

Internal Audit Activity Progress Report

2021-2022



(1) Introduction

All Council's 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 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. ARA 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 operations.

(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 Council 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. These are set out in the Council's Code of Corporate Governance and Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the PSIAS is that the Head of ARA should provide progress reports on Internal Audit activity to those charged with governance. This report summarises:

- i. The progress against the 2021/22 Risk Based Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- ii. The outcomes of the 2021/22 Internal Audit activity delivered up to August 2021; and
- iii. Special investigations/counter fraud activity.

(4) Progress against the 2021/22 Internal Audit Plan, including the assurance opinions on risk and control

The schedule provided at **Attachment 1** provides the summary of 2021/22 activities which have not previously been reported to the Audit and Governance Committee.

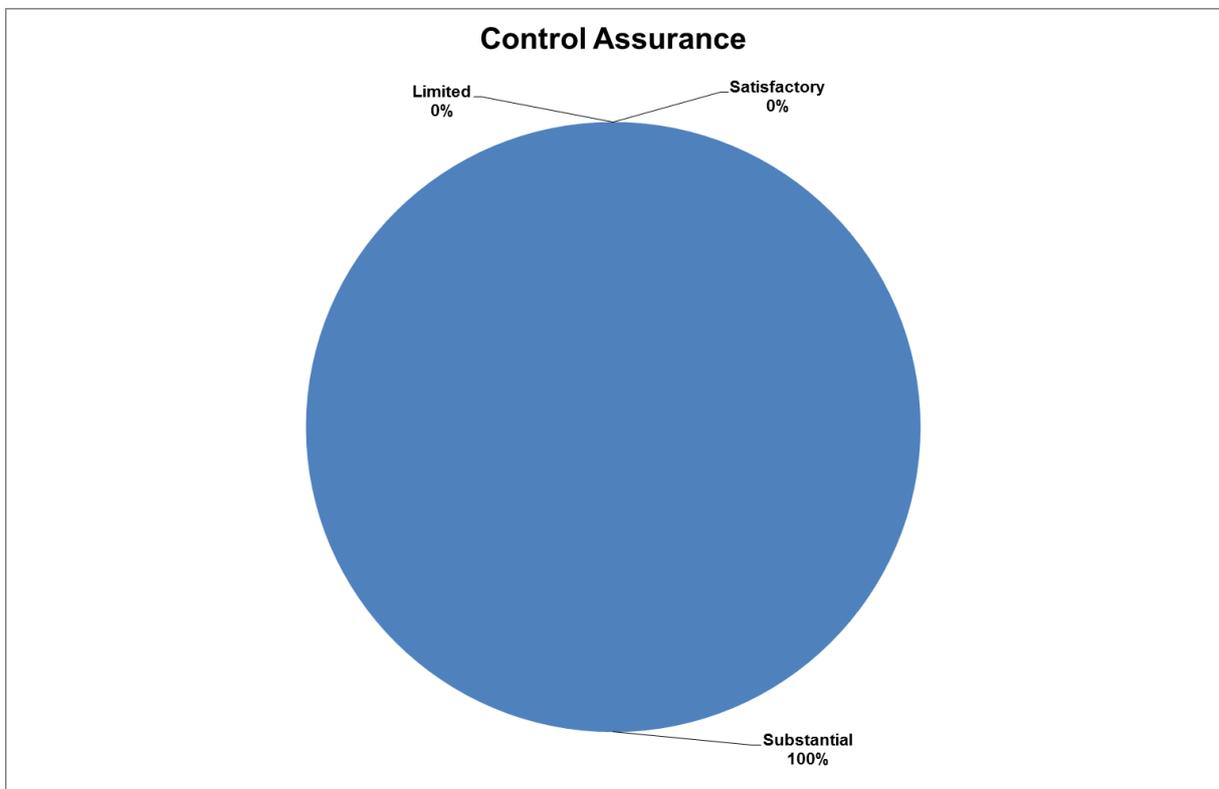
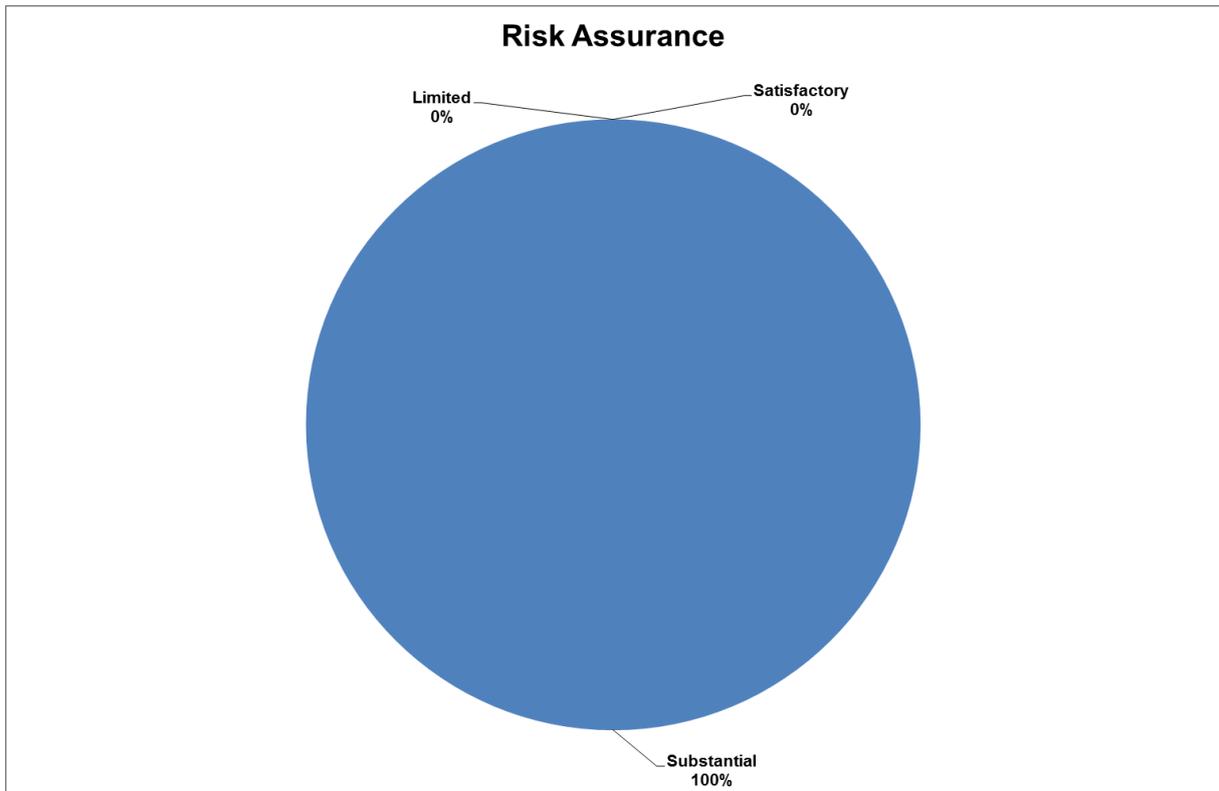
The schedule provided at **Attachment 2** contains a list of all of the 2021/22 Internal Audit Plan activity undertaken during the financial year to date. This includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage 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 the assurance 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 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 below pie charts show the summary of the risk and control assurance opinions provided in relation to the 2021/22 audit activity undertaken up to August 2021.



(4b) Limited Control Assurance Opinions

Where Internal 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 Committee meeting. This is to provide an update as to management 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 up to August 2021, no limited assurance opinions on control have been provided on completed audits from the 2021/22 Internal Audit Plan.

(4d) Satisfactory Control Assurance Opinions

Where Internal Audit activities record that a satisfactory assurance opinion on control has been provided and recommendations have been made to reflect some improvements in control, the Committee can take assurance that improvement actions have been agreed with management to address these.

(4e) Internal Audit Recommendations

During the period up to August 2021, Internal Audit made no recommendations.

The Committee can take assurance that all high priority recommendations will remain under review by Internal Audit. Regular management updates are obtained by Internal Audit, until the required action has been fully completed.

(4f) Risk Assurance Opinions

During the period up to August 2021, no limited assurance opinions on risk have been provided on completed audits from the 2021/22 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.

Completed 2021/22 Internal Audit Activity delivered up to August 2021

Summary of Substantial Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: Patch Management

Background

A 'patch' is a piece of software code that can be applied to a computer program after it has been installed to correct an issue or vulnerability of that program. It is not uncommon for software programs to have patches applied after their initial release. A patch can resolve functionality issues, improve security or add new features.

A patch is usually issued by the vendor of a piece of software. Patches can be free or they can be charged for.

Prompt patching is essential for effective cyber security. When a new patch is released, attackers will quickly identify the underlying vulnerability in the application being patched and release malware (harmful software) to exploit the vulnerability.

Effective patch management is about keeping operating and application software on computers and network devices up to date and capable of resisting low level cyber attacks. All software may be prone to technical vulnerabilities and once these are discovered and shared publicly, these vulnerabilities can be exploited.

A recent Ponemon Institute survey identified almost 60% 'of breaches suffered by organisations were due to unpatched vulnerabilities'.

Councils need to ensure that:

- i. All software installed on devices is licenced and supported;
- ii. That unused or unsupported software is removed from devices; and
- iii. That all devices are patched within 14 days of an update being released where a patch addresses a vulnerability with a severity assessed by the vendor as critical or high.

Patches are usually tested on a suite of test devices to ensure that applying the update will not cause any issues prior to being applied to all devices.

Firmware is a specific class of computer software that provides low level control of a device's specific hardware. Firmware updates released by the device's manufacturer update the existing firmware on the device and may enhance the device's capabilities or fix an issue.

Scope

The review assessed the arrangements in place for patch and device firmware management.

This included both operating system and application software patching, to ensure that all Council devices are patched and device firmware updated in a timely manner in accordance with best practice guidance.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- i. Patching of the Council's IT systems is undertaken by Civica Information Technology Outsourcing (ITO) in accordance with Civica's documented Patch Management Service Description.
- ii. Patches are not fully tested prior to being applied as this would require additional resources and incur additional costs. The risks arising from this strategy are mitigated through taking backups or virtual images prior to applying patches and through applying patches sequentially to server groups. Applying patches sequentially to groups of servers rather than to all servers simultaneously spreads the risk should a patch cause an issue.
- iii. The most recent Public Service Network penetration test (January 2021) and a recent Local Government Association Cyber Security Testing Pilot (May 2021) did not identify any significant issues relating to the patching regime used by the Council.
- iv. Application patching is managed by the application owner/application champion and is undertaken by the application's external support provider.
- v. Access for the external support provider to apply the patch is facilitated by the Council's ICT Team and Civica. Access is provided only for the time necessary to apply the patch with access restricted to the specific application. One time use codes generated by token are used to ensure secure access for the external engineer.
- vi. Device firmware is updated in accordance with manufacturer's recommendations. Firmware for the storage area network (SAN) and for Cisco devices is undertaken by the relevant external support provider and is usually undertaken outside of normal working hours to minimise any potential disruption to the Council.
- vii. All patching is recorded as a service request on the Service Desk managed by Civica to ensure that all changes are captured and recorded.

Conclusion

The Council has effective arrangements in place for the patching of operating systems and application software and for the application of device firmware updates.

The risks arising from patching are mitigated through taking backups or snapshot images prior to applying the patch. This enables systems and devices to be restored to their condition immediately prior to the patch being applied if necessary due to any issues caused by the patch.

All patching and firmware updates are managed through the service desk in accordance with best practice to ensure that all changes are recorded and documented.

Management Actions

No management actions required.

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

Service Area: Communities

Audit Activity: Compliance and Enforcement Grant

Background

In October 2020 the Council received £67,379 of grant funding under the Compliance and Enforcement Surge Grant from the Ministry of Housing, Communities & Local Government (MHCLG).

The purpose of the grant is to provide support to district and unitary councils in England towards expenditure lawfully incurred or to be incurred by them in relation to Covid-19 related enforcement and compliance activity. The MHCLG guidance provides details of the types of eligible compliance and enforcement activity which councils can choose to use the funding for.

Scope

To provide assurance that the following grant declaration can be made:

‘To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to the Covid-19 Local Authority Compliance and Enforcement Grant for Lower Tier and Unitary Authorities Determination 2020 No31/5216 have been complied with.’

Key Findings

The Community Wellbeing team created an implementation plan to allocate the Compliance and Enforcement Surge Grant budget across a variety of areas including Covid Secure Ambassadors, engagement campaigns and funds for the community.

A partnership was formed between Gloucester City Council, Cheltenham Borough Council, Stroud District Council and Tewkesbury Borough Council to implement the Covid Secure Ambassadors approach across the county. In addition to the grant funding from the MHCLG, Gloucester City Council received funding of £68,685 from this partnership, bringing the total external funding for the area to £136,064.

Expenditure recorded within the Council's financial management system against areas of eligible expenditure relevant to the grant totalled £200,910. Internal Audit selected and reviewed a sample of transactions covering £72,226 (36% of the eligible grant expenditure) to ensure that the expenditure was in line with the MHCLG supporting guidance for the grant. Audit testing confirmed that all sampled expenditure was in accordance with the relevant grant conditions.

Conclusion

Having undertaken a review of records maintained by the Council, Internal Audit has gained reasonable assurance that the conditions of the grant determination No31/5216 have been fulfilled and as such the declaration has been signed and submitted to the MHCLG.

Management Actions

No management actions required.

Service Area: Cultural Services

Audit Activity: Blackfriars Priory Turnover Certificate

Background

In March 2012 the Council entered a lease with English Heritage for the use of the Blackfriars Priory site.

The Council's main objectives for the venue were to open it as a visitor attraction, provide educational visits, develop a wide-ranging events programme (both commercial and non-commercial), run and facilitate workshops and develop a meeting and conference trade. There is now also a developed service as a wedding venue.

The lease allowed a rent of £1.00 per annum for the first two years of operation, and then from 1st April 2014:

- i. First, Second and Third Turnover Periods a rental of 2% of Gross Turnover, as defined in the lease agreement;
- ii. Fourth, Fifth and Sixth Turnover Periods a rental of 5% of Gross Turnover, as defined in the lease agreement; and
- iii. Seventh and subsequent Turnover Periods a rental of 10% of Gross Turnover, as defined in the lease agreement.

The Council is required to provide English Heritage with a 'Turnover Certificate', signed by a professionally competent Auditor, certifying the amount of Gross Turnover for the relevant year.

Scope

The audit review was delivered:

- i. To provide assurance that, in all significant respects, the Gross Turnover values for 2020/21 provided to English Heritage by Finance are accurate and in accordance with the requirements of the lease agreement; and
- ii. To provide assurance that a certificate confirming the Gross Turnover for the Turnover Period may be signed.

Key Findings

- i. The Gross Turnover figure to be provided to English Heritage is based on the balances for income account codes in use for Blackfriars.
- ii. The Provisional Gross Turnover figure, prepared by the Accountancy Manager, shows that £9,365.87 was received in the financial year 2020/21.
- iii. The Council completes journals at year end to transfer deposits or other items to the financial year to which they relate, in accordance with standard accounting practice. However, the English Heritage lease agreement, Schedule 2 (clause 6.2) requires that deposits are included as Gross Turnover at the time of receipt and may be deducted from the Gross turnover only if and when repaid.
- iv. As a result of this an adjustment of -£1,418.03 was made due to deposits paid back within financial year 2020/21. Therefore, the Gross Turnover for 2020/21 is now calculated as £7,947.84.
- v. Internal Audit reviewed the financial records provided by the Accountancy Manager and, based on these records, confirmed that the Gross Turnover is £7,947.84 for financial year 2020/21.
- vi. It is noted that Covid-19 had a significant impact on income generating areas delivered on site at Blackfriars Priory and that this is reflected within the Gross Turnover figure achieved in 2020/21. The comparative figure for 2019/20 Gross Turnover was £64,135.44.

Conclusion

Internal Audit has gained assurance that the requirements of the lease agreement have been met. Appropriate adjustments have been made in accordance with Schedule 2 deposits received and paid back by the Council in the financial year 2020/21.

Based on this outcome, the Gross Turnover certificate has been signed off in respect of £7,947.84 received in financial year 2020/21.

Management Actions

No management actions required.

Service Area: Policy and Resources**Audit Activity: Lost Sales, Fees and Charges Claim Three****Background**

Covid-19 has impacted councils' abilities to generate revenues in several service areas because of lockdown, government restrictions, and social distancing measures related to the pandemic.

The 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.

The reconciliation process has not taken place to date (August 2021) and the Council await further MHCLG guidance on the area.

Scope

To review the Lost Sales, Fees and Charges claim three (December 2020 to March 2021) to provide assurance that the claim has been submitted in line with the guidance from the MHCLG.

Key Findings

- i. 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 three totalled £860,000.
- ii. Internal Audit selected and reviewed four income sources (off-street parking, culture and heritage, markets and garden waste) accounting for 70% of applicable losses to ensure that the budget had been correctly calculated, all lost income was in accordance with the three principles of the scheme, within the relevant period under the claim (December 2020 to March 2021) and was as shown within the Council financial management system. No issues were identified.

- iii. When reviewing claims one and two of the Lost Sales, Fees and Charges scheme, Internal Audit identified monies which had been incorrectly coded as income. Internal Audit confirmed that this had been corrected as part of claim three and because of this the Council were able to add an additional £90,000 to its claim.
- iv. One income source, Public Transport, was identified by the Accountancy Manager as having no net income loss across the financial year. Therefore, as part of claim three, monies received for this area to date were deducted and repaid. However, the Council did not reclaim the initial deduction for this area taken in claim one and can therefore claim an additional £2,245 as part of the reconciliation due to take place after claim three.
- v. 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 (December 2020 to March 2021).

Conclusion

The Council submitted a claim for £860,000 under this scheme for December 2020 to March 2021.

Internal Audit sample testing confirmed the correct calculation of losses and application of the parameters during this period, including the repayment of claims as part of the Public Transport budget. As a result of this and as part of the reconciliation exercise due to take place, the Council can reclaim the initial deduction of £2,245 taken in claim one relevant to the Public Transport budget.

Management Actions

No management actions required specific to claim three.

Summary of Special Investigations/Counter Fraud Activities

Current Status

To date in 2021/22, there have been three new irregularities referred to the ARA Counter Fraud Team (CFT). This is in addition to two cases brought forward from prior year.

As at August 2021, two cases have now been closed and the outcomes on the remaining three cases will be reported to the Audit and Governance Committee on their conclusion.

Both of the closed cases were in relation to animal welfare concerns. One case was related to an issue outside of the Gloucester area and was referred to the appropriate council for review. The second case was reviewed and then closed due to insufficient information and evidence.

In addition, the ARA CFT in conjunction with the Council's Intelligent Client Officer (Revenues and Benefits) have continued to work on three cases carried forward from 2020/21 in respect of Covid-19 Government issued small business grant payments.

Several potential attempted frauds have been intercepted and prevented through appropriate actions. 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.

The CFT continues to provide support and guidance to Council staff in respect of Interviews Under Caution, court file preparation and taking witness statements where required.

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 as at October 2020. The data matching reports were then released at the end of January 2021.

The full NFI timetable can be found using the following link [GOV.UK](https://www.gov.uk).

Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all NFI matches are always investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area within the Council.