



PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

MARCH 2023

1. Introduction

- 1.1 The Council's Internal Audit service is provided by Audit Risk Assurance (ARA) under a Shared Service agreement between Gloucestershire County Council, Stroud District Council and Gloucester City Council.
- 1.2 ARA provides these services in accordance with the Public Sector Internal Audit Standards 2017 (PSIAS) which represent the "proper Internal Audit practices". The standards define the way in which the Internal Audit service should be established and undertake its operations.
- 1.3 In accordance with the PSIAS, the Head of ARA is required to regularly provide progress reports on Internal Audit activity to management and the Audit and Governance Committee. This report summarises:
- i. The progress against the Internal Audit Plan 2022-23;
 - ii. The outcomes of the 2022-23 Internal Audit activity delivered up to mid February 2023; and
 - iii. Special investigations and counter fraud activity.
- 1.4 Internal Audit plays a key role in providing independent assurance and advice to the Council that these arrangements are in place and operating effectively. However, it should be emphasised that management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non-financial) and governance arrangements.

2. Summary of 2022-23 Internal Audit work delivered up to mid February 2023

- 2.1 The following Assurance criteria are applied to Internal Audit reports:
- i. Substantial assurance – all key controls are in place and working effectively with no exceptions or reservations. The Council has a low exposure to business risk;
 - ii. Acceptable assurance – all key controls are in place and working but there are some reservations in connection with the operational effectiveness of some key controls. The Council has a low to medium exposure to business risk;
 - iii. Limited assurance – not all key controls are in place or are working effectively. The Council has a medium to high exposure to business risk; and
 - iv. No assurance – no key controls are in place, or no key controls are working effectively. The Council has a high exposure to business risk.

2.2 Activity Name- Guildhall Grant

- i. Assurance Level for this report: Substantial Assurance; and
- ii. Recommendations arising from this review have been prioritised as:

High Priority:	0
Medium Priority:	1
Low Priority:	0
Rejected:	0

2.3 **Scope** – The Council received an Arts Council grant of £230k for capital upgrade of the Guildhall building infrastructure, furniture, and fittings with attributable installation costs. The aim of the audit was to provide assurance that, in all significant respects, the conditions of the relevant grant offer letter has been complied with.

2.4 Key Findings

- i. The Council's Planning and Development service provided consent to alterations and upgrades in compliance with the Planning (Listed Building and Conservation Areas) Act 1990.
- ii. At the point of audit, the project's monitoring spreadsheet confirms cumulative capital expenditure of £309,012. The available and approved total funding is £304,680. This reflects a 1.4% cost overrun.
- iii. The procurement process was reviewed, using a sample of two of the upgrades. The actual procedures and controls used were substantially compliant with the Council's procurement process and the Public Contract Regulations 2015.
- iv. The Council had worked with the successful main contractor on other recent projects, and mitigations had correctly been put in place to minimise the risk of vendor default.

Risk: Contractor's financial status and stability, may cause them operational problems in completing projects for the Council.

Recommendation: The Council should introduce a first line of defence monitoring control to check on the financial status and stability of recommended contractors for contracts more than £10,000. The monitoring control used will seek to evaluate whether the contractor is exposed to any financial risks given the size of a proposed contract works. Management Response: The ongoing potential for financial issues to be faced by contractors is acknowledged and steps will be taken to ensure that the checks undertaken are refreshed for suppliers when entering into significant new contracts. Target Date: February 2023.

- v. Testing was completed to confirm segregation of staff duties controls for the capital expenditure purchase process. Results confirmed that the segregation of staff duties controls were operating correctly.
- vi. The first performance and monitoring report provided to the Arts Council was reviewed for its clarity and completeness. Internal Audit's review of the report found the content to be compliant with the report template.
- vii. The grant instalment request of £142,127 was paid by the Arts Council in December 2022.
- viii. Enquiries with the Visitor Experience Manager confirmed that when the outturn for the Guildhall project is finalised, a performance and monitoring report will be provided to Senior Management Team and the Cabinet Member for Culture.
- ix. The Strategic Risk Register section 1.7 requests that project registers are reviewed and maintained. The project's risks were clearly identified, reassessed, and scored with a medium rating. The risk reporting to the Arts Council was correctly completed, in compliance with guidance.

2.5 **Activity Name- Guildhall Grant – Reporting to the Arts Council.**

- i. Assurance Level for this report: Substantial Assurance; and
- ii. No recommendations arose from this review.

2.6 **Scope** – The Council received an Arts Council grant of £230k for capital upgrade of the building infrastructure, furniture, and fittings with attributable installation costs. The Arts Council grant offer letter states final payment will be released on the condition we have received: 'A statement of income and expenditure for the agreed project that has been certified by an independent qualified accountant, including confirmation that all grant expenditure will be capitalised on your balance sheet'.

2.7 **Key Findings**

- i. The project's monitoring statement confirms cumulative capital expenditure of £309,012. The available and approved Council and Arts Council funding totalled £304,680. A 1.4% cost overrun was incurred.
- ii. During the capital upgrade of the Guildhall, the facility was closed and did not generate income.
- iii. The project expenditure is ringfenced to an individual Civica Financials capital cost centre (XCGHW). This control is further strengthened by use of financial code GH001, enhancing traceability attributes and financial control monitoring.
- iv. The Guildhall Galvanised project's expenditure will be capitalised in the Council's Balance Sheet.

- v. The first instalment of the Arts Council's grant £142,127, was confirmed received in December 2022.
- vi. Testing was completed to confirm the interim and final details of the Council's submission of the project's capital upgrade. Test results provide Substantial Assurance for the accuracy and completeness of the capital expenditure listings and interim/final Activity Report format.
- vii. This report is in support of the Council's request for payment of the financial balance of the approved grant outstanding, which totals £88,575.

3. Counter Fraud Update – Summary of Counter Fraud Activities

Current Year Counter Fraud Activities

- 3.1 To date in 2022-23 there has been one new referral made to the ARA Counter Fraud Team (CFT).
- 3.2 Having provided some initial support to the service area the circumstances around the referral changed. No further action or assistance is required from the CFT at this time.
- 3.3 It should be noted that many of the cases referred to the CFT involve intricate detail and, sometimes, Police referral. This invariably results in a delay before the investigation can be classed as closed and the summary outcome reported to Committee.
- 3.4 The CFT continues to provide support and guidance to Council staff where required. Additional training sessions for Enforcement Staff in respect of Interviews Under Caution have been arranged for March 2023.

Previous Years' Referrals

- 3.5 The CFT has continued to work on two Covid-19 grant cases carried forward from prior years and one non grant related case.
- 3.6 The non-Covid-19 case has been referred from the Magistrates Court to the Crown Court. The potential sentencing in respect of licensing (animal welfare) related issues was originally due to take place in September 2022. Following the hearing on 24th November 2022, a Newton Hearing has been set for 1st June 2023 at Gloucester Crown Court. This is to clarify issues between prosecution and defence before sentencing can take place.
- 3.7 The outcomes on the two remaining Covid-19 grant cases will be reported on their completion to the Audit and Governance Committee.

National Fraud Initiative (NFI)

- 3.8 The CFT continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The window for uploading the data for the 2022-23 exercise has now closed and the data matching reports have been released for review. The relevant teams within the Council have been notified.
- 3.9 Full details of the NFI timetables can be found using the link available on GOV.UK website – www.gov.uk/government/publications/national-fraud-initiative-timetables.
- 3.10 Examples of NFI data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader or operator, taxi drivers and personal licences to supply alcohol.
- 3.11 Not all matches are always investigated but, where possible, all recommended matches are reviewed by either the CFT or the appropriate service area within the Council.

National Anti-Fraud Network (NAFN)

- 3.12 NAFN is a public sector organisation which exists to support its members in protecting the public interest. It is one of the largest shared services in the country managed by, and for the benefit of its members. NAFN is currently hosted by Tameside Metropolitan Borough Council.
- 3.13 Membership is open to any organisation that has responsibility for managing public funds or assets. Use of NAFN services is voluntary, which ensures delivery of value for money. Currently, almost 90% of councils are members and there are a rapidly growing number of affiliated wider public sector bodies including social housing providers.
- 3.14 Many potential attempted frauds are intercepted. This is due to a combination of local knowledge together with credible national communications, including those from the NAFN. Fraud risk areas are swiftly cascaded to teams by the CFT for the purpose of prevention, for example national targeted frauds.