



PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

January 2024

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 Internal Audit 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 2023/24 (Appendix A).
 - ii. The outcomes of the 2023/24 Internal Audit activity delivered up to mid-December 2023 following the previous Committee in November 2023.
 - iii. The number of recommendations that remain open from 2022-23 and 2023-24 to date (Appendix B); and
 - iv. 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 officers of the Council are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non-financial) and governance arrangements.

2. Summary of 2023-24 Internal Audit work delivered up to mid-December 2023

- 2.1 Table 1 below summarises the audits delivered up to mid-December 2023, since the previous Committee in November 2023.

Audit	Assurance Level	Supporting Paragraph
Agency Staff	Acceptable	2.2
IR35	Acceptable	2.3
Payroll	Limited	2.4
Blackfriars Priory Turnover Certificate 2023-23	N/A	2.5
Patch Management	Acceptable	Annex 1 (Exempt)

Table 1 – Summary of audits delivered

- 2.2 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.

2.3 **Audit Activity: Agency Staff (Service Area: Policy and Resources)**

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

High Priority:	0
Medium Priority:	3
Low Priority:	0
Rejected:	0

2.3.1 **Scope:** This audit reviewed the adequacy and effectiveness of the current procedures and controls in place regarding the use of agency staff, including monitoring and oversight at the Council.

2.3.2 **Key Findings:**

- i. The Council's guidance on the intranet on the use of a neutral vendor for employing agency staff is now out of date, as the contract has expired.

Risk: A lack of understanding of the process may lead to service managers hiring agency staff at higher cost, resulting in a financial loss for the Council.

Recommendation: The HR Business Partner and the Head of Transformation and Commissioning should update the current procedure on the intranet by removing the reference to the neutral vendor, as this contract has now expired. Once a new neutral vendor contract has been agreed, this should be communicated to all staff, together with a reminder on how to recruit agency staff.

- ii. Internal Audit testing identified that approval for recruitment of agency staff and completion of a Vacancy Request Form (VRF) was not always obtained.

Risk: The lack of formal approval when hiring agency staff could lead to erroneous staffing decisions that could result in financial losses for the Council.

Recommendation: The HR Business Partner and the Head of Transformation and Commissioning should send a reminder to hiring staff to use the VRF when requesting engagement of agency staff. A robust process should be introduced to ensure that the VRF is fully completed and approved prior to agency staff being

recruited. The delegation of authorities should be reviewed to reflect the current structure (one Director and four Heads of Service).

- iii. The monitoring of agency staff costs, and length of time in post, is not effective as there is no reporting to the Senior Management Team (SMT). There is, however, a quarterly report produced for Cabinet which highlights spending in each Directorate.

Risk: The use of temporary workers for a prolonged period of time could result in extra financial costs for the Council.

Recommendation: SMT should undertake a review of the existing temporary positions to establish whether they are still required. SMT should also receive a report on agency staff costs on a regular basis to monitor actuals against budget. An end date should be specified on the VRF. The decision to continue with the temporary position past this date should be agreed with the relevant Heads of Service.

2.4 **Audit Activity: IR35 - Off Payroll Working (Service Area: Policy and Resources)**

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

High Priority:	0
Medium Priority:	3
Low Priority:	0
Rejected:	0

2.4.1 **Scope:** This audit reviewed the adequacy and effectiveness of the current procedures and controls in place around IR35, including monitoring and oversight at the Council.

2.4.2 **Key Findings:**

- i. The internal IR35 procedures and guidance documents are available to Council staff and describe the managers' roles and responsibilities when determining whether the IR35 rules apply to contractors they hire. However, based on interviews and due to the nature and complexity of the rules, ARA understands that the procedures are not always understood by managers.

Risk: A lack of understanding of the IR35 regulatory requirements may result in the Council being fined by His Majesty's Revenue & Customs (HMRC) if contractors are not assessed or assessed outside the rules incorrectly. This could result in the Council not paying the expected taxes and National Insurance contributions.

Recommendation: The Council should continue to provide IR35 training sessions on a regular basis to all managers involved in hiring contractors to ensure the roles and responsibilities with regards to IR35 HMRC requirements are understood and acknowledged.

- ii. The Council used three Personal Service Companies (PSC) in the last 16 months. ARA was not able to confirm that the assessments had been done timely for two contractors. For the other contractor the assessment had been done in August 2023, several months after the contractor's start date. In addition, the IR35 Council procedure requires the IR35 assessment to be done at the set-up of a new supplier while it should be done for each new contract.

Risk: It was confirmed during the audit by the relevant managers, that the three contractors were outside IR35, therefore there is no risk associated with those workers not having been assessed timely. However, the risk of it happening in the future exists as the current IR35 procedure does not explicitly require this assessment to be done for each new contract with a PSC.

Recommendation: The Council should update the IR35 procedure to add the requirement to perform an assessment for each new contract agreed with a PSC and retain assessments in a central file accessible to Finance. In addition, an annual review of the contractual situation with PSC should be conducted to confirm that the initial assessment is still relevant.

- iii. There is currently no oversight control in place at the Council to ensure that all required IR35 assessments are done timely.

Risk: The current cost benefit analysis does not justify the implementation of an oversight control as the number of workers contracting with the Council using a PSC is limited. However, this analysis is based on the current use of PSC, which may increase in the future.

Recommendation: The implementation of an oversight control should be reassessed and considered on a regular basis based on materiality.

2.5 **Audit Activity: Payroll (Service Area: Transformation and Commissioning)**

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

High Priority:	3
Medium Priority:	2
Low Priority:	0
Rejected:	0

2.5.1 **Scope** – To review the adequacy and effectiveness of the current procedures and controls in place regarding the payroll activities. The scope of this audit did not include:

- i. The payment of consultants or contractors, which is undertaken by the Gloucester City Council Finance Team;
- ii. The payroll processes and controls for leavers as this was included in the Leavers audit finalised in October 2023;
- iii. The payment of the IR35 staff, which was included in the IR35 audit; and

- iv. The payment of expenses, which will be part of a different audit entity and will be considered for the next audit plan based on a risk assessment.

2.5.2 Key findings:

- i. 44 Business Service Centre (BSC) staff from Gloucestershire County Council can amend Gloucester City Council employee bank account details in SAP even though they are not specifically dedicated to process payroll for the Council.

Risk: The access to the sensitive payroll SAP data and transactions by a large number of BSC staff increases the risks of fraud and operational error.

Recommendation: The Payroll and Pensions Manager (BSC) should confirm to the Council at each quarterly liaison committee that user access reviews have been performed. At the same quarterly liaison committees, the Head of Transformation and Commissioning should seek on-going assurance from BSC that the appropriate reviews have been undertaken and have reduced the risks to an acceptable level.

- ii. At different stages of the payroll process, BSC did not implement review controls to ensure the accuracy of the data input in to mitigate the risk of fraud.

Risk: The ability to modify financial data without a system embedded review process increases the risk of operational mistake (erroneous information being entered in SAP) and fraud.

Recommendation: The Payroll and Pensions Manager (BSC) should ensure that the Council's staff payroll information in SAP is verified independently by another member of staff in the Payroll Team. This includes the modification of sensitive data (for example pay scales), and the files manually uploaded to SAP as part of the on-boarding process. At the quarterly liaison committees, the Head of Transformation and Commissioning should seek on-going assurance from BSC that the appropriate controls have been undertaken and have reduced the risks to an acceptable level.

- iii. BSC Payroll does not authenticate GCC staff bank account change requests before amending the details in SAP.

Risk: The lack of authentication control may result in fraudulent attempts not being detected on a timely basis and possible financial losses.

Recommendation: BSC should formalise the authentication procedure to follow when Council staff request bank account details to be changed. This procedure should promote the use of the employee portal (self-service) for Council staff to change their personal details. BSC should then distribute the procedure to the BSC Payroll Team in charge of staff details modifications in SAP.

- iv. The establishment list of staff on Gloucester City Council payroll in SAP is not reviewed on a regular basis to ensure accuracy and completeness.

Risk: Having an inaccurate payroll list increases the risk of erroneous payment.

Recommendation: The Finance and Resources Team should review the current establishment list to remove staff who are no longer working for the Council. In addition, the establishment check will also ensure that SAP matches the current City Council structure following recent changes. Thereafter, the Finance and Resources Team should review this establishment list on a regular basis to ensure accuracy and completeness.

- v. General Ledger (GL) reconciliations for 2022/2023 childcare vouchers are yet to be performed as payment transactions are yet to be manually processed back into the system. However, it is not considered as material.

Risk: An ineffective incomplete reconciliation process can have an impact on GL accounts.

Recommendation: Finance should finalise the 2022-23 reconciliations for childcare vouchers.

2.6 **Audit Activity: Blackfriars Priory Turnover Certificate 2022-23 (Service Area: Culture)**

- i. Assurance Level for this report: An assurance level is not required for this activity; and
- ii. No recommendations arose from this review.

2.6.1 **Scope** – 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. The aim of the audit was to provide assurance that, in all significant respects, the 2022-23 gross turnover values were accurate and in accordance with the lease agreement requirements.

2.6.2 **Key Findings**

- i. The provisional gross turnover figure for the financial year 2022-23 included the hire income taken directly from the general ledger (GL) and the bar income taken from the Electronic Cash Register (ECR) system.
- ii. For several days in 2022-2023, bar sales were processed while there was no internet at the venue. As a result, the corresponding income data (£8,612.93 excluding VAT) was not uploaded into ECR and has therefore been added to the provisional gross turnover figure.
- iii. A total of 11 duplicate invoices were identified as part of the testing and should therefore not have been included in the turnover figure. The corresponding adjustment required to the turnover calculation was £4,396.10. The duplication was due to invoices being entered manually in the system in addition to the standard process, as a consequence of the cyber incident.
- iv. In addition, Audit reviewed a sample of invoices issued at the end of February and in March 2023, to confirm that these had been paid before 31st March 2023,

(otherwise these would have had to be deducted from 2022-23 turnover figure). There was one instance where the invoice was issued at the end of March and paid in April 2023, therefore the corresponding amount (£167.05) was deducted from the turnover figure.

- v. Based on discussions with officers and a review of records maintained by the Council, Internal Audit gained appropriate assurance that the conditions of the lease agreement had been met. Therefore, the declaration was signed and submitted to English Heritage for the updated 2022-23 gross turnover amount of £203,427.89.

3. Recommendation Monitoring - Open Audit Recommendations

- i. For all recommendations, updates are requested from action owners following the agreed implementation date, to establish progress in implementing the recommendations. For any recommendations that continue to be progressed, further updates are obtained based on any revised implementation dates.
- ii. Table 2 below summarises the current open recommendations from 2022-23 and 2023-24 (to date) per audit and risk priority. Full details of all the open recommendations can be seen at Appendix B.

Ref.	Audit Activity	Date Report Issued	No. of Open Recommendations	Risk Priority		
				High	Medium	Low
1.	Health & Safety Limited Assurance 2 nd Follow Up	April 2022	1	1	0	0
2.	Gloucestershire Airport	June 2022	2	0	2	0
3.	Recycling Commodities	October 2022	1	1	0	0
4.	Section 106	December 2022	8	4	4	0
5.	Housing Strategy	June 2023	1	1	0	0
6.	Procurement	June 2023	5	3	2	0
7.	Leavers Process – Off-Boarding	October 2023	3	0	3	0
	Total		21	10	11	0

Table 2 – Open Recommendations

4. Counter Fraud Update – Summary of Counter Fraud Activities

Current Year Counter Fraud Activities

- 4.1 To date in 2023-24 there have been seven new referrals made to the ARA Counter Fraud Team (CFT).

- 4.2 After initial triage by the CFT, four of the referrals were converted to cases. Of the four, one has now been closed. Details were reported previously.
- 4.3 The remaining three cases are ongoing and will be reported to the Committee on their completion.
- 4.4 Of the remaining three referrals, one was closed and reported to the last Committee. The remaining two referrals are currently going through the triage process to determine what action is required.
- 4.5 Not all investigations (for example conduct, non-compliance and ethics issues) can have an assessed value attached to them or result in the recovery of monies. CFT investigations, analytics and consultative work may add value in other ways such as providing assurance to members and residents, reducing Council vulnerabilities and mitigating risk.
- 4.6 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.
- 4.7 In addition to the above, counter fraud advice and alerts are routinely provided outside of the creation of referrals and cases.

National Fraud Initiative (NFI)

- 4.8 The CFT continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The data matching reports for the 2022-23 exercise have been released for review.
- 4.9 Council Tax and Electoral data is due to be uploaded between 30th November 2023 and no later than 19th January 2024. The CFT will continue to liaise with the relevant teams to ensure that the set deadlines are met.
- 4.10 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.
- 4.11 Examples of NFI data sets uploaded to NFI includes housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader or operator, taxi drivers and personal licences to supply alcohol.
- 4.12 Not all matches are investigated. Where possible, all recommended or high fraud risk matches are reviewed by either the CFT or the appropriate service area within the Council.

Fraud Awareness

- 4.13 During International Fraud Awareness Week (12-18th November 2023) fraud awareness messages and information on the latest fraud trends and scams together with advice on how to prevent becoming a victim were shared with staff.

- 4.14 Following on from this the CFT will be signposting staff to the intranet again, this time to share the 12 Fraud Risks of Christmas. This is a 'seasonal' way of reminding staff to remain vigilant and alert.

Whistle Blowing

- 4.15 The Senior Management are currently reviewing and updating the Council's Whistle Blowing policy. The CFT are working with the Monitoring Officer to review and update the Whistle Blowing policy and reporting process. The new process will include a more streamlined way of reporting and monitoring referrals.

National Anti-Fraud Network (NAFN)

- 4.16 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 Thames Valley Metropolitan Borough Council.
- 4.17 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.
- 4.18 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.