1) Introduction**

All Councils 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 Council '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 Council's Internal Audit service is provided by Audit Risk Assurance (ARA) under a Shared Service agreement between Gloucester City Council, Stroud District Council and Gloucestershire County Council. ARA 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 operations.

## **(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 Council 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. These are set out in the Council's Code of Corporate Governance and Annual Governance Statement.

## **(3) Purpose of this Report**

One of the key requirements of the PSIAS is that the Head of ARA should provide progress reports on Internal Audit activity to those charged with governance. This report summarises:

- i. The progress against the 2021/22 Risk Based Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- ii. The outcomes of the 2021/22 Internal Audit activity delivered during the period November 2021 to December 2021; and
- iii. Special investigations/counter fraud activity.

#### (4) Progress against the 2021/22 Internal Audit Plan, including the assurance opinions on risk and control

The schedule provided at **Attachment 1** provides the summary of 2021/22 activities which have not previously been reported to the Audit and Governance Committee.

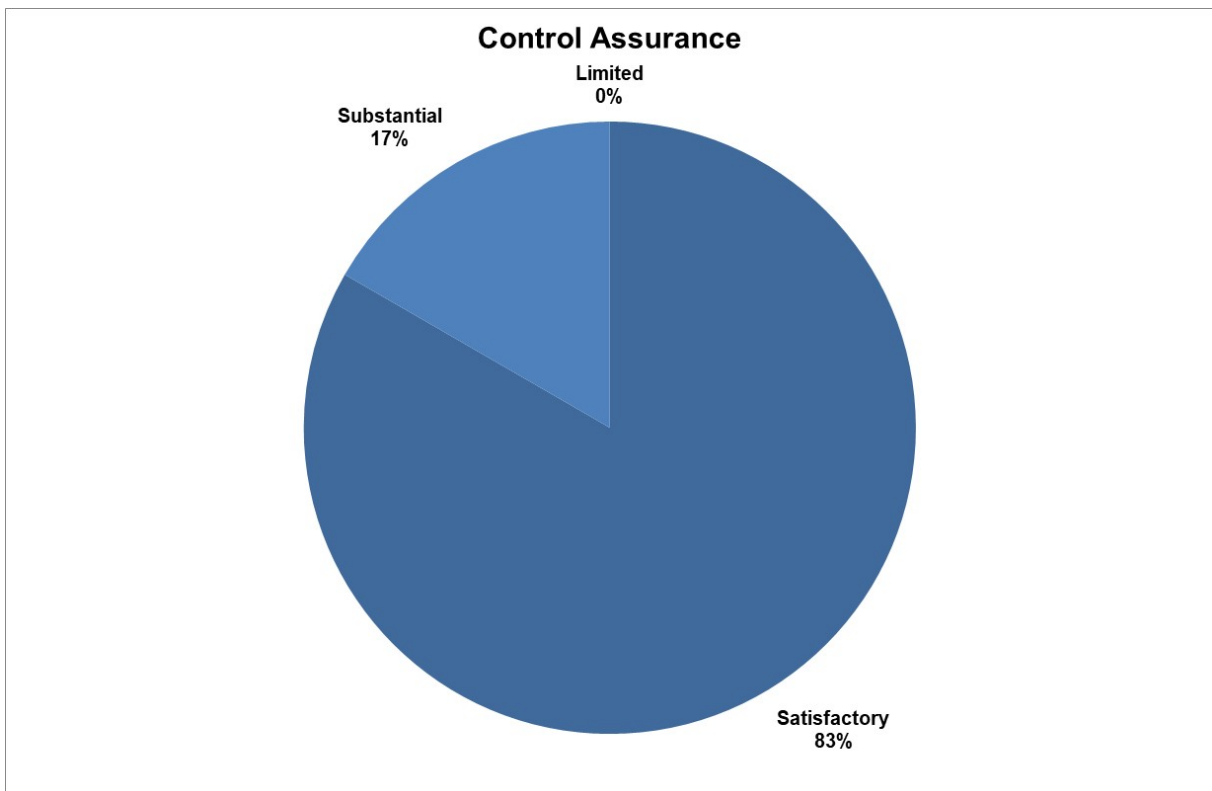
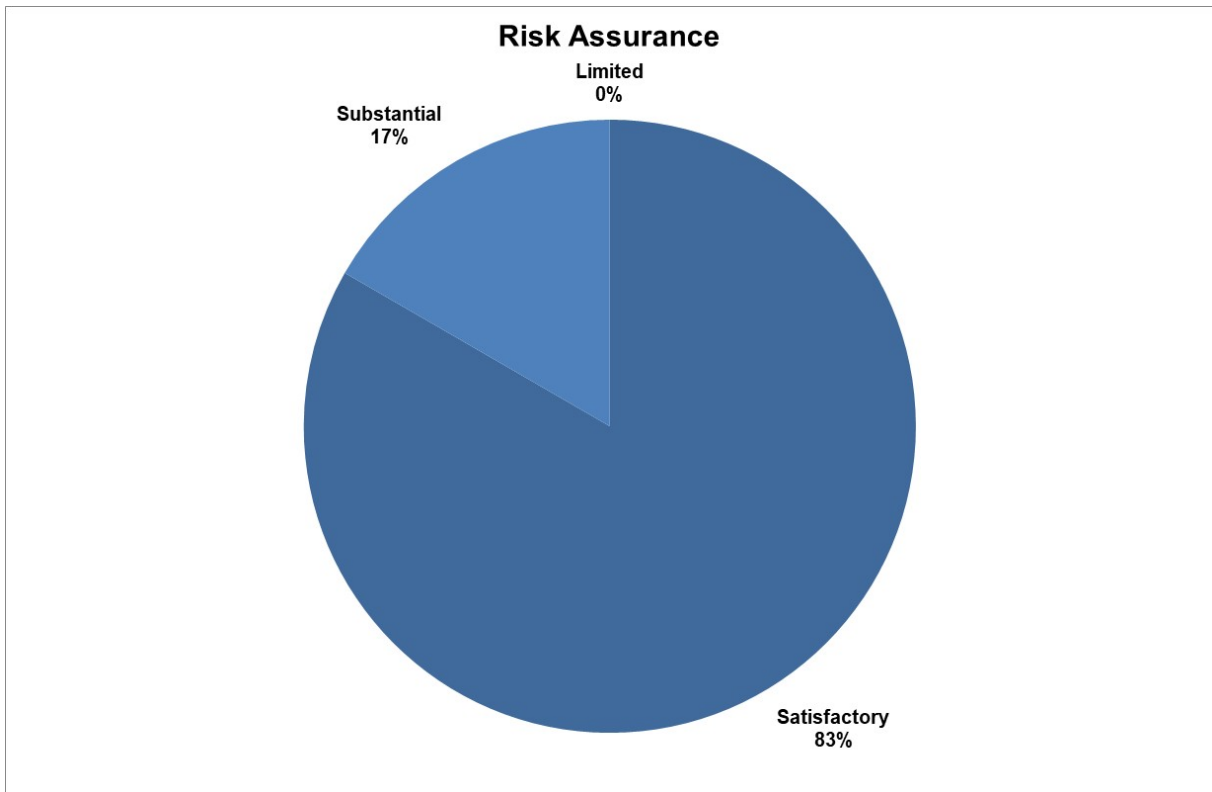
The schedule provided at **Attachment 2** contains a list of all of the 2021/22 Internal Audit Plan activity undertaken during the financial year to date. This includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activity outcomes have been presented to the Audit and Governance Committee.

Explanations of the meaning of the assurance opinions are shown below.

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

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

The below pie charts show the summary of the risk and control assurance opinions provided in relation to the 2021/22 audit activity undertaken up to December 2021.



#### **(4b) Limited Control Assurance Opinions**

Where Internal 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 Committee meeting. This is to provide an update as to management 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 November 2021 to December 2021, no limited assurance opinions on control have been provided on completed audits from the 2021/22 Internal Audit Plan.

#### **(4d) Satisfactory Control Assurance Opinions**

Where Internal Audit activities record that a satisfactory assurance opinion on control has been provided and 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 2021/22 period to December 2021, Internal Audit made **20** recommendations in total to improve the control environment. Three of these being a high priority recommendation and 17 being a medium priority recommendation.

19 (95%) of the recommendations have been accepted by management.

Management have not accepted one medium priority recommendation stemming from the Procurement Cards internal audit, as reported to Audit and Governance Committee in November 2021. The management decision was based on the wider controls in place within the process and risk appetite.

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

#### **(4f) Risk Assurance Opinions**

During the period November 2021 to December 2021, no limited assurance opinions on risk have been provided on completed audits from the 2021/22 Internal Audit Plan.

Where a limited assurance opinion is given, the Shared Service Audit/Risk Technical Officer will be provided with the Internal Audit report(s) to enable the prioritisation of risk management support.

## Completed 2021/22 Internal Audit Activity during the period November 2021 to December 2021

### Summary of Satisfactory Assurance Opinions on Control

#### Service Area: Policy and Resources

#### Audit Activity: Accounts Receivable

#### Background

Accounts Receivable is the money due to the Council for goods or services delivered and used but not paid for by customers. Management of the collection of debts outstanding is essential, to help fund the continual delivery of services. A focused project with the objective of reducing the financial value of debt outstanding has been in place this year.

#### Scope

The audit reviewed the processes and controls relating to Accounts Receivable and the key risk of collectability of the debt outstanding, particularly due to the additional business pressures resulting from the Covid-19 pandemic.

The total financial value of outstanding sundry debtors (including the focused project referred to in the background section) was £2.1m as at the end of October 2021.

#### Risk Assurance – Satisfactory

#### Control Assurance – Satisfactory

#### Key Findings

- i. The progress made on the specially funded project seeking to reduce the financial value of debts was reviewed. It was established that Civica staff have focused on those aged debt arrears of a higher value outstanding. The review of the debt recovery actions used confirmed that a range of appropriate procedures had been employed. The records kept by Civica showed that, since the project started, aged debt arrears had reduced by £1m as at 1<sup>st</sup> November 2021. The outcomes from the project indicate that it has been a success. A report will be provided to the Council in December 2021, indicating those arrears balances which are recommended for write-off.
- ii. Internal Audit have been made aware that the responsibility for managing Accounts Receivable will transfer from Civica to the Council during 2022. The change in operational responsibility is an ideal time to consider the staffing needs to manage the debtors service, with the objective focused on reducing the risk of non-collectability of debt.
- iii. It is essential to ensure that the operational staffing needs to manage the Accounts Receivable recovery process are adequate to facilitate collection of debt arrears on a timely basis.

- iv. A stratified sample of debt arrears totalling £309k for 60 accounts, taken from across the debt recovery process were tested with the objective of verifying the procedures and controls deployed. The results confirmed that a range of well embedded procedures and controls have been correctly used seeking to collect the arrears outstanding.
- v. Sample testing identified 14 accounts totalling £36.6k which will require consideration and authorisation for write-off of the balance outstanding. Details of the account balances for write off will be reported by Civica Revenues staff as outlined in key finding i above.
- vi. Reports are issued to service managers when debt arrears reach the “service referral” debt recovery stage. The audit review observed that where service invoices have more than one charge transaction, duplicate values of the outstanding amount can be seen. This reduces the effectiveness of the reports, making it difficult for service area managers to interpret the outstanding level of debt.

### **Conclusion**

Internal Audit review of the Accounts Receivable control environment verified that the existing process in place is operating appropriately.

One Internal Audit recommendation has been made, which seeks to improve the existing management reports to allow for effective debt collection.

### **Management Actions**

The recommendation has been accepted by management and has been allocated a target implementation date of 1<sup>st</sup> March 2022.

## **Service Area: Communities**

### **Audit Activity: Disabled Facilities Grant**

#### **Background**

Grants for disabled facilities adaptations for private residential properties are a statutory responsibility under the Housing Grants, Construction and Regeneration Act 1996.

The Disabled Facility Grant (DFG) is administered as part of the Integration and Better Care Fund managed by Gloucestershire County Council as a pooled funding arrangement, under section 31 of the Local Government Act 2003. Gloucestershire County Council is the host manager and Gloucester City Council is the pool manager.

In 2020/21 grants were awarded which totalled £660k. In 2021/22 at the date of this audit grants awarded totalled £334k.

**Scope**

The audit reviewed the procedures and controls in place for the DFG management arrangements to ensure the grant is used for home adaptations, so that disabled people can live independently. The principal objective was to provide assurance that grants awarded by Gloucester City Council are compliant with the legislation.

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

- i. To provide assurance that grants awarded by the Council are compliant with legislation and guidance provided by the Ministry of Housing, Communities and Local Government (MHCLG), the audit programme was divided into four components; i) Policy and procedures; ii) Compliance; iii) Grant financial monitoring and reconciliation controls; and iv) Performance and monitoring.
- ii. Audit review of the existing DFG policy and procedures established that there are embedded processes and procedures which are formally documented and written in a user-friendly style. However, the review identified there is a need to refresh the existing policy for amendments due to the Covid-19 pandemic. This includes updating the Council's representative at the DFG Forum, evidencing the approval of any changes to existing procedures and to update the standard document templates issued to grant applicants.
- iii. The conclusion from assessing compliance with legislation and guidance, confirmed that the expected procedures and controls were correctly used.
- iv. With the introduction of the Uniform system to administer grants, there is a need to address staff training so that staff knowledge and skills are enhanced for operational objectives.
- v. DFG programmes that result in a specification which requires the need to use discretionary delegation powers, would benefit from introducing a business case template which documents this with appropriate authorisation. Compliance testing identified that the existing labelling of supporting documents in the Information at Work system needs to improve.
- vi. The existing control procedure monitors the financial grant at individual applicant status, however it does not use financial management information to monitor and evidence the cumulative DFG's for the year. Therefore, there is a gap in completing reconciliation controls between the Uniform system and Civica Financials (the Council financial management system).
- vii. The Uniform database will form the primary system which will be used to record and act as the key source for all managerial requirements of DFG's. The introduction of an action plan with the objective of ensuring that the data records are accurately maintained should be introduced. There is also an urgent need to formalise the performance and monitoring parameters to manage DFG's.



## **Conclusion**

Internal Audit reviewed the DFG control environment currently in place. Appropriate assurance has been obtained that the majority of expected key controls are currently operating effectively.

Eight recommendations have been raised, with the objective of improving the existing DFG processes and ensuring the Uniform system is appropriately utilised for recording, managing, and monitoring DFGs for the Council.

The eight recommendations refer to: i) Updating DFG policy; ii) Refreshing standard grant applicant templates; iii) Identifying and documenting the staff skills gap for the Uniform IT system to be addressed by future training; iv) New discretionary DFG awards to be underpinned by an appropriate authorised business case; v) Improved labelling of grant applicant documents; vi) Quarterly financial reconciliations between the Uniform and Civica Financial systems; vii) Formalisation of the performance and monitoring parameters to manage DFG's; and viii) Introduction of a detailed action plan for the Uniform DFG system module.

## **Management Actions**

The eight recommendations have been accepted by management with the latest target implementation date confirmed as 30<sup>th</sup> September 2022.

## Summary of Consulting Activity, Grant Certification and/or Support Delivered where no Opinions are provided

### Service Area: Policy and Resources

### Audit Activity: Election Accounts

#### Background

The Gloucester City Council, Police and Crime Commissioner (PCC), and General Elections were held 6<sup>th</sup> May 2021. The costs incurred by the Local Returning Officer for managing and administering the election which have been paid through the Council's payment systems may be claimed back from the Electoral Commission (EC).

#### Scope

The deadline for submission of the claim to the EC for the PCC election was 1<sup>st</sup> November 2021. This audit provided assurance that, in all significant respects, the claim for the elections (to be signed off by the Local Returning Officer) is complete, accurate and appropriately evidenced.

#### Key Findings

- i. The PCC election claim had been prepared by the Policy and Governance Manager on behalf of the Local Returning Officer, with a face value of £88,436.67. The maximum recoverable amount allowed by the EC was £90,353.00.
- ii. Internal Audit sample tested the expenditure within the claim to ensure that it was in accordance with the guidance provided by the EC and matched to supporting invoices. Internal Audit reviewed 100% of the polling and count accommodation and equipment; postal vote printing and postage; poll card postage and equipment; and training expenditure that was claimed for (totalling £55,039.55). This process identified minor discrepancies that were brought to the attention of the Policy and Governance Manager. The claim spreadsheet was subsequently adjusted as required.
- iii. Internal Audit also sample tested the claim of pay for electoral workers, cross-checking timesheets against extracts from the payroll system and the claim spreadsheet. The total value checked was £13,864.58 (76.4% of claimed pay for the election). It was found that £1,533.75 relating to count staff had been unaccounted for in the claim. After clarifying this with the Policy and Governance Manager, this was confirmed and corrected.
- iv. Internal Audit reviewed the payment made against the guidance for paying the Local Returning Officer. The payment included roles for all three elections, with two separate roles relating to the PCC (the Police Area Returning Officer and Local Returning Officer). As per the EC guidance for the PCC, the Returning Officer receives their fees in two instalments, 75% paid after the election and the remaining 25% after the completion of the claim to the EC.

- v. It was found that whilst the total due to be paid to the Local Returning Officer had been calculated correctly, a minor administrative error had been made during the initial payment resulting in an overpayment of £69.50. The Policy and Governance Manager confirmed that this would be deducted from the 25% Returning Officer final payment.
- vi. The Returning Officer fee is the only 'staff ' payment that attracts superannuation. This should be added to the claim at the percentage rate applicable. However, it was confirmed with the Policy and Governance Manager that the Returning Officer has opted out of pension contributions for the fees received. Internal Audit confirmed via the Returning Officers' June 2021 payslip that no superannuation had been paid.
- vii. After Internal Audit reviewed the claim and the Policy and Governance Manager agreed the required adjustments, the total amount claimed equalled £88,382.17. The adjusted amount was within the maximum recoverable amount allowed.

### **Conclusion**

Several adjustments were required prior to submission of the claim, pending additional evidence or the remediation of manual errors identified. These were agreed and corrected by the Policy and Governance Manager before submission of the claim.

Once the adjustments highlighted to the Policy and Governance Manager were completed, Internal Audit considers with reasonable assurance that the claim to be submitted to the EC Electoral Claims Unit is a fair and accurate reflection of costs incurred in facilitating the Police and Crime Commissioner Election.

### **Management Actions**

No management actions were required.

## Summary of Special Investigations/Counter Fraud Activities

### Current Status

To date in 2021/22 there have been eight new potential irregularities referred to the ARA Counter Fraud Team (CFT). Four of the eight cases have been closed and have been reported the Audit and Governance Committee previously. The outcomes of the remaining four cases will be reported to the Audit and Governance Committee on their conclusion.

There is one case remaining open from prior year that is still on going. The Council is currently liaising with One Legal to progress this case further and an independent Barrister has been appointed to progress this case.

In addition, the ARA CFT in conjunction with the Intelligent Client Officer (Revenues and Benefits) have continued to work on two cases carried forward from last year in respect of Covid-19 Government issued small business grant payments. One of these cases has now been closed and £10,000 grant funding claimed when not eligible to do so has been repaid to the Council in full.

An additional grant related case that had previously been closed has recently been reopened due to revised guidance issued by the Government. Advice has been sought from One Legal on this case due to potential complications.

Many potential attempted frauds are intercepted. This is due to a combination of local knowledge and also the credible national communications including those from the National Anti-Fraud Network (NAFN) being swiftly cascaded to teams where more national targeted frauds are shared for the purpose of prevention.

The CFT continues to provide support and guidance to Council staff in respect of Interviews Under Caution, court file preparation and taking witness statements where required.

Gloucester City Council is a supporter of International Fraud Awareness Week (IFAW). This year IFAW took place between 14<sup>th</sup> and 20<sup>th</sup> November 2021. Event articles promoting counter fraud awareness were shared with Council staff, in support of the event.

### 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 for the 2021/22 exercise have been uploaded to the Cabinet Office. The data matching reports were released at the end of January 2021.

The full NFI timetable can be found using the link available on GOV.UK – <https://www.gov.uk/government/publications/national-fraud-initiative-timetables>.

Examples of data sets includes housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol.

Not all matches are always investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area within the Council.

To date, the review of the matches has identified errors leading to the recovery of £8,022 together with the identification of further savings of £2,322 due to delays in updating notifications of Benefits changes in circumstances. Making a total saving of £10,344.

As a result of the frauds associated with the various Covid-19 grants, a number of new matches have been released. These include identifying bank accounts that have been used for multiple claims and cross matching claimants with other Local Authorities.

The CFT is currently working with the Council's Intelligent Client Officer (Revenues and Benefits) to establish whether the matches require further investigation. To date one case (included in the eight 2021/22 referrals stated above) has been referred to the CFT for investigation and another three potential matches are being assessed.