

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 continued ARA engagement with senior management regards the Council's ICT risk position and the impact on Audit Plan activities; and
- iii. Special investigations/counter fraud activity.

Due to the Council's current ICT position and the impact on service delivery, there are no new Internal Audit assurance outcomes to report from 2021/22 Internal Audit activity delivered in January 2022.

(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.

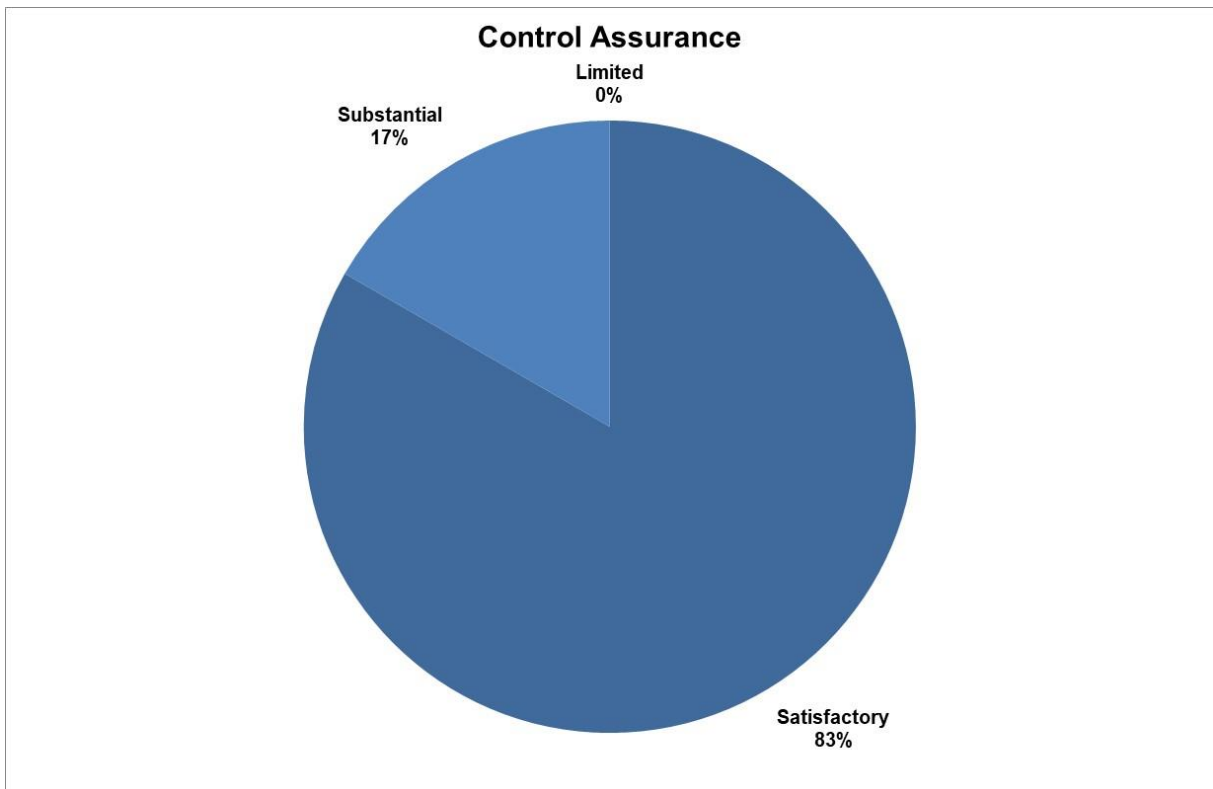
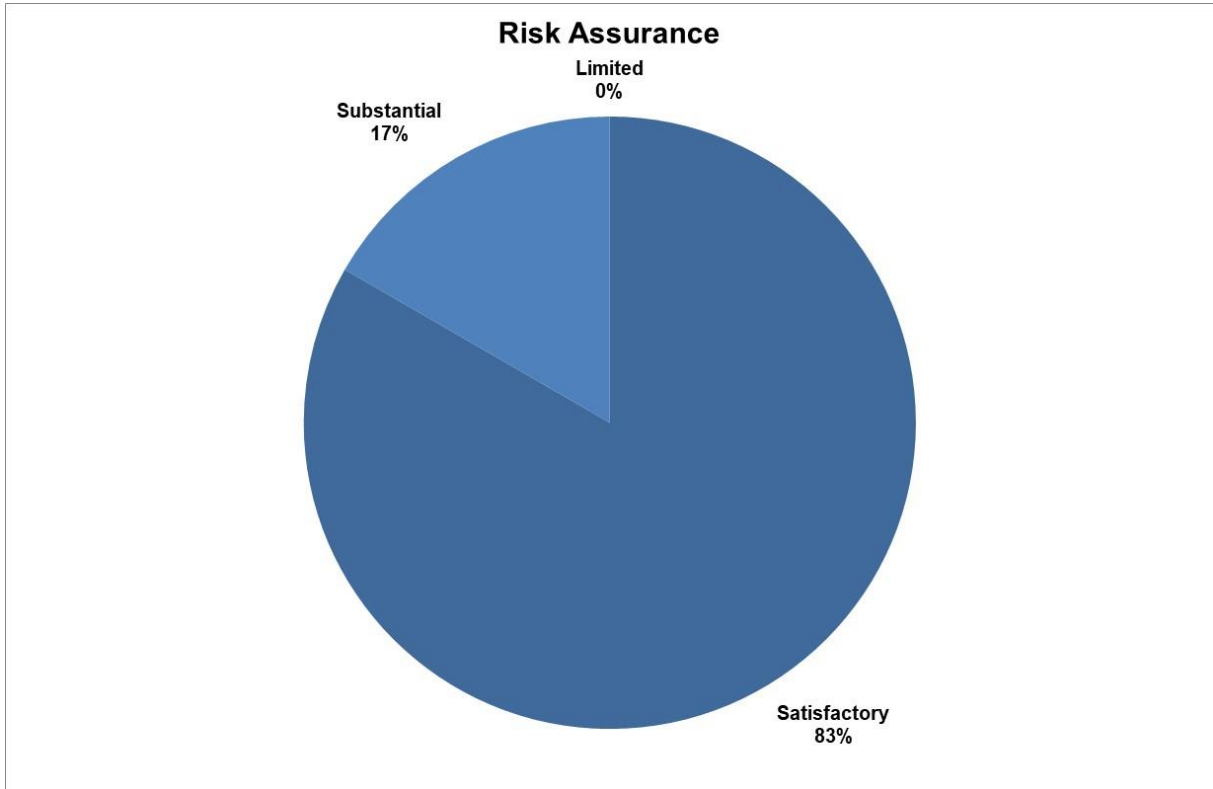
The schedule provided at **Attachment 2** contains a list of the 2021/22 Internal Audit Plan activity undertaken during the financial year to date. This includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those 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
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, customers, 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, customers, 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 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, customers, 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 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 January 2022. The pie chart content remains consistent with the 17th January 2022 Audit and Governance Committee report.



(4b) Continued ARA engagement with senior management regards the Council's ICT risk position and the impact on Audit Plan activities

Following a cyber incident in December 2021, the Council have experienced some disruption to service delivery. Joint investigation of the situation (by the Council and independent parties) is underway.

Due to the above position and with agreement from Council senior management, Internal Audit activity delivery was temporarily suspended in January 2022.

During this time, ARA has continuously engaged with senior management regarding the ICT incident position and the impact on the Council services. This action has been taken by ARA to ensure that:

- i. We maintain an up to date understanding of ICT and operational risks;
- ii. Management of 2021/22 Internal Audit activity is progressed to enable delivery in appropriate areas only; and
- iii. ARA are accessible to management and can support any required Council activities (from an assurance, Counter Fraud Team (CFT) or resource perspective) following the ICT incident. Examples of this type of activity include: CFT support on National Fraud Initiative (NFI) uploads; and ARA team member input into process and internal control discussions, to enable service provision continuity for an interim period where a base ICT system has not been accessible.

The ICT incident has caused a number of 2021/22 Internal Audit activities to be deferred. These activities will be considered for inclusion within the draft Risk Based Internal Audit Plan 2022/23. The draft Plan is due to be presented to the 7th March 2022 Audit and Governance Committee for consideration and approval.

Completed 2021/22 Internal Audit Activity during the period January 2022

Summary of Internal Audit Opinions on Control

There are no new Internal Audit assurance outcomes to report from 2021/22 Internal Audit activity delivered in January 2022.

Summary of Special Investigations/Counter Fraud Activities

Current Status

To date in 2021/22 there have been nine new potential irregularities referred to the ARA Counter Fraud Team (CFT). Five of the nine cases have been closed. Four of these have been reported the Audit and Governance Committee previously.

The latest referral related to concerns that an individual was undertaking a second paid job with the Council (whilst on sick leave) with a different employer. The CFT investigation found no evidence to support the allegation and the case has been closed.

The outcomes of the remaining four cases will be reported to the Audit and Governance Committee on their conclusion.

There is one non-grant related case that remains open from prior year and is still ongoing. The Council is currently liaising with One Legal to progress the case further and an independent Barrister has been appointed. The case has been provisionally listed at Cheltenham Magistrate Court.

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 was previously closed, but then had to be reopened due to revised Government guidance. Advice has been sought from One Legal on this case due to potential complications. The subject of this case has now begun to repay the grant however, due to the Council's current ICT position a repayment schedule has not yet been agreed with the individual and therefore the case remains open.

It should be noted that the Council's current ICT position has impacted on the progression of the above cases.



Many potential attempted frauds are intercepted. This is due to a combination of local knowledge and 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.

Covid-19 Omicron Business Grant Fraud update

As reported by NAFN in January 2022, the updated value of Covid-19 Business Grant fraud prevented from a total of 206 Councils in England, Scotland and Wales is:



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.

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) – <https://www.gov.uk/government/publications/national-fraud-initiative-timetables>.

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 always investigated, but where possible all recommended matches are reviewed by either ARA or the appropriate service area within the Council.

To date and for this NFI cycle, the review of the matches has identified errors leading to the recovery of £39,904 together with the identification of further savings of £2,322 due to delays in updating notifications of Benefits changes in circumstances. This makes a total saving of £42,226 (of which £31,883 is Small Business Grant Fund related).

The Council's current ICT position has impeded the Council's ability to review the NFI matches. The NFI and Cabinet Office have been advised of the situation and have taken the interim action to suppress access to all Gloucester City Council matches by users with a Gloucester City email address.

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

The CFT continues to work with the Council's Intelligent Client Officer (Revenues and Benefits) where it is identified that further investigation is required.

In addition, the CFT has been working with the Revenues and Benefits team to upload the Covid-19 Business Grant applications. Applications are uploaded by the individual business and the bank details are then cross checked against the business name by NFI. This mitigates the risk of grants being issued to individuals not meeting the set criteria.