

INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016/2017



Gloucester
City Council



(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 (PSIAS) as representing “proper internal audit practices”. The standards define the way in which the Internal Audit Service should be established and undertakes 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 2016/2017 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 November and December 2016; and
- special investigations/counter fraud activity.

(4) Progress against the 2016/2017 Internal Audit Plan, including the assurance opinions on risk and control

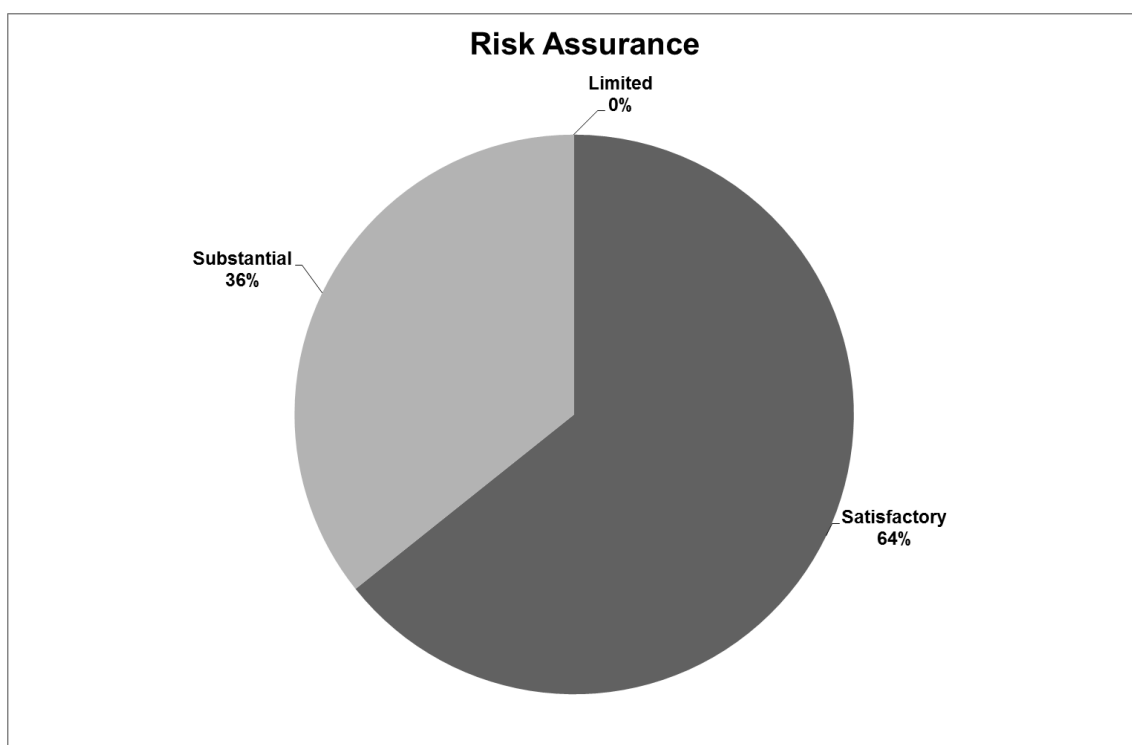
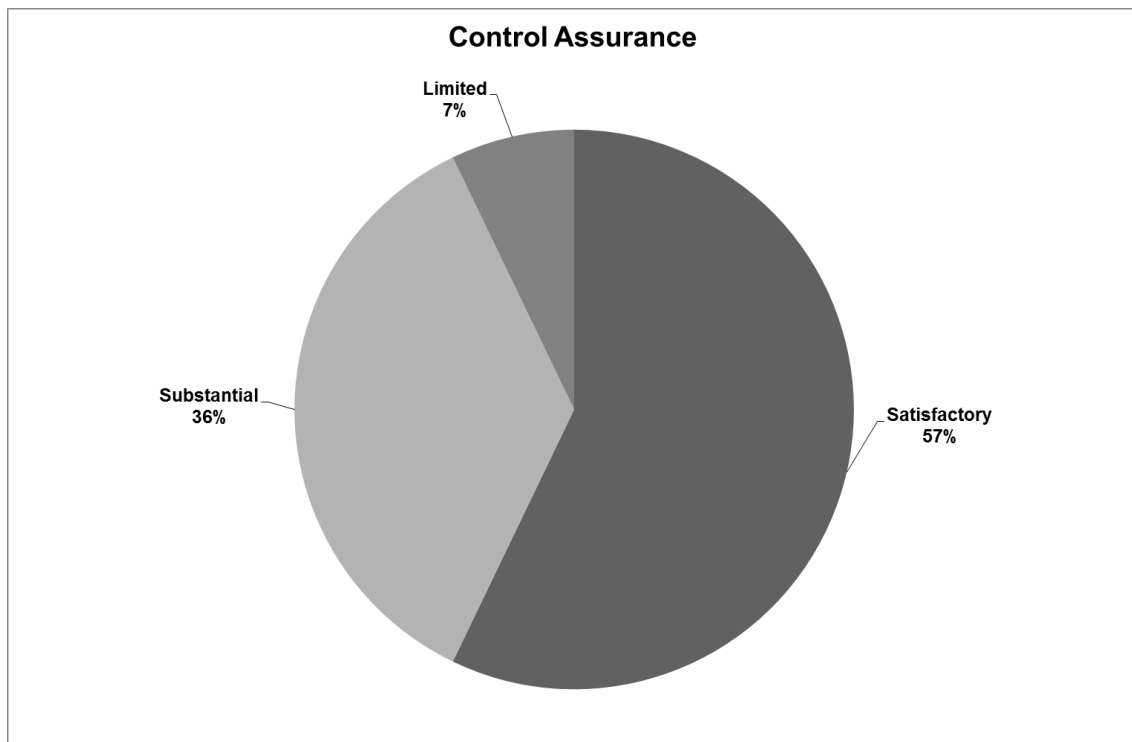
The schedule provided at **Appendix 1** provides the summary of 2016/17 audits which have not previously been reported to the Audit and Governance Committee, including, very importantly one limited assurance audit opinion on control.

The schedule provided at **Appendix 2** contains a list of all of the audit activity undertaken during 2016/2017, 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 below.

Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	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.	<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	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.	<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	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.	<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 audit activity undertaken during the period April 2016 to December 2016.



(4b) Limited Control Assurance Opinions

Where audit activity record that a limited assurance opinion on control has been provided, the Audit and Governance Committee may request Senior Management attendance to 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 November and December 2016, one audit review has been provided with a limited assurance opinion on control which relates to the Streetcare Contract (pages 6 - 9 of this report).

It is important to note that whilst a limited assurance opinion has been provided in these instances, management have responded positively to the recommendations made and actions are being taken to address them.

(4d) Satisfactory Control Assurance Opinions

Where audit activity 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 November and December 2016 Internal Audit made, in total, 39 recommendations to improve the control environment, 8 of these being high priority recommendations i.e. 31 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 November and December 2016, it is pleasing to report that no limited assurance opinions on risk have been provided on completed audits from the 2016/17 Internal Audit Plan.

In the cases where a limited assurance opinion has been given, the Shared Service Senior Risk Management Advisor is provided with the Internal Audit reports, to enable the prioritisation of risk management support.

Completed Internal Audit Activity during November to December 2016**Summary of Limited Assurance Opinions on Control****Service Area: Neighbourhood Services****Audit Activity: Streetcare contract****Background**

The Streetcare Partnership was set up in January 2007 with Accord Operations Ltd, for an initial annual value of £5.4m and a contract expiry date of 31st March 2022 (extension option is available). Following a number of corporate takeovers the services for waste collection and recycling, street cleansing and grounds maintenance is now delivered by Amey. The annual contract sum for 2015-16 was £5.8m with additional contractual charges of £147k (TUPE staff pension contributions) and £323k (recycling top-up payment) being made.

Scope

The objectives for this audit were set to confirm that:

- Governance arrangements are appropriate and effective;
- The costs of the service provision are fully known and are as per the contract; and
- Performance measures have been determined, results regularly reported and effectively monitored and managed.

Risk Assurance - Satisfactory**Control Assurance – Limited****Key findings****Governance:**

- Strategic and operational committees have been created to provide oversight and manage the contracted service. However the two strategic committees were duplicating areas of discussion and were too involved in operational matters.
- The Risk Register is reviewed quarterly by the Strategic Partnering Board. Although health and safety matters are discussed at operational meetings the risks relating to an accident or a fatality to operatives or members of the public was not reflected in the risk register. Internal Audit considers that given the impact should this risk materialise it is crucial the risk remains visible at Board level and subject to regular review of the controls to mitigate the exposure.

- A contract Variation Register or completed variation form covering all changes to the terms and conditions of the contract is not held. Neighbourhood Services has created a Service Change Register, which Internal Audit was advised is also intended to be used for contract variations and referenced accordingly.
- Management were unaware that the Performance Bond, held with the contract, had expired on 11th January 2014. The Performance Bond was subsequently renewed on 29th February 2016 and a certified copy has now been received by the Council.

Service provision and charges:

- Annually the contracted charge for the service provision is recalculated by Amey to take into account the movement in labour, plant and fuel costs and any approved changes to the service provision. Finance perform various checks on the information to confirm the calculations are correct and that Amey have correctly taken into account any approved change in the service provision. However, the indices used for the labour, plant and fuel costs are not checked to independent sources, but instead full reliance is placed on Amey to use the correct figures. Although there is no indication that incorrect indices have been applied it would be good control practice for independent checks to be completed.
- Within the annual contract sum is an annual charge of £53,824 noted as “bins for remainder of contract”. It is unclear what this charge relates to but both Finance and Amey believe that it represents a significant bin purchase made by Amey on the Council’s behalf, which is being spread over the life of the contract. Management have requested Amey to provide the appropriate supporting documentation for this purchase / charge. This was outstanding at the time of the audit.
- During 2015, a Service Change Request and Adopted Land Registers were created with appropriate forms to account for all such changes. However, Internal Audit identified a recent case where the service change was performed outside of this process. Whilst it may not be possible to go back to identify all historic cases it does mean that there is no complete central record of service provision changes. Consequently management may not be aware of the full extent of the changes and the effect on the service provision since the start of the contract.
- Operational Delivery Statements (ODSs) provide management with a high level view of the service provision Amey should be providing. ODSs have been drafted in April 2016 and copies were provided to the appropriate Members of the Strategic Partnership Board, outside of the meeting. The Head of Neighbourhood Services has confirmed that whilst the Amey Account Director did approve the ODSs, this was not formally documented.
- The main areas of the service delivery and the cost of each service provision, regulatory, legal matters and monitoring are not documented on a central record. Therefore it is difficult to gain assurance of how the annual contract sum is calculated to enable effective monitoring of the contracted work, confirmation of compliance with the law, meeting health and safety obligations and demonstrate value for money.

The Head of Neighbourhood Services has acknowledged that there is a need to hold this information in some form and has stated that the Annual Service Delivery Plan will now be considered for this purpose.

Performance:

- Provisional Key Performance Indicators (KPIs) and sanctions were included in the contract but were not approved at commencement in 2007, which has to some degree adversely impacted on management's ability to hold Amey to account. In 2013/14 a series of revised KPIs were approved by the Strategic Partnering Board and these are currently operating. However, they do not include strategic or quality related KPIs or any financial sanctions for poor performance.
- Amey are contractually obliged to complete and report on their own performance (against the KPIs), which includes complaints information to the strategic committees for review and discussion. However, some discrepancies with the information have been identified and there is a general awareness by Neighbourhood Managers that the performance results have, on occasion, been incorrect. This would indicate that formal periodic checks are required to ensure accurate performance data is presented to management and the strategic committees.
- Council officers primarily undertake reactive monitoring checks on work performed by Amey and also perform informal checks when they are out on site. However, the findings are not documented, but fundamentally the monitoring regime would be further enhanced by management formalising expectations and requirements.

Conclusions

Improvements to the management of the contract have been introduced, which have been taken forward by the current Neighbourhood Services management team from 2015. There were issues with the original contract in that the documented KPIs and sanctions for poor performance were never approved and a financial breakdown of the individual services was not provided. Also there was an absence of a central register for variations and changes in service provision from the start of the contract to date, which if held would have enabled officers (current and future) to understand what changes had been approved and what should be delivered.

These historic issues should be recognised plus there has been a period of strategic management instability, which clearly contributed to the difficulties and constraints that the current Neighbourhood Services management have faced. In addition, management place a lot of reliance on Amey to manage the contract, monitor performance and service delivery and to provide accurate information. Whilst the contract management arrangements are moving in the right direction, from a control perspective, there is still the potential for further improvement.

Management Actions

Management have responded positively to the audit findings and have agreed an action plan to address the issues raised from this review. In addition, to provide the relevant assurances, Internal Audit will undertake a follow up review during 2017/2018 to ensure all agreed actions have been implemented.

Summary of Satisfactory Assurance Opinions on Control**Service Area: Planning****Audit Activity: Gloucestershire Building Control Partnership (GBCP)****Background**

Gloucester City Council (GCityC) and Stroud District Council (SDC) have collaborated to provide a shared local government building control service known as the GBCP. The Partnership was established on 1st July 2015 through a Section 101 Agreement, with staff becoming employed by Stroud District Council acting as the host Authority. The Building Control function comprises of two elements:

- Plan vetting and inspection of applications, which is a statutory Council function in direct competition with the private sector; and
- Enforcement of Building Control legislation and regulations.

The total value of fees received for building control applications since the start of the Partnership in July 2015 to 31st March 2016 was approximately £350k.

Scope

The focus of this review was to determine whether:

- There are effective governance, risk management and monitoring arrangements in place to confirm that the Partnership is being managed effectively;
- The effectiveness of the service is regularly monitored and reviewed to confirm it achieves the main aims and objectives of the Partnership;
- The fees are correctly approved and comply with regulations;
- The costs of the service are correctly determined/calculated and apportioned to the partners;
- Income is correctly accounted for within the case management and financial general ledger systems; and

- The IT systems and data are integrated and appropriately accessible by officers and customers.

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

- A post implementation review had not been performed to evaluate whether the main aims and objectives for the Partnership have been achieved.
- There has been a delay in the implementation of some of the strategic elements (specified in the Section 101 Agreement and Business Case) of managing the shared service as significant resources have been required to maintain operations during the Partnership implementation phase.
- Prior to the formation of the GBCP, SDC generated surpluses and GCityC deficits on their respective 'trading' accounts over a five year period. Both Councils agreed to take a pragmatic approach to not take forward these balances into the new shared service arrangements.
- In 2015/16, the Partnership achieved a surplus on its 'trading' account of approximately £43k as a result of not filling a staff vacancy and pooled the surplus into a ring-fenced reserve. The 2016-17 budget has been set to make a deficit financial position of £1.5k (although it is possible that other known non-budgeted costs will increase this deficit position) which will be covered by reserves.
- The Council has not published (as required under the Building Regulations 2010), a financial statement at the end of the financial year setting out the costs, income and any surplus or deficit position.
- In May 2016, management assessed the risk of loss of service continuity and functionality from the migration of the GCityC Building Control case management data to SDC systems to be low and as a result formalisation of appropriate controls was not performed. At the point of audit, there were no reported issues following migration.
- Discussions about service risks have taken place at Board meetings. However, a joint Risk Register for the Partnership is yet to be created (as required by the Section 101 Agreement) for presentation and regular discussion at the Partnership Board meetings.

Conclusion

There is an appropriate control framework in place for the Partnership, which is defined within the Section 101 Agreement. It is however acknowledged by management that there are still a number of areas that need to be resolved in order for the Partnership to ensure that they fully meet the Agreement requirements and expectations, but these will need to be balanced against the cost of implementation/completion.

Overall it is evident that the two Council's Building Control functions and services have been successfully merged and further system enhancements are being explored to improve the service offering.

Management Actions

The following actions have been agreed with management to further strengthen the GBCP internal control environment:

- To continue to progress the implementation of the requirements/expectations captured within the Section 101 Agreement and other supporting documents (Business Case and Partnership Board minutes) and regularly report progress to the Partnership Board.
- Management to periodically review the Building Control expenditure apportionment to confirm that the 'trading' account associated chargeable costs, particularly relating to officer time and support charges are correctly and accurately determined and accounted for.
- To publish a financial statement for the GBCP 2015-16 'trading' account as soon as possible.
- The Building Control Manager (SDC) to determine the standard/expectation for the GBCP fee reconciliation to include the following:
 - a) Frequency of the reconciliation;
 - b) Expected timeframe for completion; and
 - c) Who will act as the monitoring control to review the reconciliation for correct and prompt completion, clearance of differences and approval.
- To determine a data owner for the GBCP systems and to ensure that any future changes to the systems have been properly tested, documented and results of the tests are satisfactory before formally approving the update to the 'live' environment.

Service Area: Financial Services**Audit Activity: Civica Governance - Revenues and Benefits****Background**

The City Council entered into a contract with Civica in 2011, with the intention to grow the partnership during its original seven year contract period to include other councils and potentially other services. This has been achieved, and in 2012 the Severn Service Centre was established to provide services to other local authorities. In addition, the Forest of Dean District Council joined the City Council to use the services provided by Civica.

The City Council extended its own agreement with Civica in 2015 for a further three years between October 2018 and October 2021, with the intention of delivering annual savings of £110,000 over the three-year extension period.

Scope

This audit was designed to assess the effectiveness and consistency of the contract management arrangements in place that oversee the delivery of services provided by Civica. The agreed audit objectives were:

- Governance arrangements are appropriate and effective;
- The costs of the service provision are fully known and are as per the contract; and
- Performance measures have been determined, results regularly reported and effectively monitored and managed.

Risk Assurance – Satisfactory**Control Assurance – Satisfactory****Key findings**

- A contract is in place covering key service requirements, has been signed by all parties, is available to staff who need it, and contains details of governance, service standards, payment mechanisms and change control.
- Following a restructure and post vacancies a Client Team responsible for day-to-day oversight of contracted services is now in place. Formal oversight is provided by two Boards at officer level, covering strategic and operational elements. Members of the Overview and Scrutiny Committee provide annual oversight.
- Governance arrangements relating to risk management, business continuity and insurance to support the contract require updating.

- The combined fixed cost for services covering the Council and its partner the Forest of Dean District Council, totals in excess of £2.5million per annum. Fixed contract costs for 2015/16 and 2016/17 were accurate and payments for the direct costs of providing supplemental services to the Forest of Dean District Council have been recovered in full.
- The Council is entitled to royalty income payments for facilitating additional supplier business. Royalty payments for contract years 2012/13 and 2013/14 have been received but no payment for contract year 2014/15 was evident. Payment for 2015/16 is due in February 2017.
- The contract requires a Performance Monitoring System to be agreed. This has not been completed and consequently key elements of the performance system are not established. The Key Performance Indicators for 2016/17 were not evidenced as formally agreed.
- In the absence of a formal Performance Monitoring System, Civica provides monthly performance reports of sufficient information to monitor trends in agreed areas. An annual report is provided to Members and is publically available.

Conclusions

The Council has adopted appropriate governance arrangements for the contract with Civica for the delivery of revenues, benefits and payment services. A dedicated Client Team oversees the day-to-day operation of the contract and Officers of increasing seniority are involved in monitoring service delivery. Capacity for improvement was identified in areas that contribute to the core contract, such as risk reporting and insurance.

Management of core and supplemental contract costs was found to be operating effectively overall.

Performance is subject to appropriate scrutiny, with monthly reports provided by Civica and an annual review presented to the Overview and Scrutiny Committee. However, no Performance Monitoring System has been documented, and the 2016/17 KPIs could not be evidenced as approved. Consequently, although systems are in place and the level of oversight meets the contract's requirements, further work is required to combine and work jointly with Civica in agreeing and documenting what constitutes good performance.

Management Actions

One High Priority action was agreed with Management in the following area:

- The Performance Monitoring System required by the contract should be reviewed and adopted, so that the performance oversight arrangements in place are formally agreed and approved.

Management have responded positively to the audit findings and have agreed an action plan to address all issues raised from this review.

Service Area: Neighbourhood Services**Audit Activity: Garden Waste****Background**

The garden waste collection service is a chargeable service that commenced in April 2011. The fees have remain unchanged at £36 a year since the scheme inception with a concessionary discount of 50% being applied if a resident is in receipt of Housing Benefit or Council Tax support. Collections are set as a fortnightly event but are not available in areas where there are access restrictions for refuse collection vehicles. Garden Waste is a contributing element of National Indicator 192 'Household waste recycled and composted' which measures the percentage of household waste that has been sent by the Authority for re-use, recycling, composting or treatment by anaerobic digestion.

Scope

A follow up review to the 2015-16 Garden Waste audit has been carried out with the main objective being to establish what actions have been taken by management to address the four recommendations, how these actions are working in practice and whether any other related matters have been highlighted. Review was also performed upon the following two points:

- Financial break even evidence; and
- Outcomes from the collection delay in Abbeydale on Wednesday 13th July 2016.

Risk Assurance - Satisfactory**Control Assurance – Satisfactory****Key findings**

- Positive actions have been taken to address the reported matters with two of the original recommendations now being considered to be closed after it was established that the Councils' liability for the storage of garden waste bins has been addressed, and that the rollout of Universal Credit has obstructed the effective verification of concession claims.
- Accomplishment of the two remaining recommendations has been impacted by a delay in the implementation of the Civica Financials software (now scheduled for February 2017) through which the issues highlighted by the previous audit will hopefully be addressed. In particular the issues being:

- 1) Within the online Direct Debit (DD) registration process the hub is registering the DD indicator but is still not loading every applicant's bank details. In these instances the transaction does not complete and contact has to be made with the customer to acquire the missing information.
 - 2) The interface problems between the ASH Debtor and Focus systems which restrict the automatic relay of cancellation information to the collection company (Amey). The latest position for resolving the matter is to look into linking the hub direct to Amey's 'Works Manager' software by removing Focus from the process.
- There is no regulatory requirement to restrict the service costings to a 'break even' position. However to obtain precise costs for an accurate surplus/deficit account would be difficult due to Amey also collecting recyclables and Civica's Sundry Debtor team also working on other organisations' sundry debt. Based on the data available, Internal Audit were advised that garden waste is generating a surplus and has been targeted to increase its income by £75,000 per year for both 2017-2018 and 2018-2019 to assist with the Council's money plan. The additional revenue will contribute towards offsetting the Streetcare Contract costs which are currently circa £6.4 million per year, from within which the garden waste collection service is delivered.
- The non-completion of a garden waste collection round in Abbeydale on Wednesday 13th July 2016 is attributed to Garden Waste Membership being at its highest point ever at over 19,800. The increased tonnage of waste collected on that day required extra trips to the recycling facility, which took significantly more time than normal. Internal Audit was advised that the crews had not finished work until 6pm but were still unable to complete the round. The delay affected just under 100 properties for which the collections were completed the following morning. Moving forward Neighbourhood Services have agreed with Amey the following actions aimed at limiting the potential for any future occurrence and to provide prompt notification to the general public and Councillors should there be a recurrence.
- 1) Amey supervisors have been notified to inform the Council by mid-afternoon if rounds are unlikely to be completed. This action would allow same day information dissemination to both the Ward and Cabinet Member.
 - 2) A website message will be drafted as and when required by the Environment Protection Officer and relayed to the Communications Team for insertion onto the Council website.
 - 3) The Strategic Partnership meetings have reviewed the resource and productivity levels, and have assessed whether short term measures were required to meet the current demand. It was decided that scheme membership would initially be capped at 20,000 to ensure that collection levels can be achieved from current resource. Any increase to resource would require the provision of an extra truck and crew which would not be a cost effective way of addressing isolated events.

Conclusions

Positive actions to address the issues identified during the original Audit have improved the Garden Waste control environment. Following the incident in July, procedures are now in place in the event that crews are unable to complete a collection round on the due day and for the Council to be immediately notified.

Management Actions

The further actions to implement the remaining two recommendations from the 2015/16 audit are evidently software related for which Neighbourhood Services have had no direct control. The position is being monitored by management.

Service Area: Regeneration and Economic Development**Audit Activity: Off-Street Car Park Income****Background**

Gloucester City Council is responsible for 16 Pay and Display Car Parks including three Multi-Storey Car Parks.

The car parks provide approximately 2,275 parking spaces across the city, and play a vital role in supporting the city centre economy providing essential facilities for shoppers, tourists and businesses.

Charges for the use of car parks have been made under the Road Traffic Regulation Act 1984. The budgeted total income for 2016/17 from car parks is £2.25m.

The income from car parks is collected via Pay and Display Machines and Pay on Exit Machines. The income from these machines is collected by an external contractor. In addition, users are able to make remote payments using mobile phone SMS, smartphone application, online or by telephone.

Scope

The purpose of this audit was to review the effectiveness of the controls in place to ensure that all income due from car park fees only is collected, banked, and correctly accounted for. In particular, this audit assessed whether:

- Car park fees have been approved at the appropriate level;
- Cash received is collected, banked promptly and securely, accounted for correctly and in accordance with contractual arrangements;
- Income from methods of payment other than cash is received and processed promptly and securely;

- Casual users of off-street car parks receive information and support when paying to use a car park;
- Permits and season tickets are held securely and issued only following receipt of income; and
- Income levels are monitored against the annual budget.

Risk Assurance - Satisfactory

Control Assurance – Satisfactory

Key findings

Car park fees are confirmed annually by the Council. Orders are in place to support the use of car parks under the Road Traffic Regulation Act 1984, but the use of parking permits is not specified.

The main supplier for cash collection has suitable arrangements in place to provide appropriate security, segregation of duties, cash counting and banking of car park income taken from machines.

Car park services for cash collection, software and enforcement are delivered by suppliers. The contract documentation for all suppliers relating to car park services requires update and formalisation, which the service intends to do as part of a current review into car park arrangements.

Signage to the public is good, although one car park tariff board understates the correct fee for an hour's stay by £0.30; the estimated financial impact per year is negligible.

Permits and season tickets for third parties are held in secured areas and are controlled to prevent loss or misappropriation. Season tickets are currently issued on a quarterly basis rather than the specified 12 weeks.

The Transparency Code requires the Council to publish specific information relating to car parks as soon as the authority's annual accounts are finalised, with an interim estimates published by the end of April. The Council did not publish all required information within these deadlines.

Conclusions

The main risk associated with car park income is that the Council may not receive all income it is due. This review has concluded that for the period under review sufficient controls were in place that this risk is mitigated to minimal levels. Sampling found that the income received from the Council's main car parking estate was treated appropriately by the supplier and provided to the Council as expected.

Management Actions

One High Priority action was agreed with Management in the following area:

- Contractual arrangements to be reviewed and updated so that the Council has assurance that all contracts have suitable governance arrangements including performance management and Council oversight.

Management have responded positively to the audit findings and have agreed an action plan to address all issues raised from this review.

Summary of Substantial Assurance Opinions on Control**Service Area: Neighbourhood Services****Audit Activity: Community Support Grants****Background**

As part of Gloucester City Council's (the Council) commitment to supporting the Voluntary and Community Sector (VCS) within Gloucester it provides a grants scheme through which funding is available to organisations who can demonstrate that they meet set criteria.

Two of the categories for which grants can be awarded are through Community Grants (CG), available to voluntary organisations for set projects, and through Service Level Arrangements (SLA), available to Advice Centres.

Scope

The main objectives of the audit were to review controls relating to the administration of Community Support Grants and Service Level Agreements:

- An up to date strategy is in place for the Community Support Grants scheme;
- Suitable guidance is available to assist with making grant applications;
- Eligibility criteria have been set and are verified;
- The assessment process can be readily demonstrated;
- Payments are in line with the grant awards;
- Expected performance is defined and monitored; and
- Budgets are monitored.

Areas subjected to recommendations during the previous audit performed during the 2015-16 financial year are also to be reviewed to establish whether agreed actions have been implemented and whether they continue to work as intended.

Risk Assurance - Satisfactory**Control Assurance – Substantial****Key Findings****General:**

- The strategy for the scheme is led by a combination of budgetary availability and changes within the VCS with there being a move towards consolidating different organisations and steering applicants towards other sources of funding;
- Funding for the 2016-17 VCS grants were passed by Cabinet on 9th March 2016 where it was resolved that CG's would be allocated a budget of £47,000 and SLA's £139,600; and
- The Council website advises that Community Grants of up to £10,000 are available to any voluntary or community group for projects within Gloucester City, with there being a requirement that the project must be completed by 31st March 2017.

Community Grants:

- Applicants can apply more than once but each application must be for a different project with application forms, guidance and conditions being available direct from the Council website;
- Eligibility for the assessment stage required that organisations meet each of the seven eligibility criteria, which were recorded within the 2016-17 Community Grants Guidance document as being:
 - 1) Are a voluntary, community organisation or social enterprise that is/intending to run activities in Gloucester for at least 12 months.
 - 2) Are non-profit making.
 - 3) Have a constitution setting out the organisation's aims and how they operate.
 - 4) Operate to the benefit of Gloucester and its residents, and normally be located in the City.
 - 5) Are able to provide annual accounts and an annual report for the last financial year or a 12 month financial budget.
 - 6) Have a Bank or Building Society account that requires at least two signatures on cheques.

7) If applying for more than £2,500 they must be formally regulated or registered, for example: a registered charity or company limited by guarantee.

- Monitoring is a combination of officer visits throughout the year combined with responses to annual monitoring forms where each organisation is required to evidence what they have achieved against their original application form; and
- The grant is paid out in a single payment.

Service Level Arrangements:

- These are open ended agreements that were subject to compliance tests when the agreements were first initiated. Whilst ongoing eligibility is not subject to formal assessment the ongoing eligibility is indirectly assessed when reviewing the quarterly monitoring data and conducting the annual funding review. The number of organisations in receipt of SLA's has reduced since their inception as have the levels of funding in line with required cuts to budget provision.
- Monitoring is a combination of officer visits combined with monitoring forms with organisations being required to demonstrate achievement against target on a quarterly basis.

This SLA monitoring is known as 'quarterly updating' and is subjected to review by both the Deputy Leader and the Director with the incentive for completion being the financial leverage that further payments will not be made until the quarterly monitoring data has been received and reviewed.

- The grant is paid out in quarterly payments upon receipt of the monitoring information.

Implementation of recommendations from 2015/16 audit:

- From a review of the 11 recommendations agreed during the 2015-16 Audit seven of the original recommendations have been implemented, two were given due consideration prior to it being decided not to change the related processes, one could not be enacted due to closure of the relevant ledger, with one having to be resubmitted due to a reoccurrence of a ledger miscoding.

Conclusion

There has been a significant improvement in system processes and the controls relating to strategy, guidance, eligibility, assessment and award, payments, and monitoring of the grant conditions.

Management Actions

The identified ledger miscoding has now been corrected and no further action is required.

Summary of Consulting Activity and/or support provided where no Opinions are provided

Service Area: Planning

Audit Activity: Consultancy - Planning Application

Background

In September 2014 Gloucester City Council received an outline planning application for the erection of up to 420 dwellings in the Matson ward. The scheme was considered at Planning Committee in December 2015, and Members resolved to approve the scheme, subject to a number of conditions including the provision of 20% affordable housing secured through a Section 106 agreement.

The proportion of affordable housing suitable for the development is contested by the applicant, and a Section 106 agreement has not been agreed.

The applicant subsequently submitted the application to appeal for non-determination in May 2016. An inquiry was heard in December 2016, with the Planning Inspector's decision due early in 2017.

Scope

This audit was requested by the Corporate Director (Partnerships) for the Management Team in order to:

- Compose a timeline of key events, findings and decisions, including commissioning of additional viability studies; and
- Assess the appropriateness and timeliness of the course of action the Council took, in particular the commissioning process for the viability studies.

Risk Assurance – N/A (non-opinion/consultancy audit)

Control Assurance – N/A (non-opinion/consultancy audit)

Key findings

- Expected processes were followed in the work undertaken by Officers to assess the application prior to making a recommendation to Committee, and in subsequently obtaining additional evidence to assess the application.
- The application process has been lengthy (September 2014 to April 2016), largely due to establishing the necessary facts to assess the application, prepare the terms of the proposed S.106 Agreement, and coordinate with the schedule of the Planning Committee.

- The commissioning rationale behind the requirement for and selection of consultants to support Officers in specialist analysis is reasonable.
- The resolution of Members in the December 2015 and April 2016 Planning Committees was to approve the application (as recommended by Officers), but with amendment to the Officer recommendation on the terms of the accompanying S.106 Agreement.
- The applicant has informed the Council that the terms of the S.106 Agreement relating to the level of affordable housing to be provided onsite are not acceptable and has appealed to the Planning Inspectorate on the basis of non-determination.

Conclusions

The purpose of this audit was to review and assess the appropriateness and timeliness of actions taken by the Council in processing the planning application for 420 dwellings. This review was not intended to assess the technical content of the work by consultants in reaching their conclusions, but the operation of the Planning Service in fulfilling their responsibilities.

This review found that procedures had been followed as expected overall, although some recommendations have been made to further enhance the control environment. Some of the particulars of this application are not covered by the Planning and Development Code of Practice, and consequently the Council may wish to review this document to provide further guidance for any future occasion. Some general practices within the Planning Service were also identified where further review may be useful, and it is intended to propose inclusion of these in future Internal Audit plans.

Management Actions

Two High Priority actions were agreed with Management in the following areas, and Management has confirmed that both recommendations have since been completed:

- Monthly monitoring should identify and consider any planning application nearing 26 weeks without determination, in support of the national Planning Guarantee deadline.
- The working relationship between Officers and Members should be reinforced with regular dialogue and engagement so that planning matters are communicated and understood clearly and effectively.

Management have responded positively to the audit findings and have agreed an action plan to address all issues raised from this review.

Service Area: Grant Certification**Audit Activity: Turnover Certificate for Blackfriars Priory****Background**

In March 2012 the Council entered into a lease with English Heritage for the use of the Blackfriars Priory site. The Council's main objectives for the venue were to open it as a visitor attraction, provide educational visits, develop a wide-ranging events programme (both commercial and non-commercial), run and facilitate workshops and develop a meetings and conference trade. There is now also a developed service as a wedding venue.

The lease allowed a peppercorn rent for the first two years of operation, with the following three years' rental to be a percentage of Gross Turnover, as defined in the lease agreement.

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 2014/15 and 2015/16 provided to English Heritage by Finance are accurate and in accordance with the requirements of the lease agreement and that a certificate confirming the Gross Turnover during each Turnover Period may be signed.

Risk Assurance – N/A (Certification)**Control Assurance – N/A (Certification)****Key findings**

Provisional Gross Turnover figures were provided by Finance based on the net balances of income account codes across the two cost centres in use for Blackfriars Priory. This identified income of £68,883 in 2014/15 and £91,651 in 2015/16.

Detailed review identified a number of minor adjustments necessary in order to align the recorded figures to the requirements of the lease agreement.

Application of the adjustments to the Provisional Gross Turnover results in an increase of £160.33 and £111.30 to the rents payable for 2014/15 and 2015/16 respectively.

Conclusions

Following acceptance of the Revised Gross Turnover figures, Internal Audit is able to provide assurance that the requirements of the lease agreement have been met. As a result, the Turnover Certificate has been signed by the Group Manager – Audit Risk Assurance.

Management Actions

Finance has notified English Heritage of the agreed revisions and awaits an invoice for the rent payable.

Summary of Special Investigations/Counter Fraud Activities**Current Status**

During April – December 2016 there have been no fraud/irregularity referrals to Internal Audit.

Fraud Risk Assessment / Risk Register

A fraud risk register has been produced, the outcome of which will inform future Internal Audit activity.

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 were collected throughout October 2016 and reports will start to be received from the middle to the end of January 2017. 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.

In addition, there is an annual data matching exercise undertaken relating to matching the electoral register data to the single person discount data held within the City Council. Once all relevant data has been uploaded onto the NFI portal, a data match report is instantly produced and available for analysis.

The key outcomes of the review will be provided to the Audit and Governance Committee.

The Committee can also take assurance that all special investigations/counter fraud activities are reported to the Managing Director, Monitoring Officer and Head of Finance as required, via the Corporate Governance Board.

Anti-Fraud and Corruption Policy Statement and Strategy

Effective governance requires the Council to promote values for the authority and demonstrate the values of good governance through upholding high standards of conduct and behaviour. To enable this, the Fighting Fraud and Corruption Locally 2016–2019 Strategy has been developed by local authorities and counter fraud experts and supported by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre. It is the definitive guide for council leaders, chief executives, finance directors and all those with governance responsibilities.

Appendix 1

The strategy includes practical steps for fighting fraud, shares best practice and brings clarity to the changing anti fraud and corruption landscape.

The Chief Internal Auditor has undertaken a self-assessment against the new guidance to measure the Council's counter fraud and corruption culture and response and propose enhancements as required. As such, a revised Anti Fraud and Corruption Policy Statement and Strategy, Anti Bribery Policy, Anti Money Laundering Policy 2017 - 2019 and Confidential Reporting Procedure (Whistleblowing) has been developed and will be presented to the Audit and Governance Committee on 23rd January 2017.