

Internal Audit Activity Progress Report

2018-2019



(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 undertake 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 2018/19 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 October 2018 to November 2018; and
- Special investigations/counter fraud activity.

(4) Progress against the 2018/19 Internal Audit Plan, including the assurance opinions on risk and control

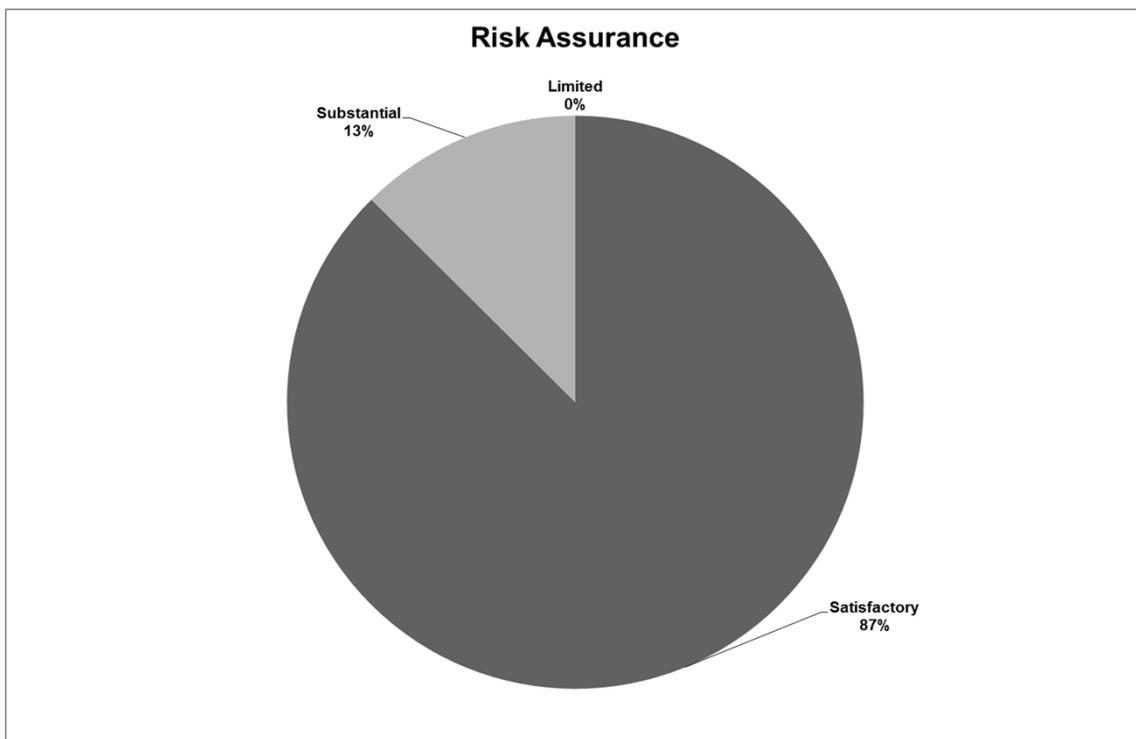
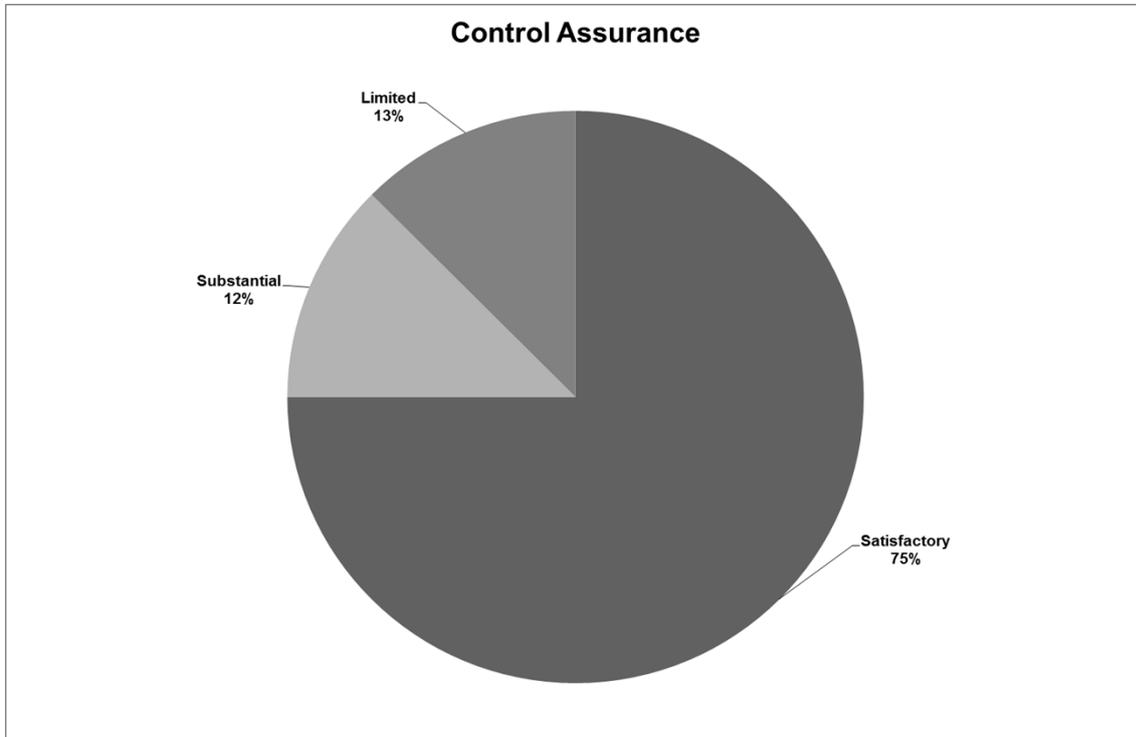
The schedule provided at **Attachment 1** provides the summary of 2018/19 audits which have not previously been reported to the Audit and Governance Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2018/19 Internal Audit Plan activity undertaken during the financial year to date, 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 in the below table.

Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	<p>Risk Managed Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Strategy.</p>	<ul style="list-style-type: none"> • System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved • Control Application – Controls are applied continuously or with minor lapses
Satisfactory	<p>Risk Aware Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, 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.</p>	<ul style="list-style-type: none"> • System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger • Control Application – Controls are applied but with some lapses
Limited	<p>Risk Naïve Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council's Risk Management Strategy, the service area has not demonstrated 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.</p>	<ul style="list-style-type: none"> • System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls • Control Application – Significant breakdown in the application of control

(4a) Summary of Internal Audit Assurance Opinions on Risk and Control

The 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 2018/19 audit activity undertaken up to November 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 October 2018 to November 2018, no limited assurance opinions on control have been provided on completed audits from the 2018/19 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 October 2018 to November 2018 Internal Audit made, in total, **9** recommendations to improve the control environment, **1** of these being high priority recommendations i.e. **8** 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 October 2018 to November 2018, it is pleasing to report that no limited assurance opinions on risk have been provided on completed audits from the 2018/19 Internal Audit Plan.

Where a limited assurance opinion is given, the Shared Service Senior Risk Management Advisor will be informed to enable the prioritisation of risk management support.

Completed Internal Audit Activity during the period October 2018 to November 2018

Summary of Satisfactory Assurance Opinions on Control

Service Area: Communities

Audit Activity: Disabled Facilities Grants

Background

Grants for disabled facilities adaptations for private residential property owners and private sector tenants are a statutory responsibility under the Housing Grants, Construction and Regeneration Act 1996.

The Disabled Facility Grant is administered as part of the Integration and Better Care Fund managed by Gloucestershire County Council as a pooled funding arrangement, under section 31 of the Local Government Act 2003. Gloucestershire County Council is the host manager and Gloucester City Council is the pool manager.

Scope

This audit reviewed the procedures and controls in place to ensure the grants awarded by Gloucester City Council are in compliance with the legislation.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- The Disabled Facility Grant procedures and controls are compliant with the requirements as detailed in the Housing Grants, Construction and Regeneration Act 1996.
- The Housing staff demonstrated good knowledge of the procedures, documentation and controls for the complete Disabled Facilities Grant process.
- Grant allocations and volumes are detailed in the below table:

Year	Annual allocation	Number of grants approved	Total spend
2016/17	£873,079	57	£254,008
2017/18	£958,004	86	£488,741
2018/19 (to date)***	£1,042,930	33	£150,436

*** Number of grants approved and total spend (actual and committed) as at October 2018.

- The Council has successfully increased Disabled Facilities Grant spend between 2016/17 and 2017/18. Based on the levels of grant allocation against actual spend by the Council, the Council's Housing team should consider whether further initiatives could be taken to ensure increased take up of the grant allocation in the current year.
- The grant records are predominately paper based, and there is an inherent risk that files become not traceable for monitoring and audit inspection. It would be beneficial to record the Disabled Facilities Grant complete application process on the Uniform database with the supporting documentation captured on the Anite document imaging system.

Conclusion

Overall appropriate controls are in place, resulting in the audit outcome of satisfactory assurance for both risk identification maturity and control environment.

The control environment could be further enhanced by i) trial use of the Uniform and Anite systems for the Disabled Facilities Grant process and associated records; ii) developing the existing Housing procedure to ensure that where applicable the Building Control Inspection Certificate is included with the grant project file; and iii) introducing a quarterly Housing reconciliation procedure, to reconcile to the Civica financial system.

Management Actions

Management has responded positively to the three audit recommendations raised.

Service Area: Cultural and Trading

Audit Activity: Great Place Funding

Background

Gloucester City Council (the Council) has been awarded £1,489,200 by the Heritage Lottery Fund to support a three-year project entitled "Great Place Scheme: Gloucester – a proud past: Culture at the heart of an ambitious future". This funding is 48% of the total project cost of £3,110,700, with the remaining 52% met by

matched/partnership funding.

The project aims to develop leadership, build capacity for cultural ecology, transform how historic buildings and outdoor spaces are viewed and used, increase the appeal and diversity of festivals and events and invest in raising the aspirations of communities, particularly for young people.

As part of the Council's 'Cultural Vision and Strategy 2016 – 2026' a charitable organisation called the Gloucester Culture Trust ('the Trust') was created to support and promote culture across the city.

To deliver each element of the Great Place Scheme the Trust has divided the scheme into seven Strands. Each Strand is responsible for the delivery of activities and the Trust provides advice and support and holds them to account for successful delivery in return for the administration and allocation of expenditure payments.

Scope

The objective of this review was to determine that:

- The payment administration framework for the Great Place Scheme expenditure is accurate and appropriate; and
- There is a control framework in place to monitor the progress of each Strand's delivery outputs as defined in their Project Initiation Documents.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- Both the Trust and the Council have risk registers that include risks relevant to this project.
- The Heritage Lottery Fund will not reimburse the Council with any VAT incurred. The review highlighted that some invoices to the Council are not always correctly addressed which may impact the Council's position when trying to reclaim the VAT back from HMRC. Whilst to date only small amounts of vat are affected (i.e. £61), the Trust should review its process and issue clear instructions to the projects on the correct issuing of invoices and submission of claims for reimbursement of the expenditure incurred.
- The Trust has a clear framework to manage the administration of quarterly expenditure claims and invoice payments and this is documented. The audit review found that the payment administration process is standardised and that

the two sampled expenditure claims followed the process as expected; however one of the claims was inaccurate as £430.66 for advertisements had been claimed twice.

- Not all Partnership Agreements with the Strands have been signed and not all Strand Project Initiation Documents have been formally approved by the Trust's Board.
- In July 2018 the Trust set up a Finance and Compliance Committee, whose principal function will be to review the financial performance of the Trust, identify any risks or issues that could have a material impact on the results and to provide oversight of the spend of the Great Place Scheme on behalf of Gloucester City Council.
- The Trust has recruited a consultant who will undertake an evaluation of the Great Place Scheme, up to the end of the project in 2020.

Conclusion

Internal Audit is able to conclude that there is a payment administration framework in place, however this framework could be improved by:

- Consideration of the risks relating to fraud;
- Formal documentation of the payment administration process;
- Issuing clear instructions on the correct addressing of invoices; and
- Independent checks to ensure accuracy of expenditure claims and payments.

The Great Place Scheme, is funded both by the Heritage Lottery Fund (48%) and matched/partnership funding (52%). It is the expectation of the Council and the Trust that each Strand will use a significant part of their matched funding before they claim Great Place Scheme funding, to mitigate the risk of non-delivery of planned work if matched/partnership funding does not materialise as expected. Internal Audit found that Strands have used, on average, 70% of their matched funding to 30% Great Place Funding; however Strand Four have only used 14% of their matched funding. Therefore Internal Audit recommends that consideration should be given to suspending Great Place Scheme funding to Strand Four until a significant proportion of their matched funding has been claimed and appropriate evidence relevant to the project has been received by the Trust.

The Project Initiation Documents would benefit from being SMART (Specific, Measurable, Achievable, Realistic and Time bound), with improved detail in the descriptions and the inclusion of milestone dates. This will support the measuring of each Strand's outputs by the Trust and the Council, and ensure that there is prompt

identification when outputs are not being delivered as expected. Internal Audit has noted that the Board of Trustees has already acknowledged that some of the Project Initiation Documents could benefit from being SMART, and would encourage this to be implemented.

Management Actions

Management have responded positively to the five recommendations made.

Service Area: Policy and Resources

Audit Activity: Accounts Receivable

Background

Income from charges and fees is a significant source of revenue to support the Council's strategic and operational plans. Financial controls are therefore considered to be of key importance to minimise risks to the non-receipt of income generated by and due to the Council.

Scope

The audit objective was to provide assurance that an appropriate and effective control framework is in place with regard to obtaining and accurately recording income due via the Accounts Receivable system. The audit excluded Council Tax and Business Rates debtor procedures and controls, which will be audited in the Local Taxation internal audit (part of the Internal Audit Plan 2018/19).

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- The Civica sundry debtors' team oversee the process and staff demonstrated good knowledge of the procedures, documentation and controls currently in place.
- The 2018/19 General Fund budget including fees, charges and other income is circa £13.02m.
- The number of invoices raised in 2017/18 totalled 27,212 with an invoice value of £11.17m.
- As at 31st July 2018, £4.9m is due for collection with £2.7m (55%)

outstanding in excess of one year as detailed below:

Type of debt	0<119 days £000	120< 365 days £000	366 + days £000	Total £000
Sundry debts	639	371	582	1,592
Housing Benefit Overpayments	457	693	2,190	3,340
Total	1,096	1,064	2,772	4,932

Conclusion

There is a system which is appropriately designed and integrated with the Council's finance system to administer the collection of sundry debtor income due.

Based on the results of Internal Audit's testing of the debts outstanding, assurance has been obtained that debts are being paid or there is a debt follow up procedure seeking to optimise collection. However, the high levels of debt over 365 days is a concern which has been recognised by allocating additional resources within Civica seeking to address this position (particularly relating to HB overpayments).

Going forward, this overdue debt position needs to be kept under close review by the Council and an audit recommendation has been raised to this effect.

Management Actions

Management have responded positively to the audit recommendation made.

Summary of Special Investigations/Counter Fraud Activities

Current Status

One referral has been received by Internal Audit (IA) for investigation during 2018/19 to date, and Internal Audit continued to work with one referral brought forward from 2017/18. Both cases have now closed, details of which have previously been provided to Audit and Governance Committee.

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)

Attachment 1

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The 2018/19 data collections have been successfully uploaded to the Cabinet Office during October 2018 and data matching reports will be provided for investigation from January 2019 onwards.

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.

Current outstanding matches from the 2016/17 exercise are due to be reviewed in November 2018, by the Gloucestershire Counter Fraud Unit (CFU) in respect of Council Tax Reduction Scheme (CTRS).