

Internal Audit Activity Progress Report

2020-2021



(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 2020/21 Revised Risk Based 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 September and October 2020; and
- Special investigations/counter fraud activity.

(4) Progress against the 2020/21 Internal Audit Plan, including the assurance opinions on risk and control

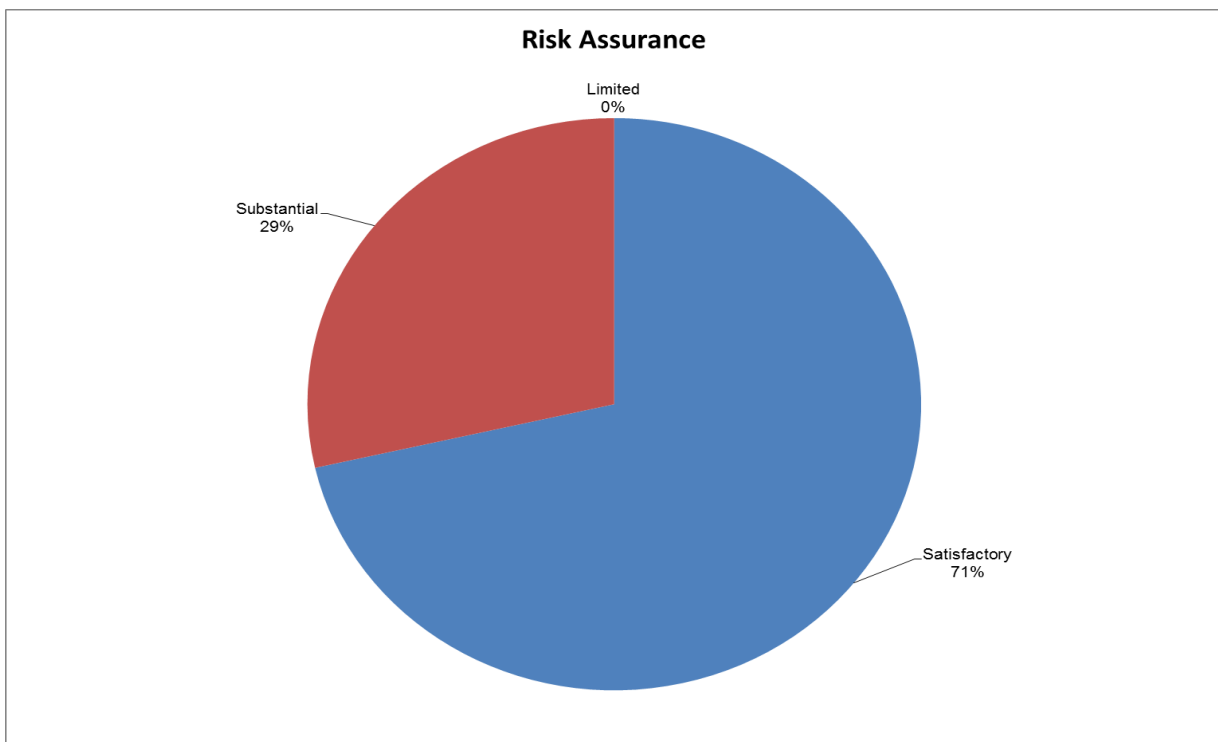
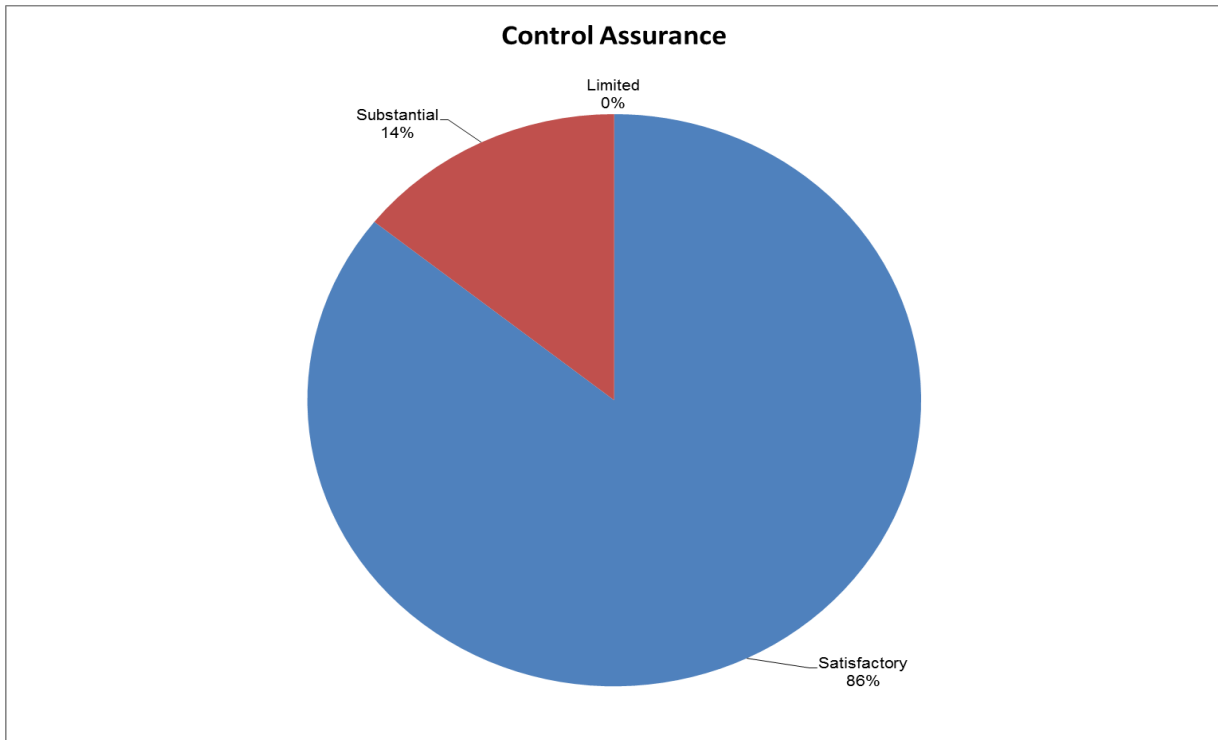
The schedule provided at **Attachment 1** provides the summary of 2020/21 audits which have not previously been reported to the Audit and Governance Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2020/21 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 2020/21 audit activity undertaken up to October 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 September and October 2020, no limited assurance opinions on control have been provided on completed audits from the 2020/21 Revised Internal Audit Plan.

(4d) Satisfactory Control Assurance Opinions

Where audit activities record that a satisfactory assurance opinion on control has been provided and 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 September and October 2020 Internal Audit made, in total, **5** recommendations to improve the control environment, **none** of these being a high priority recommendation and **5** 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 September and October 2020, no limited assurance opinions on risk have been provided on completed audits from the 2020/21 Revised Internal Audit Plan.

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

(4g) Internal Audit Plan 2020/21 Refresh – Covid 19

Covid 19 has placed significant pressures on Council services and has impacted (and continues to impact) the Council's priorities, objectives and risk environment.

Due to this changing position and to ensure that the Risk Based Internal Audit Plan meets the assurance needs of the Council, the Internal Audit Plan 2020/21 was reviewed and refreshed in consultation with Senior Management Team. This included consideration of newly identified activities, current activities that should be prioritised within 2020/21 and activity deferrals/cancellations (due to risk).

The Revised Internal Audit Plan 2020/21 was presented to Audit and Governance Committee on 14th September 2020 and approved. This included reflection of the new activities completed by ARA since the outcome of the pandemic.

For example and as reflected within the Internal Audit Progress Report, to date within 2020/21 ARA has provided:

- Non-audit related administration support to:
 - Revenues and Benefit services in the processing of Business Grants and a data capture project regards dormant outstanding debtors to support future debt collection decision; and
 - Housing services in the collation of the Housing Benefit payments (claimed for 'Rough Sleepers' place in safe accommodation) that will be reclaimed by the County Council.
- Counter fraud team support and action in regard to identified Business Support grant irregularities.

Completed Internal Audit Activity during the period September and October 2020

Summary of Satisfactory Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: Key ICT Project Governance

Background

As part of the 2018/19 and 2019/20 Internal Audit Plans, a review of Key ICT Project Governance has been undertaken.

The internal audit review was undertaken within two financial years to ensure appropriate review and consideration of key ICT projects, to provide assurance that the selected/sampled projects aligned with the strategic development plan, were appropriately managed and that expected benefits were properly quantified and realised.

A Key ICT Project Governance audit position statement was included within the Annual Internal Audit Report 2018/19. This report is to summarise and conclude the overall findings from the internal audit.

Scope

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

- The Council has a defined policy/process/framework for ICT project governance;
- All projects align to the Council's ICT Strategy and objectives;
- Projects are supported by a documented and authorised Business Case (including allocation of a lead officer and project sponsor at senior management level);
- Project scope and requirements are clearly defined;
- Costs have been reliably estimated and are subject to real time monitoring;
- Project monitoring is completed on a regular basis and at an appropriate level; and
- Project benefits are both visible and quantifiable.

Initial Audit findings were reported in draft to management in January 2020. Additional audit trail was then required to conclude the audit and ARA remained active in key contact communication to support this. Final audit trail was obtained in August 2020.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

Council ICT services are delivered by Civica Ltd with management and monitoring by designated officers within the Council. ICT services manage the initiation, development and completion of all Council ICT projects.

Audit examination of the supporting Book of Work highlighted a total of 23 separate projects in 2019/20. Examples included the implementation of Microsoft SharePoint and OneDrive, migration of SQL Server databases to Microsoft Azure, Councillor's laptops and the Data Centre move. Audit testing was directed towards a sample of four ICT projects.

Audit review of key ICT documents and testing of the four sampled ICT projects identified a number of areas of good practice, including (but not exclusive to):

- A documented and approved ICT Strategy is in place listing all key ICT projects;
- Each year's ICT Strategy is subject to review and approval by the Head of Policy and Resources and the Customer Service Programme Manager;
- All project work is tracked and recorded in the Council's 'Book of Work';
- Civica provide monthly Programme Status reports outlining progress against each ICT project;
- Civica have appointed an experienced Project Manager to manage all Council project assignments;
- Supporting project documentation is held in a central data repository on Microsoft Teams, with access restricted to authorised ICT personnel;
- Key project documentation identified during the review included Business Cases, Project Plans, Risk/issues Logs, Technical Specifications and Project Initiation Documents. Business Cases had not been prepared for those projects identified within the ICT Strategy as the projects and the project detail had been approved when the ICT Strategy 2017-2019 was approved; and
- Effective processes are in place to monitor and manage project spend with costs being recorded within the Council's Civica finance system and project costs being monitored at every meeting of the ICT Strategy Board.

The audit also identified that Post Implementation Review is not currently completed for ICT projects. A post implementation review is a process to independently assess whether the objectives of and the benefits arising from the project were met. It enables an assessment against project goals, benefits and costs together with a review of lessons learnt, enabling the identification of what went well during the project as well as identification of what didn't go well and the review of any issues experienced during the project. These can then be assessed to determine how they could have been prevented or better addressed, enabling this learning to be fed into future projects to prevent the recurrence of similar issues.

The Post Implementation Review also provides an opportunity to assess the performance of all individuals and organisations involved in the project to identify opportunities for improvement in future projects. Assessing the performance of any external organisations including suppliers involved in the project can be used to support the decision making for involvement in future projects.

Conclusion

The audit review of Key ICT Project Governance has resulted in Satisfactory assurance for both risk identification maturity and control environment. Implementation of the audit recommendation regards post project implementation review will further strengthen controls and the resulting assurance levels.

Management Actions

Management have responded positively to the recommendation made.

Service Area: Place

Audit Activity: Licensing - Premises

Background

The Council supports the local economy by ensuring that businesses providing licensable services are regulated to protect the public or others from harm. Licences are generally subject to a fee designed to cover service costs.

The Premises Licence regulations form part of the Licensing Act 2003 and are in place to control the following licensable activities:

- Sale and supply of alcohol for consumption on or off the premises;
- Provision of regulated entertainment; and
- Provision of late-night refreshment (provision of hot food and/or hot drink between 11pm and 5am).

Scope

This audit reviewed the fee-setting arrangements, administration and the monitoring of compliance with legislated requirements for the granting of licences relating to premises licensing. In particular, to provide assurance that:

- Licences issued/renewed are managed in accordance with the Premises Licence Regulations; and

- Licence fees are paid in advance of issue or renewal of licence and are correctly coded and receipted in the Council's General Ledger.

During the period 1st March 2020 to 31st July 2020 the service processed 102 applications under the Licensing Act of which 12 were new applications.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

Licensing Act

- The Gloucester City Council webpages for premise licences provides clear information on the activities which require a licence and includes guidance on the application process and statutory requirements.
- In comparison with other local authorities, the Council is more limited in the information it offers, however all required actions are clearly noted and the information is sufficient for an applicant to apply for a licence.

Application Process

- Applicants can submit their application electronically or download and print a hard copy and send via email or post to the Council. The application form to print is of the same standard as other local authorities and is self-explanatory in its format.
- A copy of the completed application must be sent to the responsible authorities (e.g. Gloucestershire Constabulary) with the onus on the applicant to do this (a hard copy) or on the Council if completed electronically. As back-up, the Business Support team will send a fortnightly email of licence applications received to all responsible authorities, so it is clear when an applicant has not fulfilled this requirement.
- Applications are received by the Business Support team who check all relevant documents are attached and that application forms have been completed correctly. A second check is then provided by the Council's City Centre Improvement Officers to ensure statutory requirements have been met.
- The Uniform system is used for initial input of licence application data and where the final decision is recorded. The completed licence application, supporting documentation and issued licence are stored on Information@Work.

Objections

- As per the Licensing Act regulations, an applicant must advertise their application for 28 consecutive days as a notice outside the premises. The notice should also be advertised in a local newspaper or equivalent at least once during the period of ten working days after an application has been made.

- Following discussions with a City Centre Improvement Officer it was confirmed that there is a procedure in place to check that these requirements are being followed. This involves members of the team visiting a premise to check the notice is displayed and checking the local newspaper for the application advert (the applicant is contacted to confirm which newspaper). In instances where a premise cannot be visited, the team will accept photographic evidence from the applicant of the notice being displayed outside their property.
- Once an applicant has displayed notice of their application outside their premise, a responsible authority/member of the public can make a representation against the application. Where relevant representations are made, the local authority must hold a hearing to consider them unless considered to be unnecessary. If an applicant wishes to appeal the decision made at the hearing, this is then dealt with by the Magistrates Court. From the audit sample tested there were no representations made against an application, so Internal Audit were unable to observe this particular process.

Approval of application

- As per the Constitution's Scheme of Sub Delegation, the function of determining any application for the grant, renewal, variation or transfer of a licence, consent, permit or permission is delegated to the Head of Place. In practice, this has then been further delegated to the City Centre Improvement Officer (Licensing Lead).
- Once an application has been checked by the City Centre Improvement Officers and the 28-day consultation period has passed, the application is then sent through to the Lead City Centre Improvement Officer for approval and his electronic signature can be added. However, there is currently no procedure in place for this approval in the City Centre Improvement Officer's sickness or leave absence. This could cause a delay in the licensing process, impacting on the timeline enforced by the regulations.

Fees and Charges

- During the Council meeting on 28th February 2019 members reviewed the proposed fees and charges for 2019/20 and voted to approve the structure. Premises Licence fees for new applications, variations and renewals remain unchanged from the previous year.
- It was confirmed that Business Support and the City Centre Improvement Officers check the value of a property using the gov.uk webpage. In cases where the applicant had paid the incorrect fee for their property banding, they were contacted and asked to pay the additional cost.
- Internal Audit sample tested the application of fees for nine licence applications made between April 2019 and March 2020. All fees charged were in accordance with those agreed by the Council and have been received and correctly coded.

Conclusion

It is evident that officers are committed to ensuring the Council meets the requirements of the regulations and have established an appropriately designed application process. Overall, there is reasonable assurance that new licence applications are being issued in accordance with the regulations and the correct fees have been paid by the applicant.

The review did highlight some inconsistency within the licensing team regarding the detail of information being recorded on the system. A more consistent approach by the team is required to ensure a full audit trail is in place and easily accessible in case of query.

Management Actions

Two medium priority recommendations have been raised in regards to setting minimum requirements for documentation recording and retention on Information@Work; and implementing a process to delegate authority for approval of licences in Lead City Centre Improvement Officer's absence.

Management have responded positively to the recommendations made.

Service Area: Policy and Resources

Audit Activity: Housing Benefits - Overpayments

Background

Housing Benefit is available to those on a low income who need help paying their rent. Gloucester City Council (the Council) is reliant on the claimant informing them where they have had a change of circumstance which may affect their benefit entitlement. If this process is delayed, overpayments are realised. These overpayments should be recovered by the Council in a timely manner. The Revenues and Benefits service was outsourced to Civica Ltd in October 2011.

Scope

This audit review sought to determine whether there are appropriate processes and controls in place, and these are operating effectively for the identification, calculation, categorisation and recovery of Housing Benefit overpayments.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- The Council/Civica Revenue and Benefits contract includes service requirements for Housing Benefit overpayment recovery.

- The Council's Constitution defines responsibilities for write off certification and there is a Billing, Collection and Enforcement Policy (currently being updated and finalised).
- An overpayment of Housing Benefit is defined as 'any amount paid to which there is no entitlement under the regulations' and can occur as a result of:
 - Claimant error or fraud when making a new claim;
 - Claimant error or fraud because the claimant fails to notify the Council about a change in their circumstances;
 - Council error, i.e. a mistake made by Council/Civica staff;
 - An administrative delay, e.g. a delay by the Council in processing a notified change in circumstances;
 - Department for Work and Pensions (DWP) error e.g. the jobcentre plus, pension service, or disability and carers service make a mistaken benefit award; and
 - Third party error, e.g. landlord in receipt of Housing Benefit gives the Council incorrect information about a rent increase or fails to tell the Council information about their tenant.
- From April 2019 to December 2019 the outstanding Housing Benefit overpayments had fallen from £5,051,944 to £4,868,218. As at September 2020, the Council's outstanding Housing Benefit overpayments had further reduced to £4,347,559.
- The Benefit Manager informed Internal Audit that overpayments are identified through several systems including:
 - Monthly 10% sample checks by the Intelligent Client Officer which would include the identification of overpayments due to Council error. Civica currently reports that the Council error rate is 0.13% which is significantly less than the DWP lower threshold of 0.48%;
 - The claimant informs them that there has been a change of circumstances i.e. they have started employment, however this may have occurred several weeks/months prior, so an overpayment has arisen; and
 - The DWP 'Verify Earnings and Pensions' system identifies changes in claimant's income/pension.
- The Civica Revenue and Benefits team have two Key Performance Indicators (KPI's) for preventing and measuring administrative delay:
 - The first KPI is a target of 21 days to process new Housing Benefit claims with the actual average for 2020/21 as at June 2020 of 13.10 days; and

- The second KPI is a target of nine days to process Housing Benefit adjustments with the actual average for 2020/21 as at June 2020 of 3.22 days.
- The Council/Civica Revenue and Benefits contract stipulates how claimants and landlords will be communicated with when an overpayment has occurred. Internal Audit sampled four letters sent from the Council in February 2020 and found that they met the contract requirements.
- The Council's Policy states that the Council will use discretion when deciding whether to write off an overpayment. Internal Audit notes that in practise the Council would prefer not to write-off debt as at some point the claimant may either re-claim benefits or move into employment, and the Council would then start debt recovery procedures.
- The Council's Constitution states that the Head of Policy and Resources is responsible for writing off irrecoverable debts of less than £10,000. Internal Audit was able to verify that:
 - The Head of Policy and Resources receives details of Housing Benefit overpayment write-offs and gives particular scrutiny to those valued between £5,000 and £10,000 which he formally checks and approves; and
 - On the whole the write-off documentation completed by Civica had been completed and approved in line with the 'Write Off Guidance', however during testing Internal Audit found that two out of the sampled five had incorrect write-off codes.
- The review has highlighted that on occasion it can take several months from identification that a write-off should take place to this being approved. Internal Audit advise that an expectation for the length of time for write-off debt approval should be reinforced.

Conclusion

Internal Audit can confirm, from the information provided and audit testing carried out, that there are appropriate processes and controls in place, and these are operating effectively for the identification, calculation and recovery of Housing Benefit overpayments. However, system categorisation/coding could be improved, as well as updates to the Billing, Collection and Enforcement Policy.

Management Actions

Management have responded positively to the two medium priority recommendations made regards system categorisation/coding and update to the Billing, Collection and Enforcement Policy.

Summary of Substantial Assurance Opinions on Control

Service Area: Policy and Resources

Audit Activity: Accounts Payable

Background

The Accounts Payable function is to pay valid supplier invoices in respect of goods or services received within agreed payment terms. For the period 1st April 2020 to 5th August 2020 purchase orders totalling £8.2m have been generated through the Accounts Payable team, it is therefore important to have robust and effective controls in place.

Scope

This audit reviewed the effectiveness of the arrangements for Accounts Payable as follows:

- Procedures;
- Staff access controls;
- Setting up new vendors;
- Supplier changes;
- Purchase order transactions;
- Invoice control; and
- Reconciliations.

This included audit testing of a sample of 10 purchase orders from initiation to transaction cycle completion for a series of expected controls. The period covered was April to August 2020. The sample was stratified across service departments and capital projects and totalled £185,498.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- The procedure notes are assessed to be comprehensive and a useful step by step guide to members of staff responsible for any part of the purchasing process.
- Staff access controls will be dependent on their work role responsibilities and should therefore be differentiated. Appropriate controls were found to be in place for both staff requestor and approver roles.

- There are staff contingency controls operating correctly to authorise high value supplier invoices in excess of £25,000, this procedure is completed by senior members of the finance team.
- The Civica supplier/vendor database includes five key controls to maintain integrity, and an up to date record within the Accounts payable system: i) mandatory data fields; ii) set up of new supplier accounts; iii) prevention of duplicate accounts; iv) prevention of duplicate transactions; and v) change of supplier bank account records. The review confirmed that these controls were operating appropriately.
- The results for the sample of 10 purchase orders tested, provided full assurance that the expected controls were operating correctly.
- Reconciliation of outstanding financial liabilities between the Civica purchasing and financials systems, is an essential control with the objective of avoiding the risk of unexplained differences occurring. The evidence reviewed by Internal Audit confirmed that a working day reconciliation between the two systems is completed, is up to date and that the outstanding liabilities in the two systems agreed with no unexplained financial differences present.

Conclusion

The review of the Accounts Payable control environment has provided substantial assurance that there are well developed embedded controls in place to mitigate against the risk of invalid purchase transactions being paid.

Management Actions

The audit report did not contain any recommendations, therefore there are no management actions required.

Summary of Special Investigations/Counter Fraud Activities

Current Status

As at 14th October 2020 there have been two new fraud/irregularity referrals received by Audit Risk Assurance (ARA) for investigation. One of the cases has been closed and the other remains ongoing.

In respect of the closed case, concerns were raised in respect of three parking notices issued to an individual in 2017 then subsequently overturned, despite an appeal process finding that the fines were valid and should stand. Due to the time elapsed and staff changes within the Council, Internal Audit was unable to find any documentation to support the refunds and it is suspected that the instruction was in fact a verbal one. As a result of the ARA review, more robust and transparent procedures for documenting events such as this have been introduced by the Council to ensure that in future an audit trail of decision making is retained. This includes the introduction of a new form for sign off by the Property Commissioning Manager and counter signature by the Section 151 Officer if any penalty notice is to be withdrawn, at whatever stage, as a result of member or executive instruction.

Internal Audit has been advised by the Intelligent Client Officer (Revenues and Benefits) that the Empty Homes review reported to the last Committee has now been completed and all records have been updated to reflect the data captured during the exercise. There were no significant issues identified during this exercise.

In addition, the ARA Counter Fraud Team in conjunction with the Intelligent Client Officer (Revenues and Benefits) have continued to work on the two ongoing cases in respect of Covid 19 Government issued small business grant payments.

Any fraud alerts received by Internal Audit from National Anti-Fraud Network (NAFN) and other credible organisations 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 2020/21 data collections are currently being uploaded to the Cabinet Office during October 2020 with the data matching reports due to be released between December 2020 and January 2021. The timetable can be found using the following link [GOV.UK](https://www.gov.uk).

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 always investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area within the Council.