

Annual report on **Internal Audit Activity** 2020-2021



Contents

(1)	Introduction	1
(2)	Responsibilities	1
(3)	Purpose of this Report	1
(4)	Head of Audit Risk Assurance’s Opinion on the Council’s Internal Control Environment	2
	(4a) Scope of the Internal Audit Opinion	3
	(4b) Limitations to the scope of our activity	3
(5)	Summary of Internal Audit Activity undertaken compared to that planned	3
(6)	Summary of Internal Audit Activity undertaken which informed our opinion	7
	(6a) Internal Audit Assurance Opinions on Risk and Control	8
	(6b) Limited Control Assurance Opinions	9
	(6c) Audit Activity where a Limited Assurance Opinion has been provided on Control	9
	(6d) Satisfactory Control Assurance Opinions	9
	(6e) Internal Audit recommendations made to enhance the control environment	9
	(6f) Risk Assurance Opinions	9
	(6g) Limited Assurance Opinions Direction of Travel	10
	(6h) Internal Audit’s Review of Risk Management	10
(7)	Summary of additional Internal Audit Activity	12
	(7a) Special Investigations/Counter Fraud Activities	12
	(7b) Local Government Transparency Code 2015	13
(8)	Internal Audit Effectiveness	15
	Attachment 1	19
	Completed Internal Audit Activity during April – June 2021	19
	Summary of Satisfactory Assurance Opinions on Control	19
	Summary of Consulting Activity and support provided where no opinions are provided	35

(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 (PSIAS) or guidance'*.

The standards define the way in which the Internal Audit Service should be established and undertake its functions. The Council's Internal Audit Service is provided by Audit Risk Assurance (ARA) 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 standards also require that an independent and objective opinion is given on the overall adequacy and effectiveness of the control environment, comprising risk management, control and governance, from the work undertaken by the Internal Audit Service.

The Shared Service Internal Audit function is conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

(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 challenge, advising the organisation that satisfactory 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 Local Code of Corporate Governance and its Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the PSIAS is that the Head of ARA should provide an annual report to those charged with governance, to support the Annual Governance Statement. The content of the report is prescribed by the PSIAS which specifically requires Internal Audit to:

- Provide an opinion on the overall adequacy and effectiveness of the organisation's internal control environment and disclose any qualifications to that opinion, together with the reasons for the qualification;

- Compare the actual work undertaken with the planned work, and present a summary of the audit activity undertaken from which the opinion was derived, drawing attention to any issues of particular relevance;
- Summarise the performance of the Internal Audit service against its performance measures and targets; and
- Comment on compliance with the PSIAS.

When considering this report, the Committee may also wish to have regard to the quarterly interim Internal Audit Progress Reports presented to the Committee during 2020/21 and the Annual Report on Risk Management Activity 2020/21 presented to the Committee on 8th March 2021.

(4) Head of Audit Risk Assurance's Opinion on the Council's Internal Control Environment

In providing my opinion it should be noted that assurance can never be absolute. The most that Internal Audit can provide is a reasonable assurance that there are no major weaknesses in risk management arrangements, control processes and governance. The matters raised in this report, and our quarterly monitoring reports, are only those that were identified during our Internal Audit work and are not necessarily a comprehensive statement of all the weaknesses that may exist or represent all of the improvements required.

Head of ARA's Opinion

I am satisfied that, based on the Internal Audit activity undertaken during 2020/21 and management's actions taken in response to that activity, enhanced by the work of other external review agencies, sufficient evidence is available to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of Gloucester City Council's overall internal control environment.

In my opinion, based on Internal Audit work undertaken and completed whilst emergency measures were implemented as a result of the coronavirus (Covid 19) pandemic, Gloucester City Council has a **Satisfactory** overall control environment, to enable the achievement of the Council's outcomes and objectives. This opinion will feed into the Annual Governance Statement which will be published alongside the Annual Statement of Accounts.

(4a) Scope of the Internal Audit Opinion

In arriving at my opinion, I have taken into account:

- The results of all Internal Audit activity undertaken during the year ended 31st March 2021 and whether our high and medium priority recommendations have been accepted by management and, if not, the consequent risk;
- The effects of any material changes in the Council's risk profile, objectives or activities;
- Matters arising from the quarterly Internal Audit Progress Reports or other assurance providers to the Audit and Governance Committee;
- Whether or not any limitations have been placed on the scope of Internal Audit activity; and
- Whether there have been any resource constraints imposed on Internal Audit which may have impacted on our ability to meet the of the organisation.

(4b) Limitations to the scope of our activity

I can confirm that there have been no limitations to the scope of our activity or resource constraints imposed on Internal Audit which have impacted on our ability to meet the needs of the Council. I can further confirm that there were no material changes in the Council's risk profile, objectives or activities. Whilst the core Internal Audit service is provided by the ARA Shared Service, during 2020/21 the Head of ARA has:

- Commissioned external specialist ICT audit via Warwickshire County Council's Internal Audit Framework Agreement; and
- Arrangements in place with Gloucestershire NHS Counter Fraud Service to provide support with investigations.

(5) Summary of Internal Audit Activity undertaken compared to that planned

The underlying principle to the 2020/21 Internal Audit Plan is risk and as such, audit resources were directed to areas which represented 'in year risk'. Variations to the plan are made to adequately reflect any changes in the Council's risk profile.

Members approved the original Internal Audit Plan 2020/21 at the 9th March 2020 Audit and Governance Committee meeting.

Covid 19 placed significant pressures on Council services and 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 met the assurance needs of the Council, it 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 start of the pandemic. For example and as reflected within the Annual Report on Internal Audit Activity 2020/21, ARA has provided/completed:

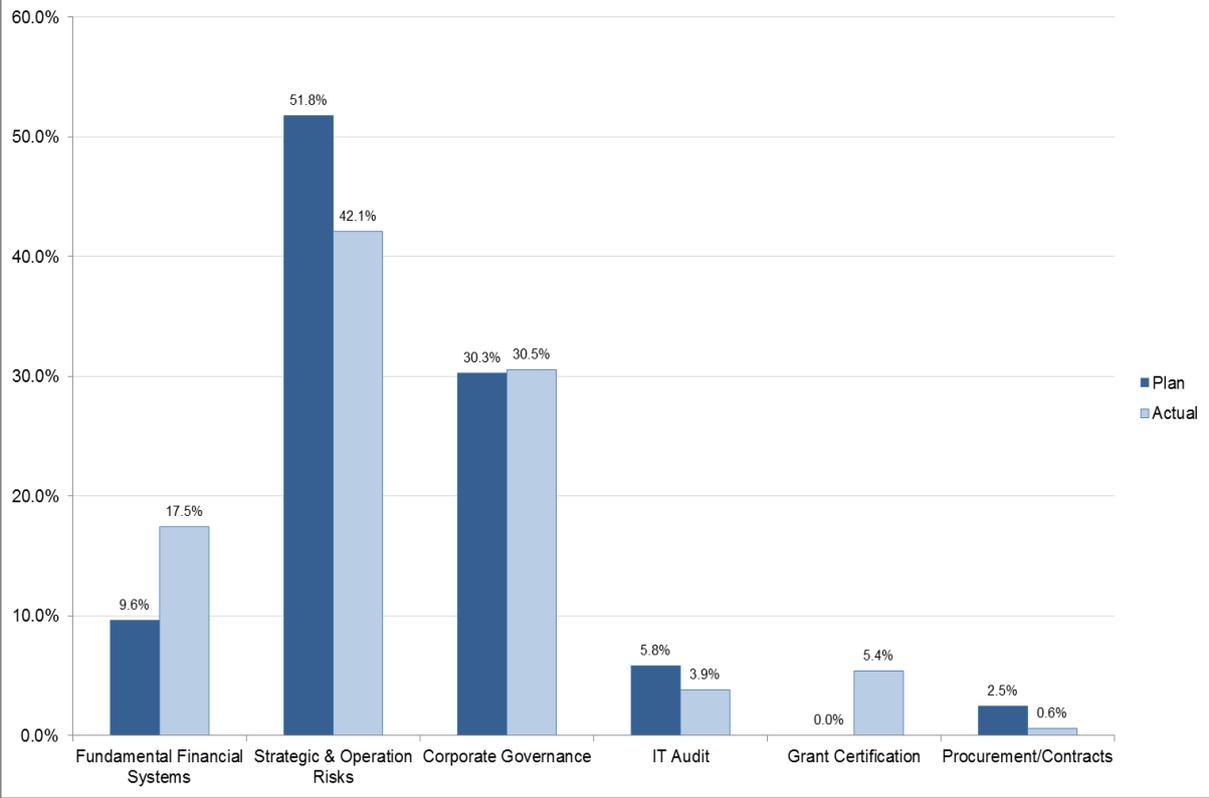
- Non-audit related administration support to:
 - Revenues and Benefit services in the processing of Business Grants and a data capture project regards dormant outstanding debtors to support future debt collection decision; and
 - Housing services in the collation of the Housing Benefit payments (claimed 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); and
 - The Lost Sales, Fees and Charges Grant (Covid 19) claims 1 and 2.

Plan changes are detailed in **Attachment 2** (the Summary Activity Progress Report 2020/21).

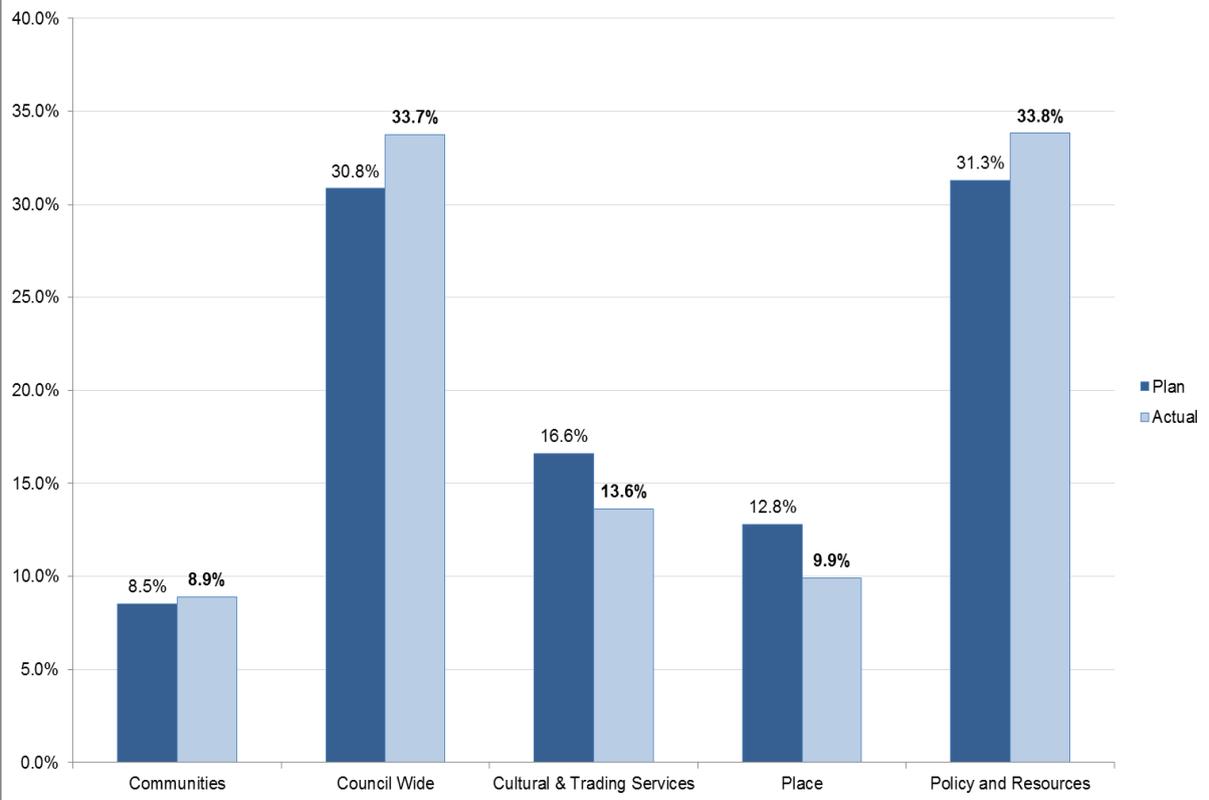
The net effect is that although the work undertaken was slightly different to that originally planned we are able to report that we achieved **93%** of the overall approved Revised Internal Audit Plan 2020/21, against a target of 85%. The actual percentage achieved has been adversely affected by Covid 19 and being unable to finalise a number of activities which otherwise would have been completed.

The bar charts below summarise the percentages of planned audits per service area (i.e. Council Wide, Communities, Cultural and Trading, Place and Policy and Resources) and category of activity (i.e. fundamental financial systems, governance etc.) compared with the percentage of actual audits completed.

Percentage of Planned vs Actual per Category 2020/21



Percentage of Planned vs Actual Days per Service Area 2020/21



Example rationale for the variance between 2020/21 planned and actual days per service area and category include (but are not exclusive to):

- The in year Plan revision activity (Covid-19) causing shift in the activities to be delivered:
 - New activities including, but not exclusive to, Covid 19 Business Grants; the Lost Sales, Fees and Charges claims; and wider Covid 19 relevant consultancy activity;
 - Audit deferrals into the 2021/22 Plan;
- Activities brought forward for completion from the 2019/20 Plan such as Key ICT Project Governance and Safeguarding;
- ICT audit days being charged at the point of agreed draft report (the above table excludes the audit days for the ICT activities in progress at the point of Annual Report);
- Audit activity where actual days were in excess of those originally budgeted such as Confidential Reporting Procedure and Licensing - Premises or less than those originally budgeted such as Staff Appraisal System, due to the findings and outcomes of the audit work; and
- The impact of counter fraud and investigation actual days, following case referral by the Council (i.e. actuals days have been allocated to the service area, rather than Council Wide) and wider Council requested activity. The outcome of this work is detailed within section 7 of this report.

(6) Summary of Internal Audit Activity undertaken which informed our opinion

The schedule provided at **Attachment 1** within this report 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 audit activity undertaken during 2020/21, 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.

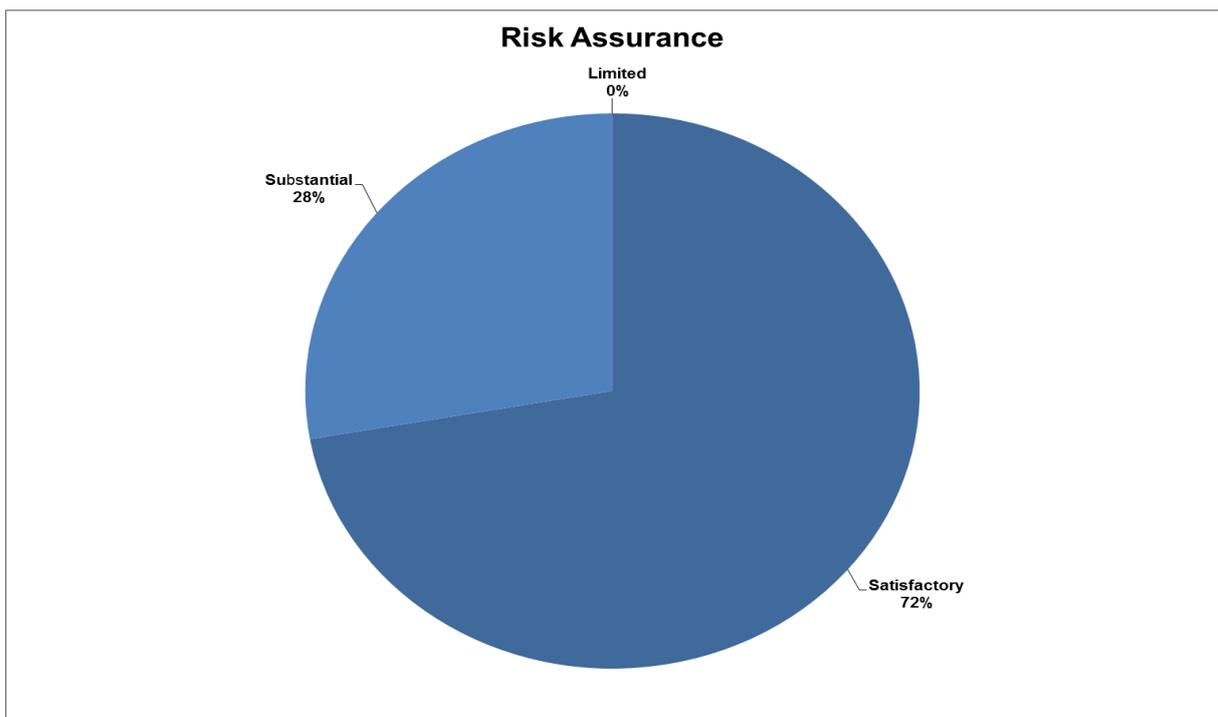
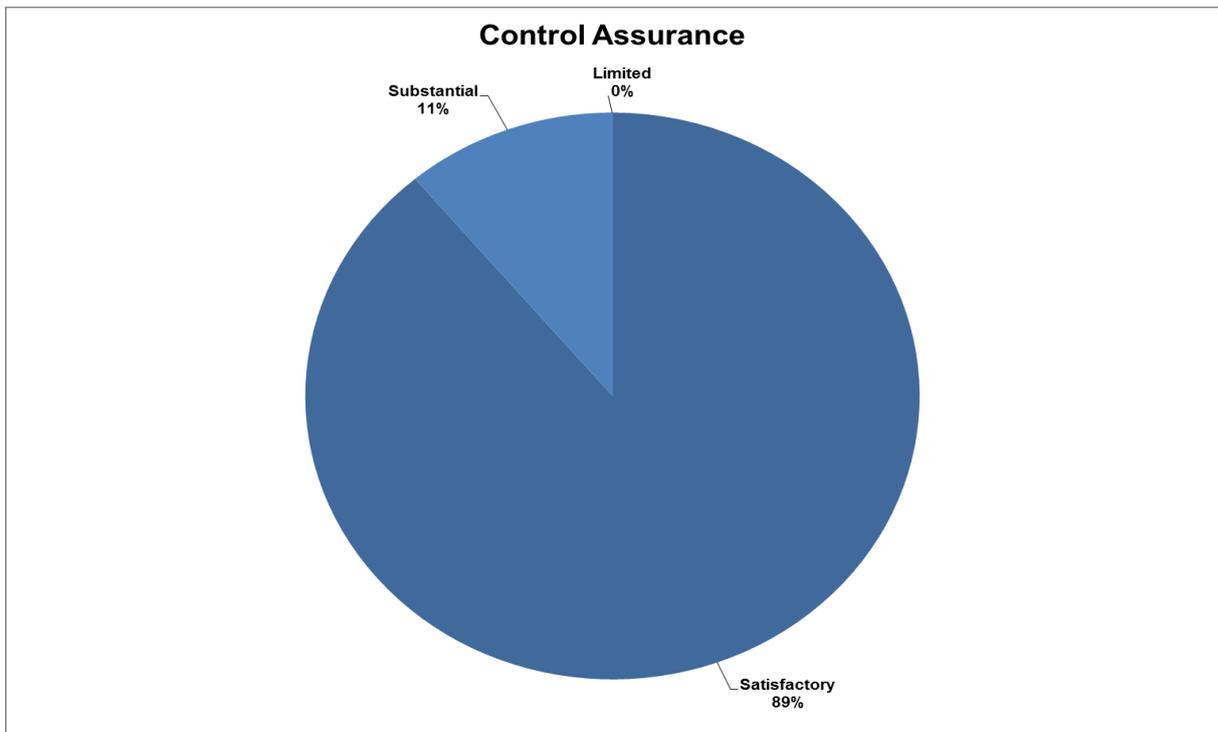
Explanations of the meaning of these opinions are shown below.

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 services, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Corporate 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 services, 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 Corporate 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 Corporate Risk Management Strategy, the service area has not demonstrated an adequate awareness of the risks relating to the area under review and the impact that these may have on service delivery, other services, 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

(6a) Internal Audit Assurance Opinions on Risk and Control

The below pie charts show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited. ARA can report that the Council is showing that **100%** of the activities reviewed have received a **substantial (11%)** or **satisfactory (89%)** opinion on control. None of the opinions on control are limited.

Risk and Control Opinions 2020/21



(6b) Limited Control Assurance Opinions

Where audit activity records that a limited assurance opinion on control has been provided, the Audit and Governance Committee may request Senior Management attendance to 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.

(6c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During 2020/21, no limited opinions on control were provided.

(6d) Satisfactory Control Assurance Opinions

Where Internal Audit activity records that a satisfactory assurance opinion on control has been provided where recommendations have been made to reflect some improvements in control, the Audit and Governance Committee and Senior Management Team can take assurance that improvement actions have been agreed with management to address these.

(6e) Internal Audit recommendations made to enhance the control environment

Year	Total No. of high priority recs.	% of high priority recs. accepted by management	Total No. of medium priority recs.	% of medium priority recs. accepted by management	Total No. of recs. made
2018/19	9	100%	34	100%	43
2019/20	16	100%	37	100%	53
2020/21	5	100%	26	100%	31

The Audit and Governance Committee and Senior Management Team 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.

(6f) Risk Assurance Opinions

During 2020/21, no limited assurance opinions on risk were provided on completed audits from the 2020/21 Internal Audit Plan.

In the cases where a limited assurance opinion is given, the Shared Service Audit/Risk Technical Officer is provided with the Internal Audit reports to enable the prioritisation of risk management support.

(6g) Limited Assurance Opinions Direction of Travel

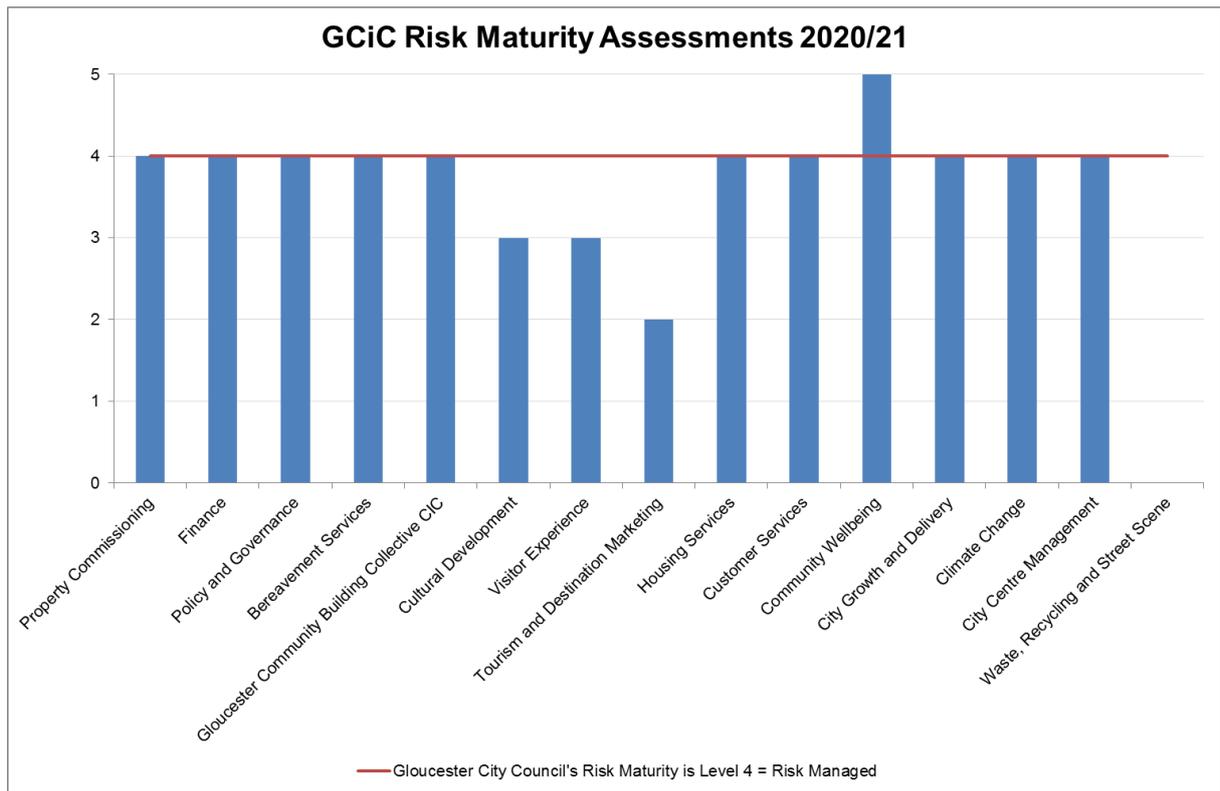
Internal Audit undertakes a follow up review of every audit (where relevant) where a limited assurance opinion on the control environment has been provided. The tables below show the changes in the risk and control opinions. This provides reasonable assurance that management have taken actions to address the internal audit recommendations made, reducing the risk exposure.

	2019/20		2020/21		Direction of Travel
	Risk Opinion	Control Opinion	Risk Opinion	Control Opinion	
Building Control Shared Service	Limited	Limited	Substantial	Satisfactory	↑
Guildhall and Blackfriars Priory - Income received from events	Satisfactory	Limited	Satisfactory	Satisfactory	↑
Shopmobility Fees and Charges	Satisfactory	Limited	Satisfactory	Satisfactory	↑
Travel and Other Expenses	Satisfactory	Limited	Satisfactory	Satisfactory	↑
Health and Safety Limited Assurance Follow Up	Satisfactory	Limited	Second follow up review to be reported within 2021/22.		
IT Disaster Recovery and Business Continuity	Satisfactory	Limited	Follow up review to be reported within 2021/22.		

(6h) Internal Audit's Review of Risk Management

During 2020/21, **100%** of the audited areas rated the effectiveness of risk management arrangements as **substantial (28%)** or **satisfactory (72%)** with **0%** obtaining a limited assurance opinion. This evidences that risk management continues to be further embedded into the Council's business activities.

The above position is supported by the Gloucester City Council Annual Governance Statement 2020/21 outcomes. The assurance statements obtained from the Corporate Directors and Heads of Service across the Council (when formulating the Annual Governance Statement), provided reasonable assurance that the majority of management apply the Council's Risk Management Strategy and principles within their service areas. The assurance statement outcomes and the risk maturity level definitions applied are reflected within the below tables.



Risk Maturity Level	Level 1 Developing (Risk Naïve)	Level 2 Progressing (Risk Aware)	Level 3 Operational (Risk Defined)	Level 4 Embedded & Engaged (Risk Managed)	Level 5 Dynamic & Empowering (Risk Enabled)
		No formal approach to risk management.	Consulting and planning to implement risk management.	Early Stages of implementation.	Established risk management with planned extension /development.

This assessment (as shown above) identified that Gloucester City Council’s risk maturity level 2020/21 is level 4 out of 5: Risk Managed: established risk management with planned extension /development.

It is noted that an independent review of the council’s risk management framework and approach will be completed in 2021/22. This will assess the council’s position against regulatory requirements and best practice, to support the council’s continued direction of travel in the area.

(7) Summary of additional Internal Audit Activity

(7a) Special Investigations/Counter Fraud Activities

Current Status

During 2020/21 (1st April 2020 to 31st March 2021) three potential fraud/irregularity cases were referred to Internal Audit. Two of the three cases are on going. The third case has been closed and previously reported to the Audit and Governance Committee.

In addition the Counter Fraud Team (CFT) has assisted the Revenues and Benefits team with pre and post payment checks in respect of the Government's Covid 19 Business Grants. As a result of this work 18 grant applications/claims were investigated. 14 of the claims have been closed and money recovered (see table below). Another case was also closed with no further action required. There are three cases on going and the outcomes will be reported on once complete.

A number of Counter Fraud initiatives were promoted throughout the year including signing up to becoming a supporter of International Fraud Awareness Week. This is an annual event that takes place in November each year. During the week posters, social media and information flyers are used to raise counter-fraud awareness.

The CFT has also supported one team newly involved in enforcement activity following changes to legislation. The CFT are providing training, guidance and ongoing support to the team on case management and interviewing skills.

To date in 2021/22 there have been two new irregularities referred to the CFT, both cases are currently on going and outcomes will be reported on their conclusion.

In addition, any fraud alerts received by Internal Audit from the National Anti Fraud Network (NAFN) and other professional bodies are passed onto the relevant service area within the Council, to alert staff to the potential fraud, particularly in respect of the Covid 19 scams (locally and nationally) and advice on how to avoid breaches of cyber security arrangements during the pandemic.

Several potential attempted frauds were intercepted during the year. However, a combination of local knowledge and also the national communications being swiftly cascaded prevented their progression.

15th – 21st November 2020 was International Fraud Awareness Week. As in previous years, Gloucester City Council signed up as a supporter of this week. During the week, information on some of the more topical scams and areas of increased fraud risk due to the Covid 19 pandemic were shared with the Council's employees.

Fraud Risk Assessment / Risk Register

The fraud risk registers were updated and provided to the Chief Financial Officer, the outcomes of this assessment is used to inform future Internal Audit and Counter Fraud Team activity. This will be reviewed again in the next few months to ensure that they remain current.

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, collected throughout October 2020 with the matches released from January 2021 onwards for review. 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.

Monitoring and Review

The Committee can also take assurance that all special investigations/counter fraud activities are reported to the Managing Director, Monitoring Officer and Head of Policy and Resources (S151 Officer) as required, via the Corporate Governance Group who challenge, monitor management actions and follow-up progress to date and approve all police referrals.

(7b) Local Government Transparency Code 2015

Introduction

This Code is issued to meet the Government's desire to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services.

Transparency is the foundation of local accountability and the key that gives people the tools and information they need to enable them to play a bigger role in society. The availability of data can also open new markets for local business, the voluntary and community sectors and social enterprises to run services or manage public assets.

Detecting and preventing fraud (taken from Annex B of the Code)

Tackling fraud is an integral part of ensuring that tax-payers money is used to protect resources for frontline services. The National Fraud Authority estimated local authorities face the threat of £2.1bn fraud in a year in 2013. In fact, the Annual Fraud Indicator produced by Crowe Clark Whitehill estimated that the figure may be as high as £7.8bn in 2017, out of a total of £40.4bn for the public sector as a whole. This is money that can be better used to support the delivery of front line services and make savings for local tax payers.

A culture of transparency should strengthen counter-fraud controls.

The Code makes it clear that fraud can thrive where decisions are not open to scrutiny and details of spending, contracts and service provision are hidden from view. Greater transparency, and the provisions in this Code, can help combat fraud.

Local authorities must annually publish the following information about their counter fraud work (as detailed for Gloucester City Council) in the table below:

Council wide fraud and irregularity activity relating to 2020/21 including Internal Audit activity

Question	Gloucester City Council Response
Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.	0
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud.	The Council has access to 3.1 FTE fraud investigators as part of the Internal Audit shared service arrangement with Gloucestershire County Council and Gloucester City Council (ARA – Audit, Risk Assurance).
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists.	The Council has access to 3.1 FTE fraud investigators as part of the Internal Audit shared service arrangement with Gloucestershire County Council and Gloucester City Council (ARA – Audit Risk Assurance).
Total amount spent by the authority on the investigation and prosecution of fraud / irregularity.	Approximately £31,024 in staff time from ARA. Cost unknown for staff directly employed by Gloucester City Council.
Total number of fraud cases investigated.	24

In addition to the above, it is recommended that local authorities should go further than the minimum publication requirements set out above (as detailed for Gloucester City Council) in the table below.

Question	Gloucester City Council Response
Total number of cases of irregularity investigated.	1

Question	Gloucester City Council Response
Total number of occasions on which a) fraud and b) irregularity was identified.	a) 6 (excludes ongoing cases ongoing) b) 0
Total monetary value of a) the fraud and b) the irregularity that was detected.	a) £125,000 (Excludes ongoing cases where value is currently not known) b) £0
Total monetary value of a) the fraud and b) the irregularity that was recovered	a) £115,500 (excludes more being repaid in instalments in 2021/22) b) £0

Full details about the code and its requirements can be found at:

<https://www.gov.uk/government/publications/local-government-transparency-code-2015>

(8) Internal Audit Effectiveness

The Accounts and Audit Regulations 2015 require ‘*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*’. This process is also part of the wider annual review of the effectiveness of the internal control system, and significantly contributes towards the overall controls assurance gathering processes and ultimately the publication of the Annual Governance Statement.

The Accounts and Audit Regulations 2015 also state that Internal Audit should conform to the Public Sector Internal Audit Standards (PSIAS) 2017.

Public Sector Internal Audit Standards (PSIAS)

These standards have four key objectives:

- Define the nature of Internal Auditing within the UK public sector;
- Set basic principles for carrying out Internal Audit in the UK public sector;
- Establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.

The Internal Audit Charter, Quality Assurance and Improvement Programme (QAIP), Code of Ethics and the Audit and Governance Committee’s Terms of Reference all reflect the requirements of the standards.

External Quality Assessment of the Effectiveness of Internal Audit

There is a requirement under the PSIAS i.e. Standard Ref '1312 External Assessments' for Internal Audit to have an external quality assessment which must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The standards require the Head of ARA to discuss the following with the Audit and Governance Committee:

- The form of external assessment; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

The latest review was undertaken during May 2020 by the Chartered Institute of Internal Auditors (CIIA). The EQA assessment concluded that:

“We are pleased to report that the ARA team meet each of the 64 Standards, as well as the Definition, Core Principles and the Code of Ethics, which form the mandatory elements of the Public Sector Internal Audit Standards (PSIAS) and the Institute of Internal Auditors’ International Professional Practices Framework (IPPF), the globally recognised standard for quality in Internal Auditing.

To summarise, we are delighted to report that the ARA team are excellent in their:

- *Reflection of the Standards;*
- *Focus on performance, risk and adding value; and*
- *Quality Assurance and Improvement Programme*

We believe that the ARA team are good in their:

- *Operating with efficiency.*

Finally, like many internal audit functions at the present time, we consider that the ARA team is satisfactory in:

- *Coordinating and maximising assurance.*

The need to consider how best to rely on and coordinate with other assurance providers remains an emerging area of internal audit, and assurance practice. It depends as much on the other assurance providers as it does on internal audit.

In conclusion, this is an excellent result and the Chief Internal Auditor and the ARA team as a whole should be justifiably proud of their service, its approach, working practices and how key stakeholders’ value it.

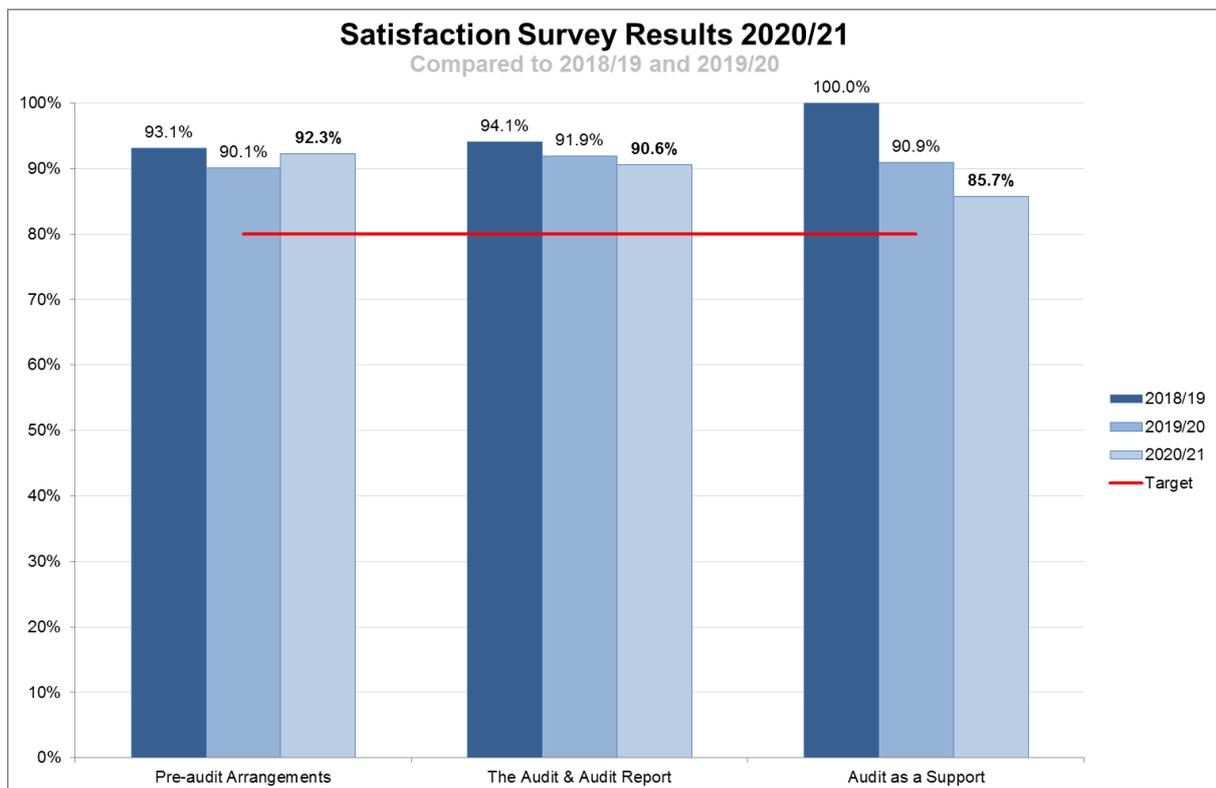
It is therefore appropriate for the function to say in reports and other literature ‘Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing’.”

The full EQA report and outcome were reported to the 20th July 2020 Audit and Governance Committee.

Internal Assessment - Customer Satisfaction Survey results 2020/21

At the close of each Internal Audit a customer satisfaction questionnaire is sent out to the Corporate Director, Head of Service or nominated officer. The aim of the questionnaire is to gauge satisfaction of the service provided such as timeliness, quality and professionalism. Customers are asked to rate the service between excellent, good, fair and poor.

A target of 80% was set where overall, Internal Audit was assessed as good or better. The latest results (as summarised below) show that the target has been exceeded in 2020/21, with the score of **85.7%** reflecting Internal Audit as being a positive support to their service.



In addition, the following positive comments have been received from our customers:

“I really appreciated the flexible and accommodating approach adopted by the auditor in supporting the HR review of the Appraisal and Talent Management Scheme, which had been commissioned separately by the Corporate Director. In discussion, the auditor was happy to amend the initial terms of his review to allow for the HR activity to take place and to undertake a separate audit of the existing appraisal documentation, which was extremely useful in assisting us in formulating our conclusions and recommendations for change”

“The auditor’s report was extremely useful to us”

“There was no negativity in terms of the flaws in the service - purely constructive and supportive”

“Always helpful in ensuring that we have the right procedures in places and to provide a push on implementing new procedures/documentation”

Lessons Learned from customer feedback and actions taken by Internal Audit

The Head of ARA reviews all client feedback survey forms and where a less than good rating has been provided by the client, a discussion is held with both the relevant auditor and the manager to establish the rationale behind the rating and where appropriate actions are taken to address any issues highlighted.

While no negative comments were raised within received feedback surveys, the Head of ARA will assess the overall satisfaction survey results for 2020/21 and work with Senior Management Team to identify and understand opportunities for ARA service improvement going forward.

ARA Learning and Development

Development of leaders, managers and staff within ARA is a key priority, to ensure that the service has the qualities, behaviours and skills to deliver efficient and effective services to our partners and external clients.

The Head of ARA is a member of the Chartered Institute of Internal Auditors Heads of Internal Audit Forum, Local Authorities Chief Auditor’s Network, Midland Counties Chief Internal Auditor Network and the Midland District Chief Internal Auditors Group. ARA staff participate in Continuing Professional Development (CPD) and / or are members of other relevant Internal Audit, counter fraud and risk related forums / groups, all of which provides the opportunities to discuss and understand the latest developments affecting these professions, contribute to strategy, exchange ideas and work collaboratively on problems and issues.

ARA is committed to offering a structured trainee auditor programme, to attract people to the Council and to the profession. ARA currently supports four trainee auditor posts within the team structure, two of which were recruited within 2021 to support ongoing service resilience. The Trainee Auditor post type supports completion of the IIA Certified Internal Auditor qualification and enables progression to a Senior Auditor role over a two to three year period, through a ‘grow our own’ approach.

ARA Partner Dividend

During 2020/21 ARA has been in a position to be able to provide a dividend to the Council in the sum of £11,835. This is due to efficiencies achieved by the shared service in 2020/21.

Completed Internal Audit Activity during April – June 2021

Summary of Satisfactory Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: Scheme of Sub-Delegation

Background

The Council consists of several distinct elements which are each allocated certain functions. Key elements are Council (all councillors), Committees (undertaking specific functions delegated by Council/specified in statute) and the Executive (Leader and Cabinet). These are the primary decision-making bodies within the Council, and they exercise different powers and functions. To assist the efficient working of the Council these bodies have delegated some of their functions to other parts of the Council including sub-committees and officers.

Scope

Part 3 of the Council's Constitution sets out the powers delegated to the Managing Director and Corporate Directors. The Scheme of Sub Delegation within Part 7 sets out details of the sub- delegations to officers of the council by the Managing and Corporate Directors. This audit reviewed a sample of decisions taken by officers to ensure they were in line with their delegated authority.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- The Scheme of Sub Delegation sets out details of the delegations from the Managing and Corporate Directors to the:
 - Head of Policy and Resources;
 - Head of Place;
 - Head of Communities; and
 - Head of Cultural and Trading Services.

- The Council's Constitution provides that the Corporate Director (Transformation) is the Proper Officer who should confirm all sub delegations made by the Heads of Service. However, in practice the Corporate Director (Transformation) does not generally receive sight of the sub delegations made by the Heads of Service.

- Section 100G of the Local Government Act 1972 requires the Council to maintain a register of the names and addresses of Members and membership of committees, lists of delegations and the like. The register should be available for public inspection and the Head of Legal has confirmed that this register should also extend to any sub delegations made to officers.
- On behalf of the Council, a record of a sub delegation made by a Head of Service is maintained (in an electronic folder) by the Policy and Governance Manager. However, this process is solely reliant on the Head of Service forwarding to Democratic Services a copy of the letter of delegation for filing on the folder. Audit testing has highlighted that the records maintained by the Policy and Governance Manager do not reflect all delegations that have been made to officers within the Council, as some Head of Service were not aware of the requirement and consequently were not forwarding a copy.
- The expectation (confirmed by Corporate Director (Transformation)) is that a Head of Service can sub delegate their functions (as listed in the Scheme) to other officers in the Council. However, this is not clearly stated within the published Scheme of Sub Delegation and neither does the Scheme stipulate that such delegations (whilst considered to be best practice) should be made in writing. For clarity the Scheme of Sub Delegation should be amended to incorporate these key principles.
- The audit review identified that decisions were being made by officers under delegated powers received from the Head of Service. Internal Audit requested from each officer a copy of the letter of delegation they had received from the Head of Service. The responses indicated that whilst the underlying decisions were in line with expectation of the Head of Service, the supporting records were incomplete.
- From review of the Published Decisions register (maintained on the Council's website) it was identified that during 2020, two decisions were recorded as being taken by the Heads of Service. From closer examination this confirmed that the decisions were appropriately taken using their powers delegated to them under the Scheme of Sub Delegation.

Conclusion

Overall, the governance and framework for the Scheme of Sub Delegation is based on sound principles and decisions are being appropriately taken.

The Council has correctly recognised that the Managing Director and Corporate Directors are not able to take all the decisions that need to be made each day. Consequently, these senior officers have established a Scheme of Sub Delegation (incorporated within the Council's Constitution) that provides clarity on the types of decisions that can be taken by each Head of Service.

In practice, and as would be expected, the Heads of Service have further delegated some of their decision-making powers (e.g. decisions on the determination of planning applications and approving licensing applications) to officers working within their areas of responsibility.

The audit review has however, also highlighted that the initial completion, ongoing maintenance and subsequent storage of the required documentation to underpin this scheme needs to be improved. In particular:

- The wording within the Scheme of Sub Delegation is amended to confirm that:
 - Heads of Service can further delegate their own delegated decision-making powers to other officers; and
 - Any further delegations must be made in writing and the letter of authorisation must be signed by the Head of Service and confirmed by Corporate Director (Transformation) or it is invalid.
- Amend existing practices / documentation and periodically issue reminders to:
 - Ensure Heads of Service forward copies of the letters of authorisation to both the Corporate Director (Transformation) and to the Policy and Governance Manager. If unsigned these letters should be rejected and returned;
 - Stipulate within the letter that the authorisation does not take effect until the delegation is confirmed by the Corporate Director (Transformation); and
 - Remind officers who are making decisions (using the delegated powers) that they are responsible for keeping the letter of authorisation safe and can produce this if required.
- Each Head of Service should maintain a record of the “live” delegations within their areas of responsibility; and
- Periodically the central Register (i.e. records held by the Policy and Governance Manager) should be compared and confirmed as being complete and correct by each Head of Service.

Management Actions

Management have responded positively to the audit recommendations made, in line with the above conclusion improvement themes.

Service Area: Council Wide

Audit Activity: Confidential Reporting Procedure

Background

Gloucester City Council (the Council) is committed to conducting business with honesty and integrity and has a zero-tolerance stance to all forms of fraud, bribery, corruption and theft, both from within the Council and from external sources.

The Council's Whistleblowing Policy applies to all employees, Members, apprentices, consultants, contractors, volunteers, interns, casual workers, partner organisations and agency workers. It sets out the arrangements for anyone, including the public, to express and report any concerns they have about illegal or illegitimate practices involving the Council in the knowledge that their concerns will be taken seriously and investigated as appropriate and that their confidentiality will be respected.

Scope

This audit review sought to determine the effectiveness of the Council's confidential reporting procedures and ensure it is line with best practice and relevant regulations. In addition, the audit review considered whether:

- There is clear and easily accessible guidance for:
 - Employees, Members, apprentices, consultants, contractors, volunteers, interns, casual workers, partner organisations, agency workers and the public on how to raise a whistleblowing allegation against the Council and/or Officer; and
 - How the allegation will be managed.
- The identity of the whistle-blower is protected and kept confidential;
- Information is collected fully, consistently and stored securely;
- Information is kept in line with the Council's document retention schedule;
- The Council has a clear and appropriate policy for dealing with whistleblowing allegations made against contractors providing Council services, or where the Council is a shareholder in a Teckal company (in particular where the Council is not the employer of either the whistleblower or any persons complained about); and
- Whistleblowing investigations are independent with a clear direct reporting line to a governance body.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- Council staff can access the Whistleblowing Policy via the staff intranet (GlosNET) and the Council's website from where it is also available to the public.
- The Whistleblowing Policy sets out the Council's commitment to whistleblowing and explains the responsibilities of those who may become involved. Overall, Internal Audit found that the Whistleblowing Policy was fit for purpose and met the Whistleblowing Commission "Code of Practice", however Internal Audit raised best practice points with management to further strengthen the policy.
- The NETconsent Policy Management system is used by the Council to track and report on staff compliance with mandatory policies including the Whistleblowing Policy. Although this is a sound tool for policy management, Internal Audit found that as at the date of the audit only 62% of staff had confirmed they had 'read and understood' the Whistleblowing Policy. Currently, there is not a system in place to ensure the remaining 38% of employees 'read and understand' the Whistleblowing Policy. Management have agreed the Internal Audit recommendation to adjust the use of NETconsent to ensure policies are read and understood by staff.
- To improve confidence and support consistency throughout the Council a 'Whistleblowing Management Guidance' document should be introduced as well as periodic training for senior managers and line managers in the operation of the Whistleblowing Policy and how to handle allegations.
- Currently whistleblowing allegations are not documented on a formal whistleblowing system ('log') however all whistleblowing correspondence with the Monitoring Officer are kept in Microsoft Outlook. As best practice Internal Audit recommends that a secure tool is provided for managers to log whistleblowing allegations and the outcome of their investigation, including unfounded allegations.
- The Council's Retention Schedule does not specifically include retention requirements for whistleblowing documentation and management have confirmed that clarification will be made on whether retention requirements should be separately reflected in the Retention Schedule.
- The Council's Whistleblowing Policy states that it applies to those who work for contractors and partner organisations (i.e. Teckal companies). Whistleblowers are encouraged, in the first instance, to contact their line manager with their concern, which would indicate that the contractor or Teckal Company would be notified rather than the Council. Internal Audit benchmarked this policy expectation with the Local Authority Chief Auditors Network and the British Standards Institute, and overall whilst not dissimilar, some improvements were identified and agreed with management including:
 - Stipulating in contracts that the third party's Whistleblowing Policy, procedures and document retention periods match the standards and requirements set by the Council's own Whistleblowing Policy and retention expectations;

- The Council sharing their own policies and procedures so that third party organisations know of, and are attuned to, the standards of conduct of public business that taxpayers expect;
 - Regularly report to the Council any whistleblowing allegations and investigation progress; and
 - If a whistleblowing allegation is initially made to the Council rather than the contractor or partner organisation, the Council should risk assess the allegation to determine if the Council should investigate rather than the third party.
- The Whistleblowing Policy provides details of contacts that can provide independent advice and as well as investigate concerns, such as the Head of ARA.
 - Senior Managers and the Audit and Governance Committee do not have oversight of all whistleblowing allegations, founded or not, when line managers do not notify the Monitoring Officer. The ability to provide oversight will be rectified by the implementation of a whistleblowing 'log' as recommended above.

Conclusion

Internal Audit found that the Whistleblowing Policy was fit for purpose and explained how an allegation will be managed, however there are areas that could be enhanced that would bring it in line with the British Standards Institute's "Whistleblowing arrangements – Code of Practice", the Whistleblowing Commission's "Code of Practice", and National Audit Office's "Assessment criteria for whistleblowing policies".

Expectations of third-party organisations and partner's whistleblowing arrangements is an area identified by Internal Audit that could be strengthened; as well as clarification of the Council's document retention periods and the use of a tool to document and support whistleblowing investigations.

Although seven audit recommendations have been made these are not necessarily to correct error but to embed best practice and further strengthen the Council's confidential reporting procedures (in line with the themes raised within the Key Findings section).

Management Actions

Management have responded positively to the recommendations made.

Service Area: Communities

Audit Activity: Gloucester Community Building Collective

Background

The Council's Asset Based Community Development is about growing sustainable communities, building connections between people that live in the area and empowering people to act on things that are important to them.

In December 2018, Cabinet approved plans for the medium and longer-term delivery of community building in Gloucester which included the establishment of a formal partnership with Barnwood Trust, the aim to work towards the establishment of an independent legal entity. The Gloucester Community Building Collective (the Collective), a Community Interest Company has been created by the City Council.

Scope

This review has examined the governance arrangements put in place by the Collective's Board to effectively govern the Company and those actioned by the Council to provide robust oversight of the Company.

Risk Assurance – Substantial

Control Assurance – Satisfactory

Key Findings

Governance

- The Collective has in place the standard documents required of a Company and it is registered at Companies House as a community interest company. At the time of audit, the Collective had three registered Directors and had implemented a pathway to develop and enhance the Board structure which has been progressed in the year.
- The Board undertook a governance and Board skills review during the year and the resulting Board development plan has seen the appointment of new non-executive directors. The appointment process ensured the new Directors brought a range of skills to enhance and support the Company and its development.
- The current Board has met monthly during the year. Review of Board meeting agenda and minutes show the Board receive and consider a comprehensive range reports in support of the effective oversight and control of the Collective. A forward governance plan is also documented. Audit review of a sample of Board documents confirmed the information reviewed and actions taken supported robust governance and company direction.
- The Business Plan 2021-2026 details aims and objectives, performance outcomes, future ambition. Financial and cash flow projections are also captured.

- Performance is measured through a set of performance outputs and outcomes which has been monitored by the Board throughout 2020. Finances (budget position, cash flow and funding streams) are reported at each Board meeting.
- The Collective has introduced a Company Handbook that includes several policies, rules and processes that support and ensure effective governance and control operates within the Company. The Collective have developed Financial Rules (which included a scheme of delegations) that have been approved by the Board. The Board is responsible for ensuring that the company operates efficiently, income is properly managed and put to best use and for ensuring compliance with financial rules. The Board is in the process of appointing an auditor but needs to determine its on-going assurance arrangements as a risk mitigation action.

Risk Management / Financial Risk

- The Collective has a well-structured Risk Register assessing risk pre and post control actions. However, currently there is not a Risk Policy in place that defines the Collective's risk and opportunity culture and appetite. The Risk Register, and associated risk assessment, should stem from a Risk Policy and therefore this should be developed. The Risk Register is reviewed six monthly, however to improve this practice the Board should make the review of significant risks/ risk changes a standing agenda item for risk awareness and consideration at each meeting.
- One of the biggest challenges for the Collective has been identified as the need to secure future year funding sources, the budget projections and funding strategy emphasises this. The arrangements in place provide the Board with timely information and monitoring of future funding streams and the cash flow implications. There is clarity over confirmed and unconfirmed income which is supplemented with an updated 'traffic light' assessment of potential funding streams. The Board have adequate financial information to effectively monitor the financial position, trends and projections.
- Uncertain funding is recognised as a risk to be closely monitored and managed, and this risk is mitigated in part by the Collective being able to demonstrate the ability to obtain funding in this year. However, it is understood this does not mitigate the risk in the medium to longer term. It is for the Board to determine their financial risk appetite and to manage the relationship between financial pressures and those of service delivery and expansion as the organisation evolves. The management of the financial risk needs to be proactive, for example, by having a risk mitigating action plan should funding requirements become difficult to realise, with actions based on predetermined trigger points. This links to the earlier comment on the significant risk review process.
- Confirmation has been given that a review of financial risks will be incorporated into the governance forward plan to be supported by the development and adoption of a Reserves Policy. Reserves have been budgeted, these should be governed by a policy covering the rationale for and levels of required reserves.

- Daily financial administration and accounting has been undertaken by the Executive Director and the Council's Finance Team. The Board has resolved to appoint an independent accountant and auditor, and this is being progressed. Post appointment, the new arrangement should be assessed through the risk review process.

The Collective and the Council

- There is a comprehensive Members Agreement between the Council and the Collective. The review of this agreement and a sample examination of several of the actions required show there is compliance with the agreement terms. The processes in place offer the Council the opportunity to review and monitor the Collective; its governance arrangements, performance and its key risks and challenges.
- Within the Agreement there are a number of items reserved to the Council, these matters have been progressed in the year as required under the agreement. The reserved matters add to the Council's oversight of the Collective.
- The Agreement requires that the Collective provide the Council with copies of Board meeting audit trail and this occurs. There is also the requirement for the Collective and the Council to meet quarterly, these meetings occur have a structured agenda, consider the key issues and are minuted. The Board has produced a statement of compliance which details how it has met its Members Agreement requirements.
- The Council has a non-executive Board Director and, although the Directors responsibilities are to the Collective and its shareholder, the Council is the shareholder.

Conclusion

The Collective has effective governance arrangements in place. There is a Member Agreement that ensures the Council, as the shareholder, has control over specified reserved matters and through processes and information has effective oversight of the Collective. The Collective is an evolving Company that has future funding uncertainties but has processes to effectively monitor progress in addressing these.

Stability, continuing and developing key governance process during periods of change and beyond is key risk to be managed. The Board and the Council will need to ensure effective oversight of the Collective in the coming months as the Collective's Executive Director, the Council's appointed Non-Executive Director, and the Council's lead 'client' officer all leave their positions.

Management Actions

The following actions have been agreed by management for delivery by July 2021: To produce a Risk Policy that defines risk appetite and culture; The Board to resolve to adopt the Risk Policy; To produce a Reserves Policy to contribute to longer term financial stability; and To identify significant risks from the Risk Register and review them as a standing item on the Board agenda.

Service Area: Culture and Trading Services

Audit Activity: Guildhall, Blackfriars and Museum – income received from events (Follow Up)

Background

The Council generates income for hiring out areas / rooms to business and members of the public to hold meetings, live events, functions and weddings across both sites. The level of income generated is substantial and therefore it is paramount that effective systems are in place to ensure the income due to the Council is collected.

Scope

The 2019/20 audit concluded that only 'Limited Assurance' could be provided that the risks material to the achievement of the objectives for this area were being managed effectively. The follow up audit purpose was to provide assurance that the action taken by management to address the issues identified has been effective.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

Internal Audit have evaluated the recommendations reported in the 2019/20 audit and implementation of the agreed actions based on supporting information received electronically following virtual meetings with key members of the service. The table below shows a snapshot of this evaluation and the progress made.

Table 1: Status of implementation of recommendations

Number	Priority	Status of Implementation		
		Fully	Partial	Limited
1	Medium	✓		
2	Medium	✓		
3	Medium		✓	
4	Medium		✓	
5	Medium			✓
6	Medium	✓		
7	High	✓		

In arriving at the assessment detailed above in table 1, Internal Audit was able to obtain appropriate levels of assurance that:

- All bookings are now raised correctly using the events booking system (Artifax);

- Service standards have been created and implemented to ensure a consistent approach across the service in regard to recording booking information and invoice reporting;
- The Head of Culture has provided clear guidance to Service Managers on the granting of discounts/concessions against the agreed fee structure and how these should be authorised and recorded;
- All invoices are raised prior to the booking and are no longer being raised retrospectively, ensuring that a 20% deposit is raised to initially secure the booking and full payment is made 14 days before the booking takes place;
- New bookings are declined for anyone with an unpaid debt and a booking may not be made until this debt is paid; and
- As per the table below, management have taken significant action to reduce and manage the level of debt owed to the service. The service standards implemented will ensure the service are aware of any increases to the debt and can address any issues in a timely manner.

Table 2: Cultural and Trading debt and age profile

Time Period	Room Hire and Optional Additional Extras (40k) November 2019	Room Hire and Optional Additional Extras (£9.5k) February 2021
Under 6 months	£14,000.00 (56 invoices)	£4,000.00 (6 invoices)
6 – 12 months	£ 5,000.00 (22 invoices)	£500.00 (5 invoices)
12 – 24 months	£ 5,000.00 (28 invoices)	£2,000.00 (15 invoices)
Over 24 months	£16,000.00 (30 invoices)	£3,000.00 (27 invoices)

The totals shown above have been calculated using reports requested by Internal Audit from Civica, who facilitate the Council's general debt recovery procedures (excluding Housing Benefits). Following discussions with the Visitor Experiences Manager it was found there are discrepancies between reports received by Internal Audit and the reports received by the Service Manager. The Head of Policy and Resources confirmed, that as part of a wider project across the Council concerning debt, aged debt reports are due to be reviewed to ensure that the process for creating the reports is streamlined and the information included with the reports is clear and concise. As such, an audit recommendation has been made to ensure that all reporting of age debt is consistent.

As per Table 1 above, two recommendations have been partially implemented and one recommendation has not been implemented. Internal Audit can confirm that:

- The Visitor Experience Manager has evaluated the Council's potential liabilities surrounding catering at Blackfriars Priory and consulted with the Council's Procurement Advisor to confirm the process for tender and to produce a draft tender document. Due to the current working environment, work on this document is ongoing at the time of this audit;

- Access to the Artifax system is currently still being shared across the team.

A new booking system is to be implemented with unique log ins for all members of staff. This project is ongoing at the time of this audit and the service are in discussions with ICT to find a suitable solution for this; and

- Due to the impact of Covid 19 on the sector the majority of the third party promoters the Council work with have been furloughed or are no longer in operation. This has meant that the Cultural Development Manager has been unable to consult with One Legal to establish whether ticketed events promoted by national companies should be subject to a formal contractual arrangement with the promoter of the event. Once the sector can re-establish and return to a more business as usual approach, work can progress on implementing this recommendation.

Conclusion

It is evident that positive and effective action has been taken by managers and officers delivering this service to address the issues raised in the 2019/20 internal audit. The Covid 19 pandemic has had significant impact on the service, and this has meant that the implementation of some of the recommendations is ongoing. Based on the findings from this follow up review and the confirmation that the outstanding recommendations will be implemented in due course, Internal Audit is now able to conclude that satisfactory assurance opinions on control and risk can be provided.

Management Actions

One additional recommendation has been raised (aged debt report consistency) and management have responded positively to the Internal Audit findings.

Service Area: Policy and Resources

Audit Activity: Property Investment Strategy

Background

In order to ease funding pressures, the Council approved a Property Investment Strategy (the Strategy) as an alternative source of income to aid closing the funding gap.

The aim of the Strategy is to deliverer returns on the investment in commercial property to supplement traditional income streams.

Scope

This internal audit reviewed the application of the Council's Property Investment Strategy to a sample number of investment property acquisitions.

The scope of the audit was to: review the application of the strategy when investment land and properties has been acquired; and the arrangements operating to identify, consider the opportunities and manage the risks associated with each investment.

The review has not considered post acquisition outcomes, or the delivery of the overarching aims of the Strategy's Investment Fund. An audit of the investment portfolio risk has been included in the 2021/22 Internal Audit Plan.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- The Property Investment Strategy approved by Council in 2017 created the Property Investment Board to oversee the Council's property investment fund. The Board has Terms of Reference that formed part of the Strategy. The Board has responsibilities for reviewing potential property investment opportunities that arise and, where these are within the terms of the Strategy, to investigate and where assessed as beneficial for the Council, to approve and then progress to acquisition.
- The Strategy is mainly centred on the aims, outcome, risks and controls that cover the overall 'investment fund' and therefore the delivery of the aims and terms of the Strategy will become evident when the invested fund is assessed over time.
- There are within the Strategy a number of specific criteria that any investment considered must meet, these are based on risk and opportunity, for example, in the areas of due diligence, clarifying and advising on legal conditions, and the financial cost and returns. Although not an aim or requirement of the Strategy for a number of investments considered there has been links to the wider strategic regeneration and development plans.
- Since the approval of the Property Investment Strategy and the inception of the Property Investment Board, the Board have considered a number of potential acquisitions. Review of the 2019/20 Property Investment Board minutes shows investments in the St Oswald's site and the Eastgate Shopping Centre were taken forward by the Board. The audit has reviewed these two investments.

St Oswald's

- The St Oswald's investment was considered by the Property Investment Board, however the approval to proceed with the investment fell outside of the Board's Terms of Reference, with the purchase sum being greater than the delegated powers of the Board and the Section 151 Officer. The investment was therefore considered and approved by Cabinet. Although beyond the terms of the Property Investment Strategy, the overarching aims of the Property Investment Strategy are applicable. The September 2019 Cabinet report agreed the Property Investment Strategy exemptions (value and lot size) and that the investment met the Strategy criteria.

Reviewing the acquisition in terms of the Strategy aims it has been confirmed that:

- The Property Investment Strategy requires that invests in properties to rental income with a minimum portfolio gross yield of 5.75% (once complete). Independent specialist advice stated estimated gross yield above this target for this investment.
- The site contributed to the requirement to spread property investments across differing commercial classes, the retail elements cover a broad range of the retail sector, and parts of the site has residential options.
- Although the site was acquired based on several factors beyond a simple investment opportunity, (these are detailed in the due diligence work and report to Members) the site was acquired primarily to hold rather than to dispose.
- In acquiring the site, the Council is not reliant on another Council to progress the investment, the Council is the sole owner.
- The Strategy aims to deliver revenue receipts to fund the initiative and make a significant contribution to the Council's forecast budget gap, the projected financial contribution towards the revenue budget from this investment make such a contribution (as stated in the Cabinet report - Financial Implications).
- The acquisition costs for the purchase (Stamp Duty Land Tax (SDLT) / Legal / Agents / Due Diligence) were below the maximum stated in the Strategy.
- In line with the requirement the Strategy the Council outsourced to professionals the acquisition due diligence process, the legal work required to complete the transaction, and the management of the acquired properties.
- The independent due diligence report, which included the comparison of the investment against Strategy and the Council's Business Plan, supported and recommended the acquisition of the site.
- Although the Strategy focuses on investment to support the Council's funding position, a key consideration when assessing the benefits of acquiring the St Oswald's site was the potential to release the vacant land to the rear of the site for development. The opportunity to develop this land for housing is now being progressed.
- The review of Board minutes show the Board progressed the assessment of the site, requesting additional due diligence be undertaken and, based on reports received the minutes record the decision to recommend to Cabinet the acquisition of the site. The report considered by Cabinet summarises key matters to consider and included the independent due diligence report.
- The review of the documents associated with the investment show reports from specialists covering; legal advice, the due diligence on the property and the investment including valuation, cash flow matters and returns, and Property and site condition survey, including the development considerations.

- Other documents associated with the investment show; the delegated decision notice, the Property Investment Boards considerations, and report to Members, which summarised the investment and gained the approval to proceed.

Eastgate Shopping Centre

- The Eastgate Shopping Centre investment was considered by the Property Investment Board and falls within the Board's Terms of Reference.

Reviewing the acquisition in terms of the aims of the Strategy confirmed that:

- Independent specialist advice stated the estimated gross yield from the investment was above the target set in the Strategy.
- The site contributed to the requirement to spread property investments across differing commercial classes, the retail elements cover a broad range of the retail sector, there is the car park, and offices. The acquisition offered the opportunity to develop the site for wider purposes.
- As with the St Oswald site, the shopping centre was acquired based on a number of factors beyond a simple investment opportunity, these are detailed in the due diligence work considered by the Property Investment Board. It also states the site was acquired primarily to hold as an investment for returns, rather than to dispose. In acquiring the site, the Council is not reliant on another Council to progress the investment, the Council is the sole owner.
- The Strategy aims to deliver revenue receipts to fund the initiative and make a significant contribution to the Council's forecast budget gap, the projected financial contribution towards the revenue budget from this investment make such a contribution. Members have been advised 'the net income from the occupiers' leases shows a significant surplus of circa £0.5m per annum after borrowing and amortisation costs which could be used to support the Council's general fund'.
- The acquisition costs for the purchase (Stamp Duty Land Tax (SDLT) / Legal / Agents / Due Diligence) were below the maximum stated in the Strategy.
- In accordance with the Strategy the Council has outsourced to professionals the; acting on behalf of the Council to source the investment site and manage the acquisition due diligence process, the legal work required to complete the transactions, and the management of the acquired properties.
- A number of other factors were considerations when assessing the benefits of the Eastgate Shopping Centre acquisition. By purchasing this site, the Council secured benefits in respect of future liabilities it had on the Car Park, and ownership will offer options to influence the future of the site to complement other developments within the City, including the Kings Quarter.
- The review of the documents associated with the investment show reports and summaries from specialists covering; legal advice, the due diligence on the property

and the investment including valuation, cash flow matters and returns, and property and site condition survey, including the development considerations.

- Other documents associated with the investment show; the delegated decision notice, the Property Investment Boards considerations, and the Member briefing note, which summarises the investment.

Conclusion

Since 2016 Local Authorities investment in commercial properties increased significantly and like others the Council has adopted a strategy to invest in commercial property to help generate returns to support their revenue budgets. Borrowing terms and the option to use accrued funds which had not been available in the past, offered the opportunity to invest for return. A National Audit Office review identified a mixed approach; between Councils seeking pure financial return (38% of investments being outside of Council boundaries) and those making investment decisions that can help them replace funding shortfalls, but also contribute to their local economy and environment. The stated core aim of the Council's Strategy is financial return and the two investments reviewed had the financial return projections required in the Strategy. However, these investments also have additional components that would bring further benefits to the Council, contributing to the Councils wider aims and City regeneration ambitions.

Effectively managing the risk associated with property investment is a key factor and the Strategy has specific requirements in respect of this. For the sample examined expert advice has been commissioned to undertake robust examination of each investment, the terms of acquisition, and how each meet the requirements of the Councils Property Investment Strategy.

The Investment Board has considered the advice and recommendations stemming from the due diligence process and have made recommendation to Members in respect of St Oswald's and progressed the investment in Eastgate Shopping Centre in line with the Investment Boards powers (delegation to the Section 151 Officer).

The 'running and review' section of the Strategy covers reporting and the need to report is being addressed. Going forward a formal reporting structure and frequency for both acquisitions and the investment fund is required.

Management Actions

One recommendation was raised by the ARA report, to ensure a formal reporting structure and agreed reporting frequency is established to monitor and ensure the delivery of the Strategy's aims and reporting requirements. This will be actioned and taken to Overview and Scrutiny Committee from 2021 (by November 2021) onwards.

Summary of Consulting Activity and support provided where no opinions are provided

Service Area: Council Wide

Audit Activity: Business Grants (Covid 19)

Background

As part of the central government confirmed financial support for businesses during coronavirus (Covid 19), two new schemes were confirmed as to be managed by local authorities within 2020/21:

- Scheme 1 – Small Business Grants Fund (SBGF): Providing up to £10,000 as a one-off grant to help small business owners meet their operating costs, based on set criteria.
- Scheme 2 – Retail, Hospitality and Leisure Business Grants Fund (RHLBGF): Businesses in receipt of the Expanded Retail Discount (which covers retail, hospitality and leisure) with a rateable value of less than £51,000 were eligible for cash grants per property, with the grant value dependent on the rateable value of the property.

Gloucester City Council's initial allocation for the above schemes (as per www.gov.uk) was £21,780,000.

Scope

ARA received a request from the Head of Policy and Resources and Intelligent Client Officer in April 2020 to provide support to the Council in its business grants (Covid 19) efforts.

The activity was confirmed as support on both the Small Business Grant Fund and the Retail, Hospitality and Leisure Business Grants Fund, with the ability for ARA input to adapt depending on the specific support needs of the Council (as agreed by the Head of Policy and Resources, the Intelligent Client Officer and the then Head of Audit Risk Assurance).

Key Findings

Support/work delivery provided on this area by ARA (Internal Audit and Counter Fraud Team) within 2020/21 included:

- Checks on the grant forms, process and checks to ensure that appropriate data from the applicant (business) is obtained and 'health' warnings highlighted for fraudulent claims.
- Working closely with the Intelligent Client Officer throughout the period of ARA involvement. This included Local Authority Chief Internal Auditors Network (LACAN) point of practice requests and benchmarking regards Covid 19 business grant processes and controls.

- Completion of legitimacy checks for a sample of businesses (including performing checks against their website, Companies House and Spotlight) to verify the legitimacy of the grant payment to the business. Outcomes of the checks were provided to the Intelligent Client Officer. This included referral of businesses for further investigation where ARA could not prove from the legitimacy checks that the business was still operating and/or was a genuine business.
- Counter Fraud Team review of referred cases for investigation, as well as ongoing support and guidance on the area. Counter Fraud Team outcomes on this area have been reported to Audit and Governance Committee within the year through the Internal Audit Progress Reports. The up to date position on these cases are reported within the 'Special Investigations/Counter Fraud Activities' section of the Annual Report.
- Provision of regular updates in-year to lead officers (including the Head of Audit Risk Assurance and the Intelligent Client Officer) on the work performed by ARA; the levels of grant payments made by the Gloucestershire Councils; and any issues that were identified.

Conclusion

The Small Business Grants Fund and Retail, Hospitality and Leisure Business Grants Fund were closed by central government in August 2020.

As reported on www.gov.uk and as at September 2020, Gloucester City Council had issued £20,205,000 of grant payments to 1,659 hereditaments. ARA appreciated being able to support this exceptional effort by the Council.

Service Area: Cultural and Trading Services

Audit Activity: Staff Appraisal System

Background

Staff appraisals are undertaken as part of the Council's performance management system.

Initially this consultancy review was planned to support the Council in establishing the effectiveness of the staff appraisal system, how the system compared to best practice, the way in which the process was being applied by managers, and to identify any issues arising from its application.

The Council's HR Business Partner (the County Council) were undertaking a review very similar to the planned scope of the audit review. Therefore, it was agreed the scope of the internal audit review be revised to reflect this. The focus of the ARA review became one of support to the HR Business Partner in a few specific areas.

Scope

The scope of the consultancy activities was to undertake sample testing of the current staff appraisal process to review and assess how it has been applied, with particular focus on the talent management scheme and the 360-degree review process.

Key Findings

- The review assessed and offered observations on a small sample of completed Personal Performance Plan forms. The performance review form has eight sections and an area for signatures and dates. Each of the eight assessment areas (objectives, development, what people say about me, behaviours, talent management, overall performance, other comments and new objectives) were reviewed. A number of matters relating to the use and completion of the forms were identified by ARA and referred to the HR team for consideration when developing and revising the Personal Performance Plan process.
- It was also identified that there was opportunity for the process to encourage and support wider consistency with better focus on objectives with defined time limited outcomes and developments linking to the role, outcomes, the individual and specific objectives.
- A further suggested consideration was the placing of talent management within the performance management process which could be re-evaluated to determine if this is the best fit.

Conclusion

The observations from this ARA consultancy review were fed to the HR team in a short report, this being well received as a contribution to the teams wider review; *'this is so useful and backs up thoughts had around the current system particularly the Talent Grid. This will be really helpful to inform the work going forward'*.

Service Area: Policy and Resources

Audit Activity: Covid 19 – Housing Benefit Payments

Background

On Friday 27th March 2020, the Minister for Local Government and Homelessness wrote to local authorities in England, asking them to house all rough sleepers and those sleeping in hostels and night shelters by that weekend, as part of efforts to contain the spread of coronavirus. £3.2 million emergency funding was made available to the authorities to help rough sleepers to self isolate and prevent the spread of Covid 19.

In response to this, Gloucestershire County Council created a Covid 19 Emergency Accommodation Protocol (CEAP), supporting anyone homeless or rough sleeping into accommodation, regardless of their eligibility under normal legislation.

It was agreed that the County Council would procure, by way of block purchasing, exclusive use of the hotels required to accommodate those in need. Each District Council would then pay to the County Council in arrears all Housing Benefits and/or rent payments received by it from the Department for Work and Pensions, in respect of rough sleepers and homeless households that have been brought in from its jurisdiction and placed in accommodation procured by the County Council under the block purchasing arrangements. The County Council would then fund the remaining amount/cost from funding received by the Council from the Covid 19 Emergency Funding For Local Government.

Scope

During the period March 2020 to September 2020 Gloucester City Council supported 243 rough sleepers with hotel accommodation and food provisions.

ARA received a request from the Housing Services Operational Lead to provide an objective independent examination of accounts to reconcile the total amount recovered by Gloucester City Council in housing benefit payments with the total paid to Gloucestershire County Council.

Key Findings

- The Housing Team provided ARA with the full list of rough sleepers who were housed in the hotel temporary accommodation for the specified period;
- ARA independently accessed the housing benefit system to verify the amount claimed by the City Council;
- The Council had been unable to claim benefits for 67 rough sleepers at the time of testing. This was mainly due to the Council awaiting further information from the clients in order to confirm if they were eligible for housing benefits;
- Once testing was concluded ARA confirmed the total amount owed to Gloucestershire County Council as £98,809.67; and
- ARA viewed an invoice from Gloucestershire County Council to Gloucester City Council totalling £98,809.67.

Conclusion

ARA is satisfied the Gloucester City Council Housing Service have developed a robust process for managing the benefit claims relevant to the area under review, allowing Gloucestershire County Council to recover appropriate and sufficient funding.

Service Area: Policy and Resources

Audit Activity: Data Capture Project

Background

Gloucester City Council offers a range of benefits to support those on a low income, in poor health or unable to work. Housing Benefit exists to help people pay their rent. The amount provided is calculated based on a variety of criteria including (but not exclusive to) income, the number of bedrooms in the property and personal circumstances.

The onus is on the claimant to inform the Council of any changes to their circumstances which might impact the amount of Housing Benefit they receive. If this does not happen, the Council may make an overpayment and the claimant may be in debt to the Council.

Previously Civica Financials facilitated the Council's debt recovery procedures for this area (Housing Benefits). In June 2020 the Council outsourced Housing Benefits debt management to Indesser who work in partnership with the Cabinet Office to offer an effective, intelligent and proven way to recover the billions of pounds owed to the public sector.

Scope

Due to the impact of Covid 19, the Council's Finance Team had to prioritise payment of grants to businesses and the self employed. ARA received a request from the Head of Policy and Resources and Intelligent Client Officer (Revenue and Benefits) to provide additional support in the handover between Civica Financials and Indesser.

Key Findings

- Civica provided ARA with a list of accounts that had been identified with overpayments;
- ARA independently accessed the Benefits finance system and obtained the relevant data; and
- This data was populated into the appropriate formatting to allow Indesser to extract and begin the debt recovery procedures.

Conclusion

ARA appreciated being able to support the Revenue and Benefits Team throughout this engagement.