

Internal Audit Activity Progress Report

2017-2018



(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 2017 (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 2017/18 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 January 2018 to February 2018; and
- Special investigations/counter fraud activity.

(4) Progress against the 2017/18 Internal Audit Plan, including the assurance opinions on risk and control

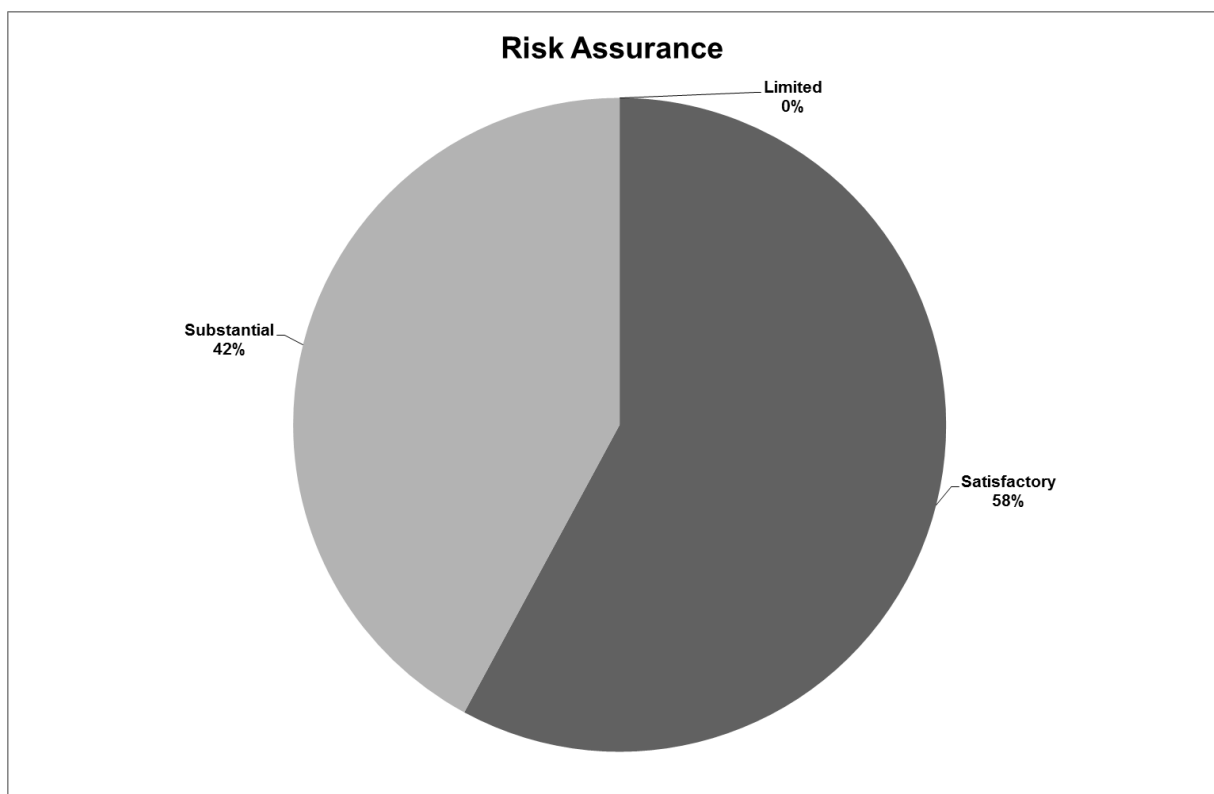
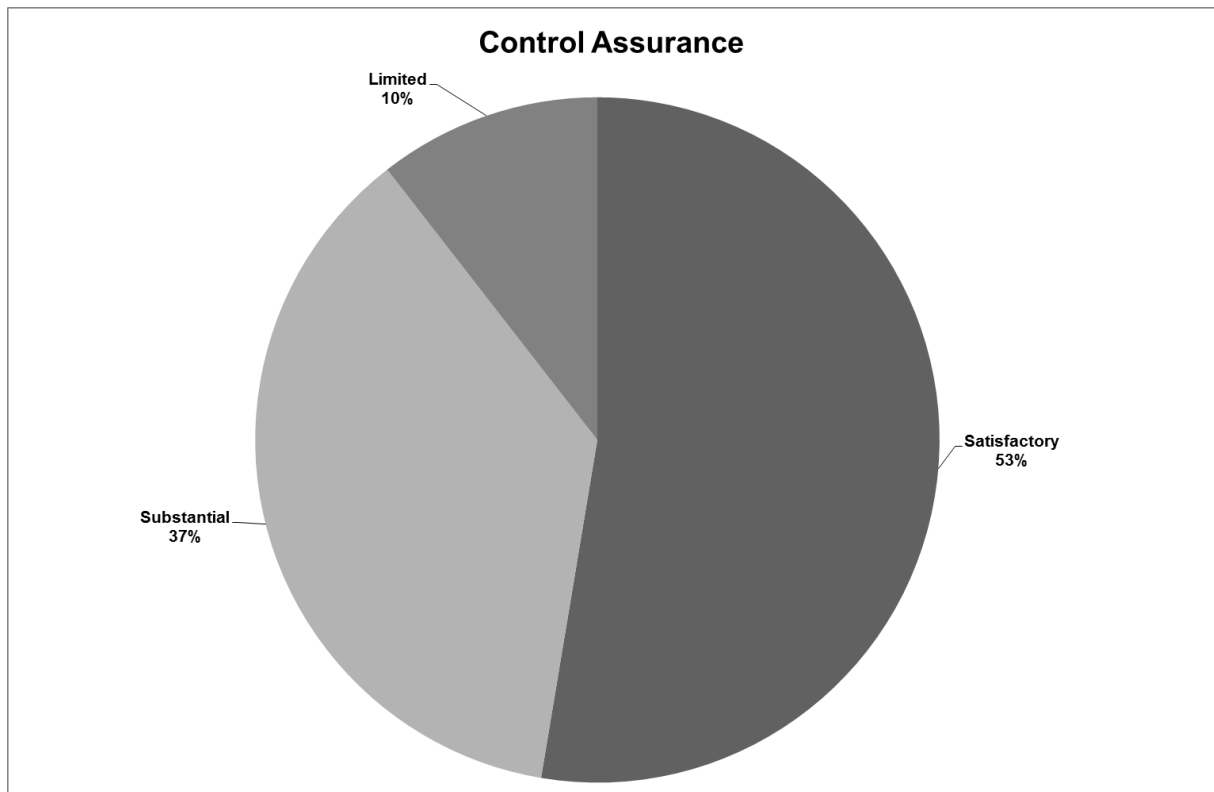
The schedule provided at **Attachment 1** provides the summary of 2017/18 audits which have not previously been reported to the Audit and Governance Committee. **Attachment 1** also includes the summary of special investigations/counter fraud activity to date.

The schedule provided at **Attachment 2** contains a list of all of the audit activity undertaken during 2017/2018, 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 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, 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 2017/18 audit activity undertaken up to February 2018.



(4b) Limited Control Assurance Opinions

Where audit activities record that a limited assurance opinion on control has been provided, the Audit and Governance Committee may request Senior Management attendance at the next 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 January 2018 to February 2018, no limited assurance opinions on control have been provided on completed audits from the 2017/18 Internal Audit Plan.

(4d) Satisfactory Control Assurance Opinions

Where audit activities 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 the period January 2018 to February 2018 Internal Audit made in total, **4** recommendations to improve the control environment, **0** of these being high priority recommendations and **4** 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 January 2018 to February 2018, it is pleasing to report that no limited assurance opinions on risk have been provided on completed audits from the 2017/18 Internal Audit Plan.

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

Completed Internal Audit Activity during the period January 2018 to February 2018

Summary of Satisfactory Assurance Opinions on Control

Service Area: Policy and Resources

Audit Activity: Discretionary Housing Payments

Background

A Discretionary Housing Payment (DHP) is a payment to help people, in receipt of Housing benefit or the housing element of Universal Credit, meet their housing costs; these costs include help towards rent, tenancy start up and moving costs. DHPs must operate in line with the Discretionary Financial Assistance Regulations 2001 (DFAR) and the guidance issued by the Government's Department for Work and Pensions (DWP) in its DHPs Guidance Manual; however they are made at the discretion of Local Authorities (LAs) and the DFAR do not specify a clear set of allocation rules. LAs can use their own funds to top up their Government contribution by an additional 150%. Any unspent DHP funding from the Government contribution is returned to the Department at the end of the financial year.

Scope

This review was specifically requested by the Audit and Governance Committee to provide assurance that there is an effective control framework in place for the award of DHPs, in compliance with internal procedure and external regulations.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- In 2016/17 the Council awarded £149,463 of the government contribution of £232,100.
- The government contribution for 2017/18 is £345,285. As at 31st January 2018 £170,551 has been awarded.
- The Council does not have a formal DHP Policy however there is a DHP procedure. The introduction of a DHP Policy, with support from Members, may lead to greater funding usage as discretionary parameters could be formally agreed that would then support and underpin the decision making process.
- DHPs are administered by the Civic Revenue and Benefits Service. All DHP decisions are reviewed by the Council's Intelligent Client Officer who makes the final decision on whether the DHP should be approved or declined.

- The Council's website informs the public that "Discretionary Housing Payments help people who need extra help when their Housing benefit does not meet the amount of their rent", however the DWP also specify that the payment can be used for rent in advance, deposits and other lump sum costs associated with a housing need such as removal costs. Of the 612 awarded claims only one had been documented for a reason other than rent payment (it was for removal costs).
- The website and application form do not state that an application can be accepted from someone acting on behalf of the claimant; this would support claimants where English may not be their first language, they have poor literacy skills or may have mental health issues.
- In September 2017, a 'Temporary and Homeless Accommodation Benefit Officer' was internally recruited and part of their role is to support the public with the take-up of DHPs. However, to date this officer has been unable to take up this role due to competing pressures elsewhere.
- Internal Audit sampled 25 DHP claims that had been declined, for the period 1st April 2016 to 31st March 2017, to verify that the decision was fair, reasonable and consistent. Internal Audit agreed with the decisions to decline 24 of the 25 claims; however the claim decision that IA would have expected to have been approved was approved upon appeal.

Conclusion

Internal Audit is able to conclude that a control framework is in place for the award of DHPs, in compliance with internal procedure and external regulations; however the framework could be further enhanced by:

- The introduction of a Council approved policy for DHP;
- Updating web page for DHPs to inform residents that DHPs can also be used for help with rent in advance, deposits and other lump sum costs associated with a housing need, and that applications can be made by persons acting on behalf of the claimant; and
- Reviewing the application form to ensure it is not a barrier to residents with poor literacy skills.

Management Actions

Management have responded positively to the two medium recommendations made.

Service Area: Policy and Resources

Audit Activity: Gloucester Lottery

Background

The Gloucester Lottery was introduced in 2017 by Gloucester City Council to support projects in the local area and operates on the principle of raising money within the community for the community. A ticket for the Gloucester Lottery costs £1 with 60p of every ticket going to supporting a cause within a local community.

Scope

The scope of this audit was to:

- Review the contract arrangements in place between the External Lottery Manager and Gloucester City Council; and
- Ensure that income generated via the Gloucester Lottery is accounted for and allocated to agreed causes in accordance with Council expectations.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- The Council has entered into an agreement with Gatherwell Ltd (the designated External Lottery Manager) to provide Lottery administration services. It was confirmed that both parties have appropriate and active licences to operate a remote society lottery for a local authority.
- The Gloucester Lottery exceeds the minimum requirements of 20% of proceeds going to good causes with 60% of all proceeds going to registered and pre-approved good causes.
- The provider has confirmed that all the funds raised by the Gloucester Lottery, minus the fees due to them are held in a separate client account as required. Whilst Internal Audit was given verbal assurance of this, the bank statements, albeit requested, have not been provided for the client account or the value of the accumulated prize fund obtained.
- The provider operates the Gloucester Lottery via a cloud based system with a third party company providing the storage space for associated data. Therefore, the information for which the Council is the data owner is held by a company to whom the Council does not have any contractual arrangements with and has not had any involvement in selecting.

- Internal Audit reviewed six months of payments made to Council and found that it has received funding circa £9k from this lottery. This will need to be allocated in due course to its own selected good causes. Positive confirmation was also received from three registered independent good causes that they had received payments due to them from the provider relating to the ticket sales where customers had selected their specific good cause to receive 50p of the £1 ticket sale price.

Conclusion

The Council has a contract in place with Gatherwell Ltd to operate a lottery with appropriate arrangements in place to meet the requirements of a local authority lottery.

From a risk perspective it is important to recognise that the data surrounding the lottery is owned by the Council and as such is ultimately responsible for ensuring that this data is appropriately managed and maintained. As a third party contractor, selected by Gatherwell Ltd as the holder of this data, Internal Audit was unable to gain appropriate assurance that this is happening. Whilst this risk is intended to be mitigated through the contractual arrangements between the two parties the fallout from a data breach will ultimately remain with the Council.

Details of the unallocated prize fund are not currently provided by Gatherwell Ltd and it is recommended that as part of the ongoing contract management arrangements this information is obtained.

Management Actions

Management have responded positively to the Internal Audit findings. The Head of Policy and Resources contacted Gatherwell Ltd and has subsequently received assurance that a security audit of their Remote Technical Standards was completed in May 2017. This is an annual requirement of their Remote External Lottery Management licence issued by the Gambling Commission. In addition Gatherwell have agreed to provide details of the unallocated prize fund as soon as possible through enhancement of the lottery website dashboard.

Summary of Substantial Assurance Opinions on Control

Service Area: Place

Audit Activity: Kings Quarter Development

Background

The regeneration at Kings Quarter remains a high priority for the Council which will include the redevelopment of Kings Square, the Bus Station, Market Parade, Spread Eagle Road and the immediate surrounding area. Phase 1 circa £9.4m is the redevelopment of the Bus Station which is in progress and will in part be funded through a grant of £6.4m from the Gloucestershire Local Enterprise Partnership under the Gloucestershire Growth deal.

Scope

The objectives of this audit were to:

- Review the project management, financial, reporting and governance arrangements established by the Council for the regeneration of King's Quarter; and
- Ascertain which contractors and consultants have been commissioned to deliver this project and provide assurance that the selection process was in accordance with the Council's Contract Standing Orders and procurement legislation.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- The project has received full support from Cabinet and members are actively involved in the key decision making process.
- A project board has been established (comprising of senior directors and the Lead Cabinet Member for Regeneration and Economy) which provides appropriate corporate oversight. The board is supported by experienced officers including the Head of Place, an experienced Project Manager and an external consultant.
- The project is moving forward in a controlled and effective manner under the management of an experienced and qualified Project Manager.
- Phase 1: The construction of the new bus station is ongoing having successfully completed the final design stage and the completion of the required highways works.
- Comprehensive records are maintained by the Project Manager to support the engagement of external consultants and contractors together with any subsequent payments made for work delivered.

- The Board has identified a need for a risk register to cover the wider project and this is currently being developed.

Conclusion

Appropriate governance arrangements are in place for the Kings Quarter development and these arrangements are operating effectively.

Considerable reliance is placed on the knowledge and experience of the Project Manager (external consultant) to provide guidance to officers and members and when appropriate challenge the appointed contractors. Whilst this long standing arrangement works well, it is also fully acknowledged that a lack of resilience in the City resources (should this individual be unable to continue in this role) would present a risk should this occur. From a governance perspective, this key risk should continue to be monitored alongside the ongoing review of the risk register (by the Board) together with any other risks that may be identified.

The review identified a number of external consultants / contractors engaged by the Council to support the delivery of this project. The use of these consultants and contractors is appropriate and Internal Audit also concludes that these were commissioned in an open and transparent manner and in substantial compliance with the Councils' Standing Orders and legislation.

Management Actions

N/A

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

Four referrals have been received by Internal Audit for investigation during 2017/18 to date. Three of these cases have been closed, all of which have previously been reported to the Audit and Governance Committee. The fourth case is still under investigation, although an interim report has been provided to management.

The outcome of the fourth case will be provided to the Audit and Governance Committee once concluded.

Any fraud alerts received by Internal Audit from National Anti-Fraud Network (NAFN) are passed onto the relevant service areas within the Council, to alert staff to the potential fraud.

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 have now been received for further investigation. 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. Many of the recommended matches have now been reviewed but there are still further recommended matches under investigation.

In addition, there is an annual data matching exercise undertaken relating to matching the electoral register data to the single person discount (SPD) 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.

We have previously reported an adjustment to the Council tax base of **£155,448** in respect of SPD matches. Further work on those households failing to return forms or giving incorrect information is ongoing.

In addition, it was also reported that as a result of the SPD review ten potential fraud cases which also include Housing Benefit have been referred to the Department for Work and Pensions (DWP) and the Single Fraud Investigation Service (SFIS). It is unlikely that the DWP will feedback to the Council unless additional information is required.