

# Internal Audit Activity Progress Report

2019-2020



## **(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 2019/20 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 and February 2020; and
- Special investigations/counter fraud activity.

**(4) Progress against the 2019/20 Internal Audit Plan, including the assurance opinions on risk and control**

The schedule provided at **Attachment 1** provides the summary of 2019/20 audits which have not previously been reported to the Audit and Governance Committee.

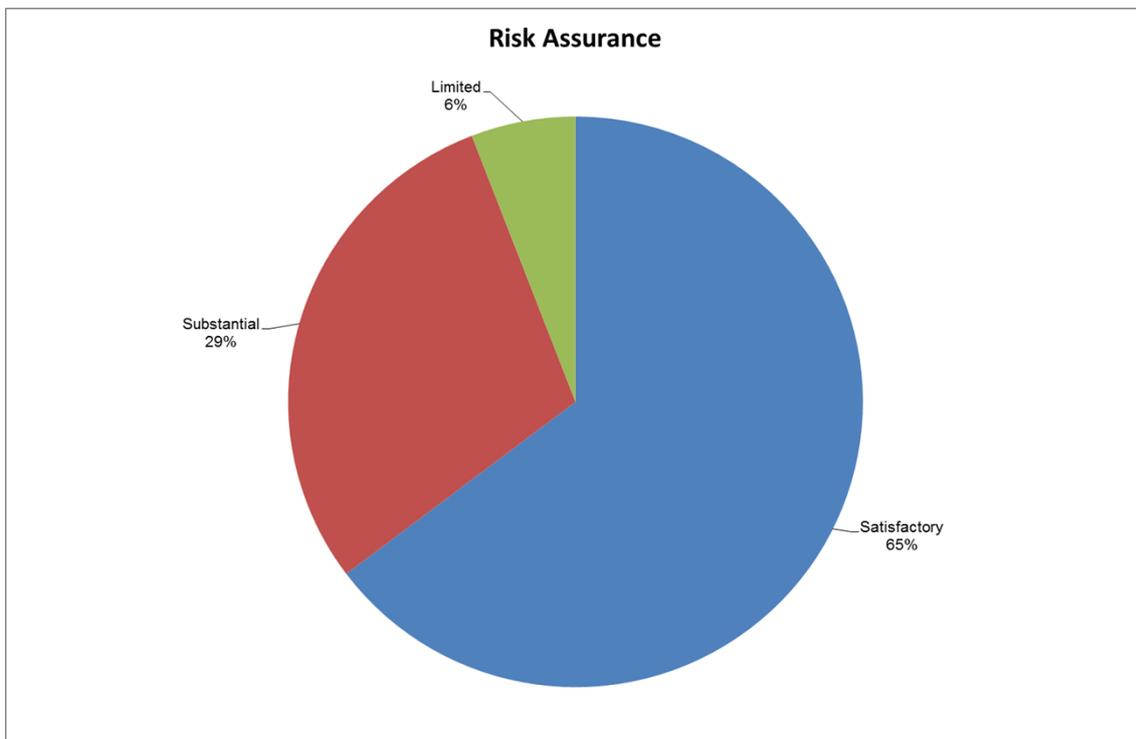
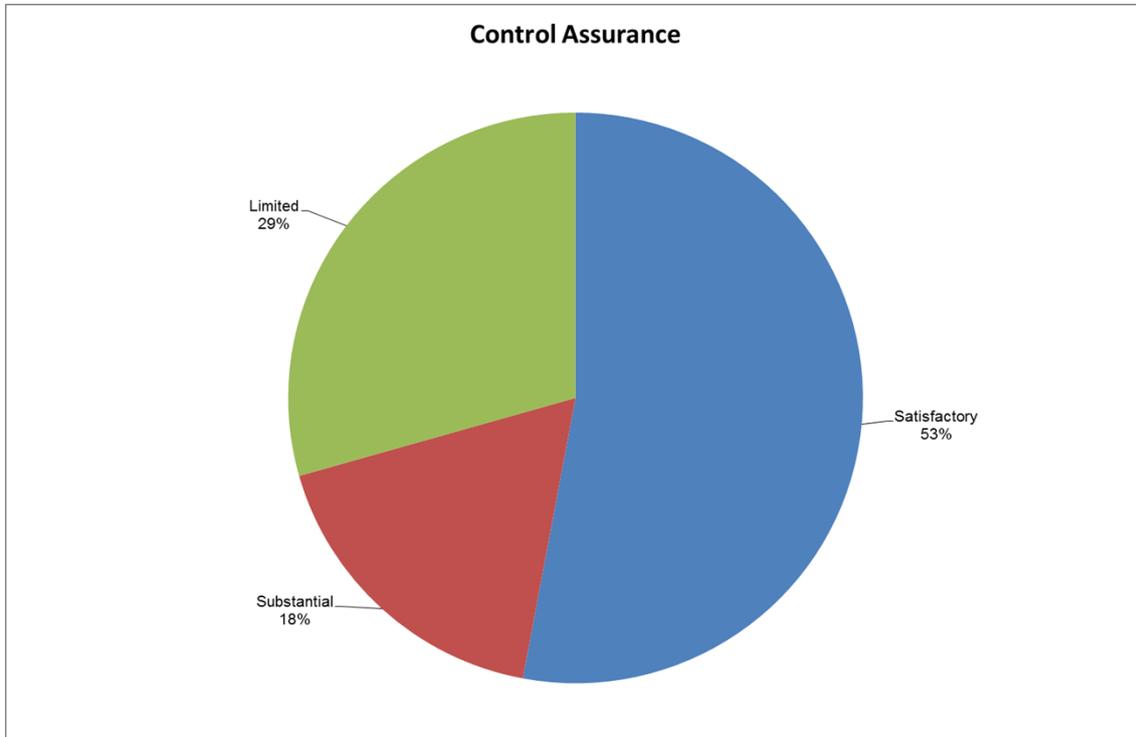
Assurance Levels	Risk Identification Maturity	Control Environment
<b>Substantial</b>	<p><b>Risk Managed</b> Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, 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"> <li>• System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved</li> <li>• Control Application – Controls are applied continuously or with minor lapses</li> </ul>
<b>Satisfactory</b>	<p><b>Risk Aware</b> 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"> <li>• System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger</li> <li>• Control Application – Controls are applied but with some lapses</li> </ul>
<b>Limited</b>	<p><b>Risk Naïve</b> 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,</p>	<ul style="list-style-type: none"> <li>• System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls</li> <li>• Control Application – Significant breakdown in the application of control</li> </ul>

client/customer/partners and staff.

The schedule provided at **Attachment 2** contains a list of all of the 2019/20 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.

#### (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 2019/20 audit activity undertaken up to February 2020.





#### **(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 and February 2020, two audit reviews have been provided with a limited assurance opinion on control which relate to the IT Disaster Recovery and Business Continuity and the Guildhall and Blackfriars Priory – Income received from events reports.

It is important to note that whilst a limited assurance opinion has been provided, management have responded positively to the recommendations made and have provided assurance to Internal Audit (through management response to the recommendations raised within the report and verbal assurance) that a plan of action has been prepared to address the issues identified by this review.

In addition, where a limited assurance opinion is given, a follow up audit is undertaken to provide assurance that the agreed actions have been implemented by management.

#### **(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 and February 2020 Internal Audit made, in total, **11** recommendations to improve the control environment, **4** of these being high priority recommendations i.e. **7** 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 and February 2020, no limited assurance opinions on risk have been provided on completed audits from the 2019/20 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 and February 2020

### Summary of Limited Assurance Opinions on Control

**Service Area: Council Wide**

**Audit Activity: IT Disaster Recovery and Business Continuity**

#### Background

As part of the 2019/20 Internal Audit Plan, a review of IT Disaster Recovery and Business Continuity has been undertaken. The objective was to review the alignment of the Business Continuity arrangements and IT Disaster Recovery capability of the Council, to identify any gaps in capability to recover systems and any expectations gaps for service managers.

Many of the Council's services rely on fully functioning and operational ICT. The impact of loss of ICT could be severe if services and applications are not able to be recovered.

Disaster Recovery plans and procedures should enable IT services to continue operating as close to normal as possible. The disaster recovery process includes planning and testing, and may involve a separate physical site for restoring operations.

#### Scope

The scope of the audit included, but was not limited to, the following areas:

- Alignment of Business Continuity arrangements to IT Disaster Recovery capability;
- Physical security and access controls for IT server hardware;
- Environmental protection including fire suppression, Uninterruptible Power Supply (UPS) and standby generator;
- Documented Disaster Recovery plans which reflect agreed business priorities; and
- Regular rehearsal and testing of Disaster Recovery arrangements.

The 2018/19 Internal Audit Plan included a Business Continuity internal audit, with an operational focus. The IT Disaster Recovery internal audit did not replicate these areas.

**Risk Assurance – Satisfactory**

## **Control Assurance – Limited**

### **Key Findings**

The ICT internal audit review identified a number of areas of good practice. All Council systems are subject to regular data backup.

Furthermore, backup media is stored offsite at a third party data storage site provided by Redstor.

At the point of audit, all server hardware is located at the Council's former offices. Council servers are located in a physically secure Communications Room with power supplies protected by a UPS system. Air conditioning is in place to safeguard the room temperature, together with monitoring systems to alert against smoke, water or humidity.

To safeguard server hardware, Indectron have recently been contracted by the Council to provide a secure hosting environment at their Data Centre in Barnwood, Gloucester. All server hardware is scheduled to be relocated to the new Data Centre in quarter 4 2019/20.

The audit also identified issues where improvement in Disaster Recovery controls should be actioned to ensure that there is a reasonable chance of a timely recovery from an incident:

- The absence of a documented IT Disaster Recovery plan;
- The absence of an annual test of IT Disaster Recovery arrangements; and
- The lack of alignment of Business Continuity plans to IT Disaster Recovery capability (including business prioritisation for recovery of key Council applications).

Three audit recommendations (all High priority) have been raised, based on the above key action areas.

### **Conclusion**

The lack of a documented and authorised IT Disaster Recovery plan matching recovery arrangements against Council priorities exposes the Council to the risk of inability to properly recover in a timely manner if a serious incident or disaster should befall the Council.

Relocation of IT hardware to Indectron should significantly improve the level of physical security and environmental protection, however it does not address the risks relevant to absence of an IT Disaster Recovery plan.

Based on the above position, a limited assurance opinion has been applied to the IT Disaster Recovery and Business Continuity control environment.

**Management Actions**

Management have responded positively to the audit recommendations made. It is proposed that a follow-up review is included in the Internal Audit Plan 2020/21.

**Service Area: Cultural and Trading**

**Audit Activity: Guildhall, Blackfriars and Museums – Income from events**

**Background**

The Council makes rooms available for hire to hold meetings, live events, functions and weddings. The level of income generated is substantial and it is paramount that effective systems are in place to ensure the income due to the Council is collected. Guildhall, Blackfriars and Museums income from room hire is estimated as £100k per annum.

**Scope**

To provide assurance that there are effective controls in place to collect and account for the income due to the Council from room hire and packages. In particular that:

- The fee structure has been agreed at the appropriate level and consistently applied;
- Invoices for the amounts due are raised in accordance with the relevant agreement;
- Invoice amendments and cancellations are valid, accurate, timely and appropriately authorised; and
- Unpaid debts are monitored and appropriate action is taken to enable debt recovery, or where considered unrecoverable, written off.

**Risk Assurance – Satisfactory**

## Control Assurance – Limited

### Key Findings

#### Fee Structure

- The 2019/20 fee structure (excluding wedding packages at Blackfriars Priory and room hire at Gloucester Museum) was agreed by Cabinet on 28th February 2019;
- Some bookings (excluding wedding packages) are provided at a discounted rate, including workshop hires inclusive of Community Based Asset Development, and concession discounts based on footfall and a history of repeat bookings. In these cases there is an absence of documented authorisation across sites to justify a deviation from the Council's Fees and Charges 2019/20; and
- The caterers at Blackfriars pay the Council a 15% commission on costs of the catering provided at wedding events. However these arrangements have not been subject to a formal procurement process.

#### Diary and Booking System

- In July 2019, a new booking management system called Artifax was introduced. Use of the system was reviewed by Internal Audit and this identified that:
  - Log in credentials are being shared and therefore not in accordance with expected access controls; and
  - The system is not being fully utilised or consistently applied to events at sites e.g. ticketed events and Blackfriars Priory bookings.

#### Booking Terms and Conditions

- All non-local authority booking enquiries should be subject to a completed booking form with the expectation that a 20% deposit must be paid to secure the venue with the balance paid 14 days prior to the event. By completing a booking form, the hirer is therefore signing up to the Terms and Conditions; and
- Internal Audit completed a review of 38 bookings held at the Guildhall/Museum and Blackfriars Priory. This identified that:
  - 32/38 booking forms were held with 28/32 booking forms signed and dated;
  - The 20% deposits were taken by exception and not as required by the Terms and Conditions of the hire; and

- With the exception of wedding functions, balances are not being invoiced/paid 14 days prior to the event.

### Invoicing

- A review of the actual fees charged across the three sites was completed against 38 bookings. This highlighted that:
  - 26 bookings were charged in accordance with the agreed fee structure;
  - Eight bookings were subject to a discount from the agreed fee structure;
  - Four bookings had taken place but had not been invoiced with a value of £523.20; and
  - Credit note requests reviewed evidenced appropriate rationale, accuracy and timeliness in application.

### Debt Management

- If an invoice is not paid within the standard payment terms (10 days), it will then become subject to the Council's debt recovery procedures;
- No debt balances have been written off in the period from 1<sup>st</sup> July 2019 to 13<sup>th</sup> November 2019;
- A monthly report is sent to each service manager containing all outstanding invoices and recovery stages. The relevant service manager should review the report and instruct how to proceed with regards to debts that are suspended or at service referral stages; and
- Internal Audit reviewed the list of outstanding debts currently allocated to Culture and Trading as at 20<sup>th</sup> November 2019 which highlighted that circa £140,000 debt is outstanding, of which £40,000 (29%) relates to room hire and additional extras. The age profile is detailed in table 1 below:

Table 1 – Cultural and Trading debt and age profile as at 20<sup>th</sup> November 2019

<b>Time Period</b>	<b>Total Balance Cultural and Trading (£140,000)</b>	<b>Room Hire and Optional Additional Extras (£40,000)</b>
Under 6 months	£56,000.00 (131 Invoices)	£14,000.00 (56 invoices)
6 – 12 months	£30,000.00 (44 invoices)	£ 5,000.00

		(22 invoices)
12 – 24 months	£11,000.00 (40 invoices)	£ 5,000.00 (28 invoices)
Over 24 months	£43,000.00 (73 invoices)	£16,000.00 (30 invoices)

### Conclusion

Council Officers are dedicated to delivering a high-quality service to customers. However, this review has highlighted a number of opportunities whereby the existing procedures could be more effective and for the overall control environment to be strengthened.

Internal Audit concludes that the level of outstanding debt which is not being proactively reviewed represents a significant breakdown in financial control and it is now increasingly unlikely that a high number of the debts will be recovered.

Some of the recommended improvement actions will require the service to liaise in with OneLegal/Procurement, to evaluate the Council's potential liabilities surrounding nationally promoted ticketed events (Guildhall) and catering at Blackfriars Priory and whether the existing practices should be on formal contractual arrangements.

### Management Actions

Management have responded positively to the audit findings and an action plan has been to address the issues highlighted by this review. It is proposed that a follow-up review will be included as part of the 2020/21 Internal Audit work-plan.

## Summary of Substantial Assurance Opinions on Control

**Service Area:** Policy and Resources

**Audit Activity:** Revenue budget setting, monitoring and reporting

### Background

Budgeting is the process of setting financial goals, forecasting future financial resources and needs. The design of the revenue budget should offer the opportunity for effective monitoring and controlling of income and expenditure.

**Scope**

The principle objective of this audit was to review the effectiveness of the budget setting process and relevant control arrangements for monitoring and reporting.

**Risk Assurance – Substantial**

**Control Assurance – Substantial**

**Key Findings**

- The timetable to achieve finalisation of the 2020/21 revenue budget is progressing well;
- A structured approach based on service grouping cost centres, expenditure classifications, and budget holders, facilitates user understanding of the budget records;
- The two significant projects with annualised savings, have correctly used a prudent approach to risk and uncertainty in their first year of operation;
- The revenue budget's net financial position for 2020/21, integrates with the medium term money plan;
- There was an appropriate level of participation by service department budget holders demonstrating an integrated organisational approach to ownership of the 2020/21 plan; and
  
- It was verified to supporting evidence, that the cumulative 2019/20 financial position was reported to budget holders, senior managers and members in a timely and informative way.

**Conclusion**

No weaknesses in procedures or controls have been identified.

**Management Actions**

Management response was not required, as no recommendations were identified.

**Service Area: Policy and Resources**

**Audit Activity: VAT****Background**

During the last 12 months the City Council has re-claimed net VAT from Her Majesty's Revenues and Customs (HMRC), which averaged £312k per month.

Compliance with VAT Guide (Notice 700) which details the treatment of financial transactions is essential. Procedures and controls for VAT accounting for income and expenditure need to minimise the risk of fines and interest penalties issued by HMRC.

**Scope**

This audit examined the control environment and processes in place to ensure that VAT is treated appropriately in line with HMRC requirements.

**Risk Assurance – Substantial****Control Assurance – Substantial****Key Findings**

- The procedures and controls for monthly VAT returns are supported by system screen extracts to guide the finance staff through this monthly routine. The procedure notes have the following attributes:
  - Links to the VAT return financial values declaration;
  - Ensures appropriate segregation of duties are in place to authorise submission of the return to HMRC; and
  - Are available to staff on the IT shared drive (z).
- It was verified using the financial system, that the correct parameters had been set, linking the procured services to the relevant VAT categories i) exempt; ii) outside scope; and iii) standard @ 20%;
- Spot checks are completed on the purchase order to invoice matching routine, to ensure that the correct VAT treatment of revenue and capital financial transactions takes place. In addition individual supplier invoices in excess of £25,000, are referred to the Accountancy Managers for consideration of the correct application of VAT and authorisation, prior to being paid;
- Internal Audit review of the November 2019 VAT return verified that:
  - A clear to follow reconciliation was completed;

- All input and output aggregate financial values were suitably extracted from the correct financial system reports; and
- The return was submitted to HMRC inside the set deadline.
- In 2019, HMRC VAT Notice 70022 introduced an automated process to enhance the reporting for the monthly return. Details of the November 2019 monthly VAT financial data return were reviewed which confirmed submission through the new reporting process on 6<sup>th</sup> January 2020, within the deadline set by HMRC;
- The VAT Act 1994 allows the Council to recover VAT from its “non-business activities”. Enquiries confirmed that an annual procedure is in place to assess the +/- 5% VAT financial position. Internal Audit can confirm the reconciliation is complete and correctly calculated and as this did not exceed 5% of total claimed a declaration to HMRC was not required; and
- The External Auditor’s annual audit letter to the Audit and Governance Committee did not highlight any VAT matters for the Council to consider and address.

### **Conclusion**

Accounting for VAT has a robust monthly process in place. The control environment could be further enhanced by documenting on the Intranet the key requirements from the VAT Guide (Notice 700) with the objective that staff have an appreciation of the tax impact on Council services provided and purchased.

### **Management Actions**

Management have responded positively to the recommendation.

## **Summary of Special Investigations/Counter Fraud Activities**

### **Current Status**

As at 11<sup>th</sup> February 2020 there have been four fraud/irregularity referrals received by Audit Risk Assurance (ARA) for investigation. Three of these cases have been closed, one of which has previously been reported to the Audit and Governance Committee.

Of the two new closed cases, one related to an allegation of nepotism in the recruitment of a Gloucester City Council staff member. The recruitment process was reviewed and there was no evidence to support the allegation.

In the second case, concerns were raised in respect of the salary progression of a member of staff. The salary progression for the individual, going back several years, was reviewed. Evidence was provided to support all of the grade changes and therefore no further action was recommended.

The ARA Counter Fraud team currently comprises of 2.6 equivalent FTE's across all partners of which Gloucester City Council is one. The team is continuing to raise the profile of the service by actively engaging with Gloucester City Council staff.

In January 2020 the Counter Fraud team provided three counter fraud awareness training sessions to Gloucester City Council team managers. The feedback received from staff that have attended the training sessions so far has been very positive. The training will now be rolled out to Senior Management Team and Gloucester Management Team.

The 2017-19 Anti Fraud Policy and Strategy (to become the Counter Fraud Policy and Strategy) will be reviewed and presented to the Audit and Governance Committee once completed. The Council's Strategy is based on the 2016-19 CIPFA Fighting Fraud and Corruption Locally Strategy (the counter fraud and corruption strategy for local government) which is currently being refreshed / updated, however ARA have been advised that this document is unlikely to be available before March 2020.

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. The data matching reports were released on 31<sup>st</sup> January 2019 and the relevant staff at Gloucester City have been informed. Any significant outcomes will be reported to the Committee. 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.

To date, 1046 NFI matches have been reviewed of which 974 have been cleared. Two errors resulting in recovery of money (see below) have been identified and there are three matches that are currently under further investigation.

Council Tax Reduction Scheme Recovery of monies:

- A review of the 10 Council Tax Reduction Scheme to Right to Buy NFI matches identified one case with an over award of £2,351.08 which has been recovered; and
- A review of the 70 Council Tax Reduction Scheme to payroll NFI matches identified an over award of £873.09. This has subsequently been recovered.

Other information provided following a review of the matches has enabled action to be undertaken to prevent any over awards. Where appropriate, concerns are forwarded to other relevant organisations such as the Department for Works and Pensions for investigation.

Additional data (Recheck) in respect of Council Tax and Electoral Register data is due to be submitted by the Council through the secure NFI web application, as soon as possible after 2<sup>nd</sup> December 2019 and no later than 28<sup>th</sup> February 2020.

The timetable can be found using the following link [GOV.UK](https://www.gov.uk). Data uploaded after 28<sup>th</sup> February 2020 will be classed as officially late.