

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 November 2018 to December 2018; and
- Special investigations/counter fraud activity.

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

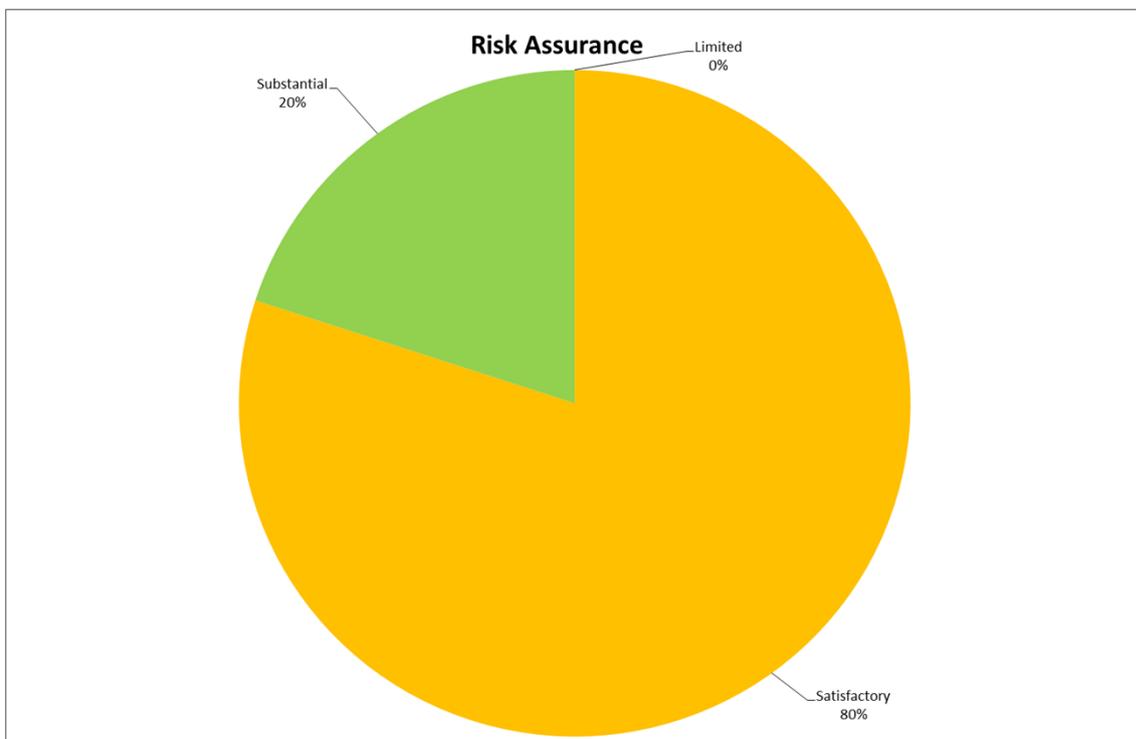
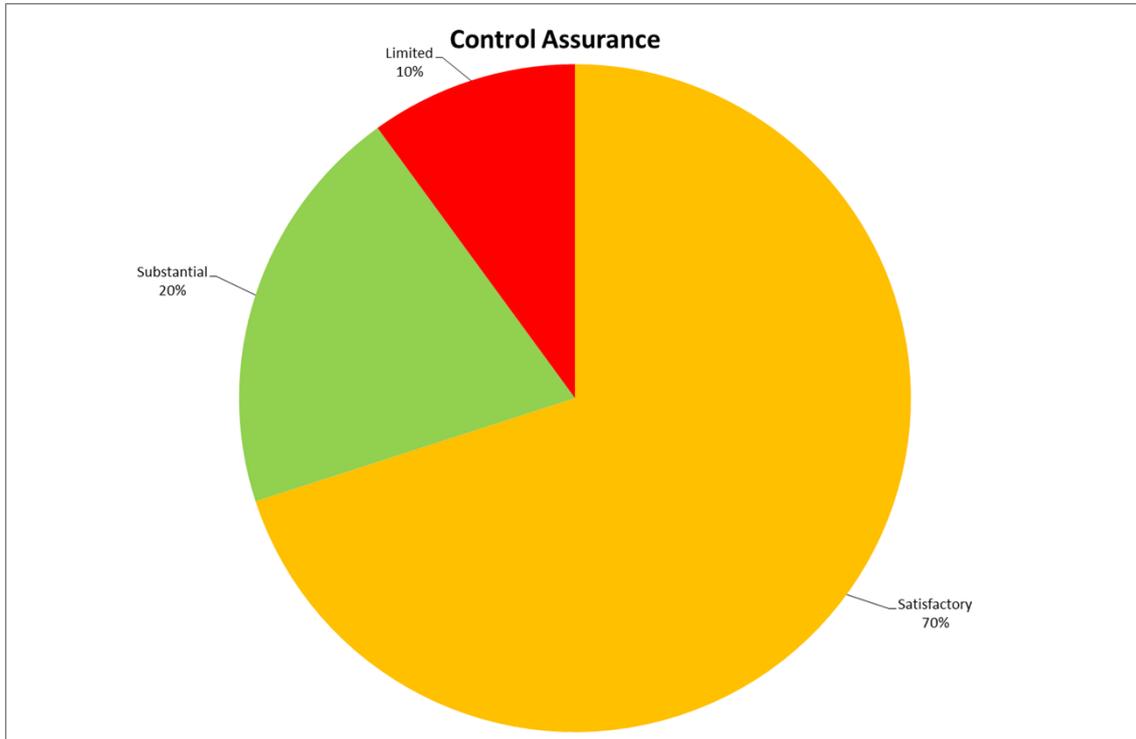
The schedule provided at **Attachment 1** provides the summary of 2018/19 audits which have not previously been reported to the Audit and Governance Committee.

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 December 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 November 2018 to December 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 November 2018 to December 2018 Internal Audit made no recommendations were made.

The Committee can take assurance that (where made) 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 2018 to December 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 November 2018 to December 2018

Summary of Satisfactory Assurance Opinions on Control

Service Area: Policy and Resources

Audit Activity: Local Taxation

Background

Gloucester City Council is responsible for setting and collecting a level of residents' Council Tax to meet its budget requirement. It is also responsible for collecting the charges set by other public bodies within the administrative area, including Gloucestershire County Council and the Police and Crime Commissioner.

In 2018/19 the Council issued invoices for:

- Council Tax circa. £60m (includes Council Tax precept of £7.4m); and
- Business Rates demands (which has averaged an annual total of £52m over the previous two years).

The collection of the local taxes outstanding is a critical process, to ensure that the Council can continue to provide services to tax payers.

Scope

Civica UK are responsible for delivery of the process to ensure that Council Tax and Business Rates debts are paid as required by:

- Council Tax (Administration and Enforcement) Regulations 1992; and
- Non-Domestic Rating (Collection and Enforcement) Regulations 1989.

This audit will review the procedures and controls in place for the management and collection of the debt arrears process.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- As of October 2018 Council Tax arrears outstanding were £4.22m; and business rate arrears outstanding were £1.36m.

- Debts are being paid on an instalment basis, or there is a suitable set of Civica UK alternative recovery procedures in place seeking to recover liable amounts.
- The controls in place for suppression of debt recovery procedures are operating correctly. The current levels of suppressed debt are: Council Tax £0.17m and Business Rates £0.41m, which are subject to monthly review to either complete the required debt recovery process or to continue with the account debt suppression.
- Management information on the levels of debt outstanding is provided to the Council and Civica Operational Board to allow the review of actual performance in comparison to the monthly and annual target.

Conclusion

Internal Audits principal conclusion is that the Local Taxation debt recovery control environment is well embedded, and the existing arrangements and procedures are appropriate to recover the Council's outstanding debts.

Satisfactory assurance has been allocated based on the volume of cases sample tested by Internal Audit against the total population of audit scope relevant Council Tax and Business Rates accounts.

Management Actions

No management action required.

Summary of Substantial Assurance Opinions on Control

Service Area: Policy and Resources

Audit Activity: Capital Accounting

Background

Capital Accounting reflects the accounting records of the Council's fixed, heritage and intangible assets, which form part of the Council's Balance Sheet and overall financial position. The approved Capital Programme for 2018/19 has an anticipated expenditure of £7.5m.

Scope

To provide assurance that there is a robust approach with the objective of ensuring that the key Capital Accounting controls are in place and operating effectively.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- The Council's management information systems for; i) Access database and ArcGIS for Asset Management; ii) Civica Purchasing and Suppliers; iii) Civica General Ledger; and iv) Civica Fixed Asset Register, provide sufficient and appropriate data sets to support the correct accounting treatment for Capital Accounting.
- There's an accurate and consistent approach towards the financial monitoring of individual capital project activities within the Capital Programme. Details are reported to Cabinet on a quarterly basis.
- An annual reconciliation between the Civica Fixed Asset Register and Civica General Ledger is suitably completed and documented as part of the end of year financial accounts closedown.
- There is a four year rolling programme for the revaluation of property and heritage assets.
- Capital project additions completed in 2018/19 were appropriately accounted for as capital assets, and are recorded in the Civica Fixed Asset Register.
- There is one property held as surplus to requirements which has been placed with property agents for disposal, no offers have been received which meet the Council's valuation.
- The recommendations raised in recent external and internal audit reports have been considered, and appropriate action has been taken or proposed.

Conclusions

The principal conclusion is that the existing control environment for the Council's Capital Accounting procedures ensures it is compliant with:

- The Council's Constitution;
- Chartered Institute of Public Finance and Accountancy (CIPFA) Local Authority Accounting Guidance;
- The International Accounting Standards; and
- Internal procedures as designated by the Property Commissioning Manager, the Finance Team Leader and Accountancy Manager.

Management Actions

No management action required.

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 IA continued to work with one referral brought forward from 2017/18.

Both cases have now been closed, details of which have previously been provided to Audit and Governance Committee.

In September, Gloucestershire Counter Fraud Unit (CFU) commenced a review of the Council's social housing waiting list to verify the information provided by the applicants and confirm that there had been no change in circumstances since the application was submitted. Social housing can be viewed as a valuable commodity by some individuals who may commit fraud to obtain a tenancy.

The review concentrated on the Emergency and Gold band waiting lists, aiming to cleanse the lists and also identify any issues with benefits, council tax discounts and exemptions and provide assurance that claims for discretionary housing payments are correct in that individuals are actively bidding and trying to secure smaller properties (where appropriate).

At the time of the audit, there were 60 applications in the Emergency band and 148 in the Gold band. An interim report detailing the findings to date has been produced. Those applications identified as requiring further review have been passed back to the housing team for action as and when they have been identified. The work also identified a number of applicants that could be removed from the list. Specific details of the findings will be provided to the committee once all of the work has been completed.

In early January 2019, the CFU will undertake visits to the Council's listed empty properties (approx. 350 homes) and follow this up with a report detailing their findings. This will support the Council in its work to bring empty homes back into use.

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 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.