

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 January and February 2021; and
- Special investigations/counter fraud activity.

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

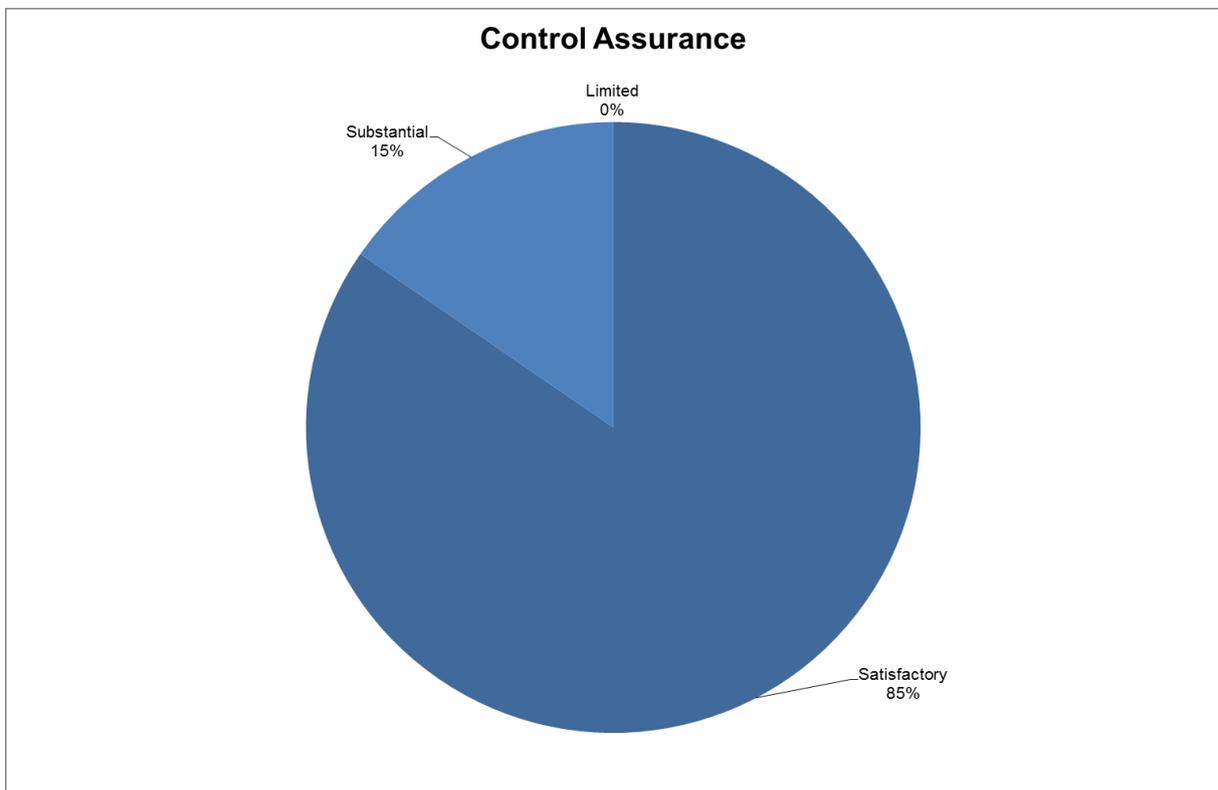
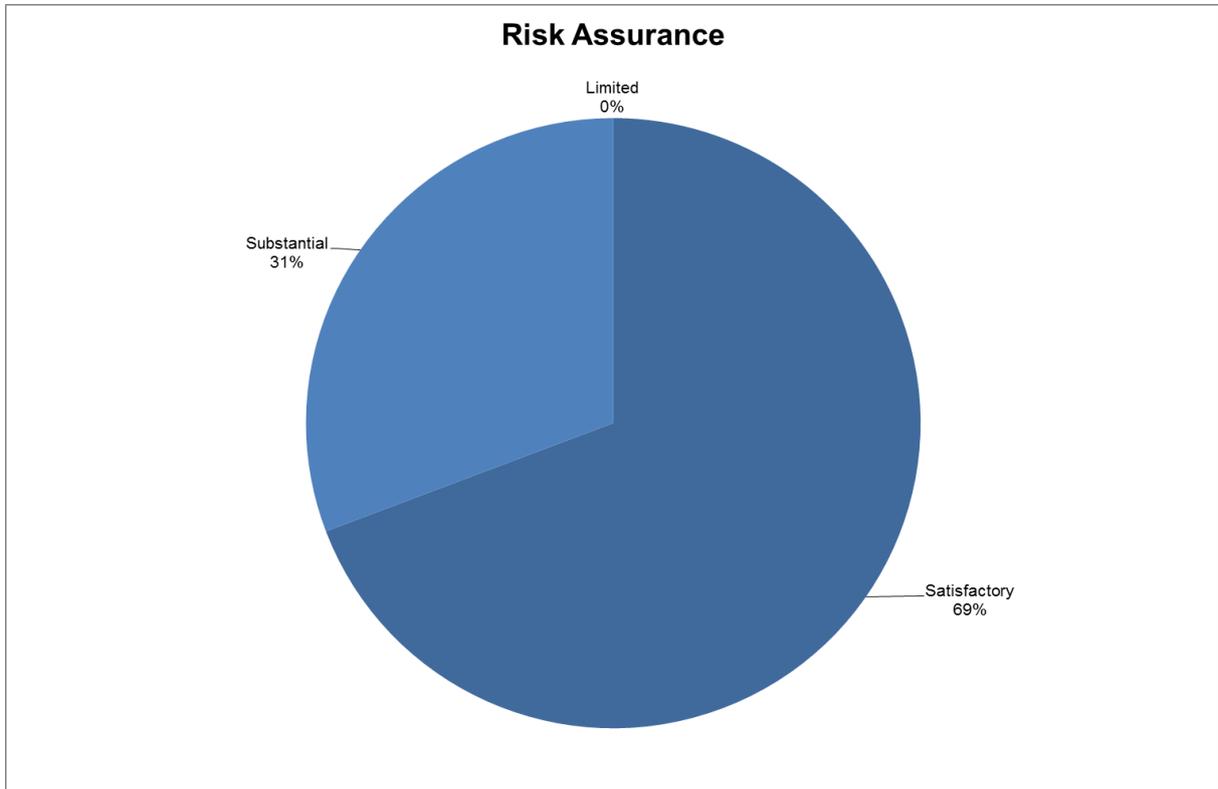
The schedule provided at **Attachment 1** provides the summary of 2020/21 audits which have not previously been reported to the Audit and Governance Committee.

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 activity outcomes have 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 a satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.</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 February 2021.



(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 2021, 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

No new audit recommendations have been raised during the period January and February 2021.

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 2021, 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 Audit Risk Assurance (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/completed:

- 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.
- Internal Audit review of:
 - Voluntary and Community Sector grants (Covid 19);
 - The Lost Sales, Fees and Charges Grant (Covid 19) claim 1; and
 - The Lost Sales, Fees and Charges Grant (Covid 19) claim 2, as reported within **Attachment 1**.

Completed Internal Audit Activity during the period January and February 2021

Summary of Satisfactory Assurance Opinions on Control

Service Area: Place

Audit Activity: Building Control Shared Partnership – Limited Assurance Follow Up

Background

Gloucester City Council (GCC) and Stroud District Council (SDC) have collaborated to provide a shared local government building control service known as the Gloucestershire Building Control Partnership (GBCP). The GBCP was established on 1st July 2015 through a Section 101 Agreement, with staff being employed by SDC acting as the host Authority.

The Building Control function comprises of two elements:

- Plan vetting and inspection of applications, which is a statutory council function in direct competition with the private sector; and
- Enforcement of Building Control legislation and regulations.

A review of this activity was undertaken during 2019/20. The audit concluded that only 'Limited Assurance' could be provided for both the risk identification maturity and the control environment.

Scope

This audit sought to provide assurance that the recommendations raised in the 2019/20 audit review had been fully implemented or there was an approved action plan to show how and when they would be implemented.

Risk Assurance – Substantial

Control Assurance – Satisfactory

Key Findings

The status of the four high and five medium priority recommendations raised in the 2019/20 audit at the point of this Internal Audit follow-up review is summarised in the table below:

Original Recommendation Priority	Original Recommendations Raised	Position at 2020/21 Internal Audit Follow Up	
		Implemented	Partially Implemented
High Priority	4	3	1
Medium Priority	5	5	0

As result of the current health pandemic, GBCP has had to adapt to a new way of working resulting in:

- A change in its work priorities;
- A focus on maintaining service continuity;
- The revaluation of the requirements and implications required to maintain the service in a new environment; and
- The management and wellbeing of officers.

It is therefore commendable that GBCP management have fully implemented eight out of the nine original audit recommendations and that GBCP are progressing resolution of the one outstanding recommendation. Details of the partially completed recommendation are:

- High Priority recommendation one – Review and amendment of the Section 101 Agreement.

A review of the Section 101 Agreement was undertaken by the SDC Building Control Manager during 2019/20 and variations to this agreement were submitted to and approved by the September 2020 GBCP Shared Service Board. A review, by Internal Audit, of the key requirements of the Section 101 Agreement and any subsequent variations for compliance with them highlighted, that due to the impact of the Covid-19 pandemic, the following requirements have not been fully completed as at the time of this follow-up review:

- Production of two additional progress reports for April and July;
- Production of GBCP minutes within stated timeframes;
- Formal agreement of the Service Delivery Plan / Business Plan by the stated timeframe;
- Application of Department for Communities and Local Government (DCLG) performance standards;
- Development of a customer feedback procedure; and
- Completion and approval of a five year financial plan.

The SDC Building Control Manager is fully aware of the above areas and is managing them to ensure compliance during the first half of 2021/22.

A summary of the eight completed recommendations are as follows:

High Priority recommendations

- GCC Shared Service Board members, at the point of this follow-up review, have demonstrated an active role in the GBCP;
- The trading account reserve balance, building control fees and the forecast of future income and expenditure was reviewed by the Board and appropriate actions agreed; and
- The financial statement for the financial years 2017/18 to 2019/20 were published on the GBCP website.

Medium Priority recommendations

- Building Control officers have completed a timesheet on an agreed regular basis to either reaffirm the current apportionment between chargeable and non-chargeable services or to adjust the calculation;
- A review of the basis for apportioning costs for the 'non-trading' account between SDC and GCC was undertaken by the Board;
- The data owner for the Building Control systems was agreed by the Board;
- Monthly income reconciliations have been completed for the period April to September 2020 and subject to SDC Building Control Manager review; and
- The debt recovery process was approved by the Board.

Conclusion

Good progress has been made by management in implementing Internal Audit's agreed recommendations from the 2019/20 audit review, particularly in the current unprecedented work environment due to the Covid-19 pandemic.

Management Actions

The actions taken by GBCP to implement the recommendations have resulted in a strengthening of the control environment. One recommendation remains in progress at the point of audit follow up, for implementation in early 2021/22.

No new recommendations have been raised as a result of the audit follow up review.

Summary of Consulting Activity, Grant Certification and/or Support Delivered where no Opinions are provided

Service Area: Policy and Resources

Audit Activity: Lost Sales, Fees and Charges - Claim 2

Background

Covid-19 has impacted local authorities' ability to generate revenues in several service areas as a result of lockdown, government restrictions, and social distancing measures related to the pandemic. The Ministry of Housing, Communities, and Local Government (MHCLG) has introduced a one-off income loss scheme to help compensate for a proportion of the irrecoverable and unavoidable losses from sales, fees and charges income generated in the delivery of services in the financial year 2020/21.

There are a total of three claims covering the periods of April 2020 to July 2020, August 2020 to November 2020, and December 2020 to March 2021. The scheme also requires a reconciliation process to be completed by the Council after the submission of the third claim and is due to account for losses claimed for in the early part of the scheme that may ultimately be recoverable, and others that might ultimately be irrecoverable when recoverability was originally considered possible.

Scope

To review the Lost Sales, Fees and Charges claim 2 (August 2020 to November 2020) to provide assurance that the claim has been submitted in line with the guidance from the MHCLG.

Key Findings

The records supplied by the Council's Finance Team identified that applicable loss income in 2020/21 under the Lost Sales, Fees and Charges scheme claim 2 totalled £803,257.47.

Internal Audit selected and reviewed four income sources (off-street parking, planning, licences and The Arbor) accounting for £465,434.05 of applicable losses (58%) to ensure that the budget had been correctly calculated; all lost income was in accordance with the three principles of the scheme and within the relevant period under the claim (August 2020 to November 2020); and was as shown within the Council financial management system.

It was found that:

- One income source under off-street parking has been included within the claim that is not applicable Council income. However, the budget for this source has not been included and as a result of this, the Council has overstated the actual income

received for parking during the period. The amount claimed for under the scheme claim 2 is therefore understated by approximately £66,000; and

- Excluding the above bullet point, Internal Audit confirmed that the parameters set out in the formula for the scheme have been correctly applied to the applicable losses claimed for in this period (August 2020 to November 2020).

Conclusion

The Council submitted a claim for £602,000 under this scheme for August 2020 to November 2020, however as a result of Internal Audit review and sample testing the claim for this period should be approximately £668,000.

Management Actions

The Head of Policy and Resources confirmed that the required adjustments will be made as part of the reconciliation conducted under claim 3 of this scheme.

Summary of Special Investigations/Counter Fraud Activities

Current Status

As at 8th February 2021 there have been two new fraud/irregularity referrals received by Audit Risk Assurance (ARA) for investigation within 2020/21. One of the cases has been closed (detail reported to Committee in November 2020) and the other remains ongoing.

In addition, the ARA Counter Fraud Team (CFT) in conjunction with the Intelligent Client Officer (Revenues and Benefits) have continued to work on the two ongoing previously reported cases in respect of Covid-19 Government issued small business grant payments. One of these has been passed to One Legal for consideration of legal proceedings; the other is currently being prepared for passing to One Legal.

Investigations have been opened in to eight further cases. One of which includes grant claimed from both Gloucester City Council and Stroud District Council, which is being jointly reviewed.

It should be noted that the guidance for invoicing and prosecution of the alleged grant frauds was not released by the Department for Business, Energy and Industry Strategy (BEIS) until November 2020. Unaware that there were any plans to introduce any guidance in this area, the Council had already started to introduce its own recovery/prosecution actions. The guidance released states that the Council has to invoice in a certain manner, with a specific time scale between invoices. The Council's invoicing system has had to be adapted to facilitate this. Therefore at this time, no cases will be progressed to prosecution until the processes laid down by BEIS have been completed.

In addition, the Intelligent Client Officer (Revenues and Benefits) has advised that the Council are currently still issuing grants to eligible businesses and are endeavouring to make pre-payment checks. Once the urgency of issuing grants is alleviated the team will be in a position to review and investigate fully any allegations of grant fraud / misappropriated grant funding.

Several potential attempted frauds have been intercepted. This is due to a combination of local knowledge and also the national communications being swiftly cascaded to teams where more national targeted frauds are shared for the purpose of prevention.

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

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The data collections for the 2021/22 exercise have been uploaded to the Cabinet Office. The data matching reports were released at the end of January 2021. The teams responsible for undertaking the reviews of the matches have been advised of their availability.

The full NFI timetable can be found using the following link [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.