Internal Audit Activity Progress Report

2021-2022

ARA
AuditRisk**Assurance**

Gloucester
City Council
Transforming Your City

(1)   Introduction

All Councils must make proper provision for Internal Audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. This states Council's 'must undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes. This should take 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.

The Internal Audit service is delivered in conformance with the International Standards for the Professional Practice of Internal Auditing.

(2)   Changes within 2022

ARA recognise the challenges facing the Council and local government more widely, to deliver high quality services and to meet the expectations of residents and other stakeholders.

ARA are committed to helping the Council and its officers to manage their risks, to deliver services and to be successful in achieving objectives.

Therefore, ARA have reviewed how we work and how we can best help the Council to meet its challenges. We have commenced a journey to initiate improvements in a number of areas and, by doing so, improve the service that we provide to the Council.

The Committee are asked to note the following changes that are taking place within 2022. These include:

i.   Changing the format of ARA activity reports. Our reports will be more focussed, concise and dynamic, clearly highlighting the areas that need to be addressed by management.

ii.   The risks identified in ARA reports will be rated using a High, Medium and Low categorisation.

iii.   The style of reporting to the Committee will also change for 2022/23 ARA activities. In particular, the Internal Audit Progress Report will be split into two. Firstly, the summaries of Internal Audit reports will be more concise highlighting just the salient points. Secondly the summary of Internal Audit activity will be red, amber or green (RAG) rated to show the progress of individual audits:

- Red will indicate an audit that is unlikely to be completed in-year;
- Amber will indicate a delay to the start of an audit; and
- Green will indicate that an audit is due to commence in the quarter stated in the Internal Audit Plan.

iv.   ARA will introduce Recommendation Progress Monitoring reports. Internal Audit will issue these ahead of the Committee, to the management responsible for implementing the recommendations. Management will then specify the progress made in implementing the recommendations, for example implemented, in progress or that more time is required.

v.   The Recommendation Progress Monitoring reports will help management and the Committee to monitor progress on recommendation implementation across the Council, and to see that Internal Audit reports are being actioned.

vi.   The Head of ARA's Annual Report, the Annual Report of the Chair of the Audit and Governance Committee, and the Annual Governance Statement will be reviewed and updated to be more focussed and concise. It is noted that this action has already commenced through the 2021/22 year end reports, presented to Audit and Governance Committee on 18th July 2022.

(3)   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.

(4)   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 and final position on the Internal Audit Plan 2021/22, including the assurance opinions on the effectiveness of risk management and control processes;

ii.   The outcomes of the delivered Internal Audit Plan 2021/22 activity; and

iii.   Special investigations/counter fraud activity.

(5) 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. This includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks. Attachment 2 also reflects when activity outcomes have been presented to the Audit and Governance Committee.

Explanations of the meaning of the assurance opinions provided up to February 2022 are shown below.

Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	**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, customers, partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Strategy.	• 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	**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, customers, partners, and staff. However, some key risks are not being accurately reported and monitored in line with the Council's Risk Management Strategy.	• 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	**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, customers, partners and staff.	• 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.

ARA activity reports have changed from March 2022 and the assurance opinion approach has been updated.

One assurance opinion only is provided per activity. Four opinion outcomes are possible: Substantial; Acceptable; Limited; and No Assurance.
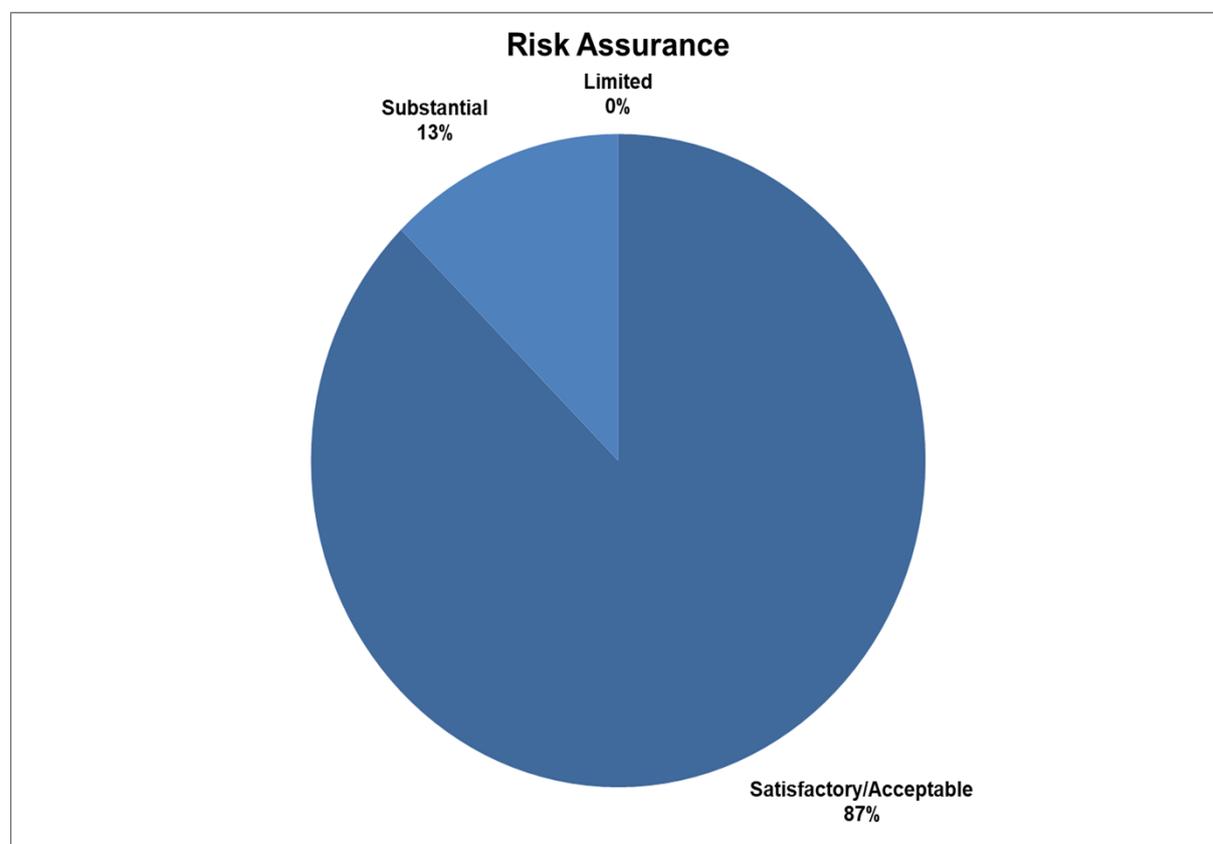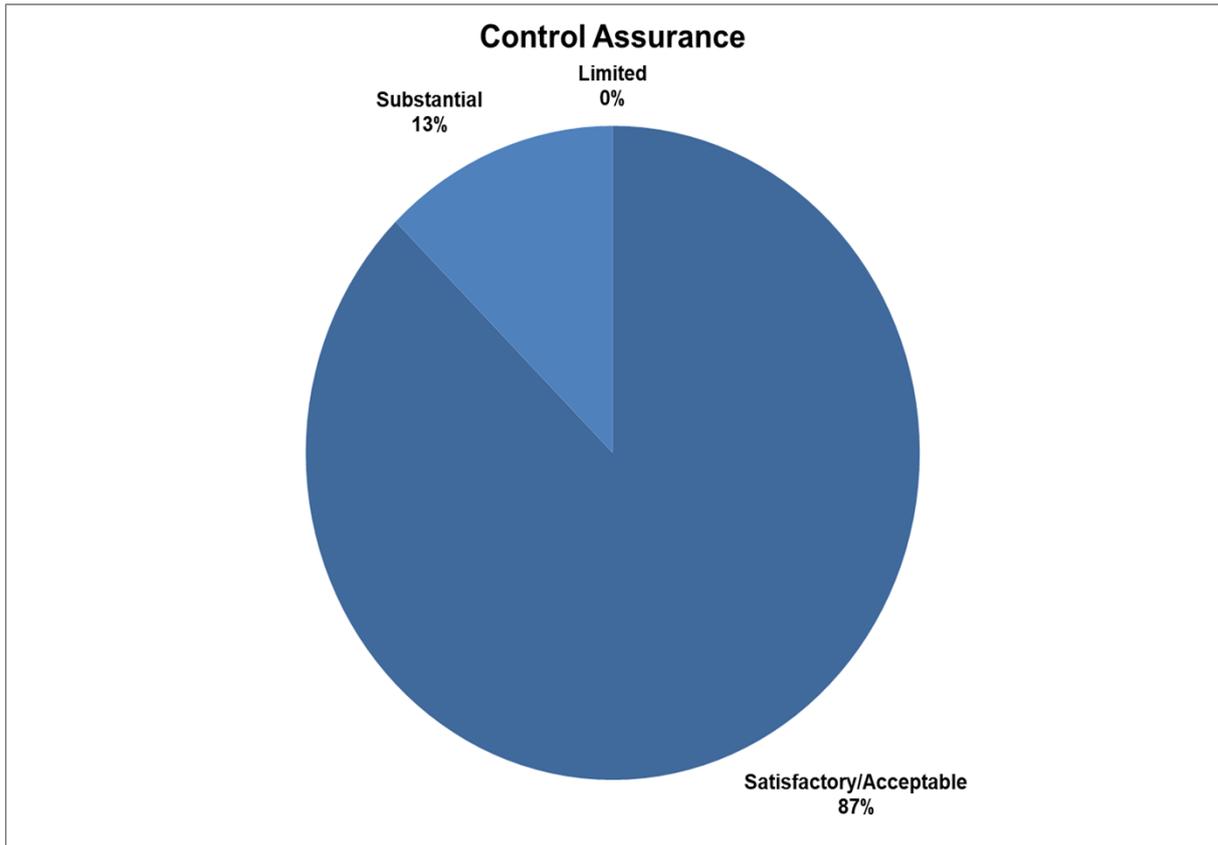
The following criteria are used:

i.   Substantial assurance – all key controls are in place and working effectively with no exceptions or reservations. The Council has a low exposure to business risk;

ii. Acceptable assurance – all key controls are in place and working but there are some reservations in connection with the operational effectiveness of some key controls. The Council has a medium to low exposure to business risk;

iii. Limited assurance – not all key controls are in place or are working effectively. The Council has a high to medium exposure to business risk;

iv. No assurance – no key controls are in place or no key controls are working effectively. The Council has a high exposure to business risk.

Due to the timing of change, the ARA outcomes in **Attachment 2** will reflect both types of assurance approach within 2021/22.

(5a) 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 completed Internal Audit Plan 2021/22 activity.

Risk Assurance

Limited 0%

Substantial 13%

Satisfactory/Acceptable 87%

Control Assurance

- Limited 0%
- Substantial 13%
- Satisfactory/Acceptable 87%

For the purpose of the pie charts, the two assurance approaches within 2021/22 have been amalgamated. There were nil 'No assurance' opinions in 2021/22.

(5b) 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.

No limited assurance opinions on control have been provided for the completed Internal Audit Plan 2021/22 activities.

(5c) Audit Activity where a Limited Assurance Opinion has been provided on Control

No limited assurance opinions on control have been provided for the completed Internal Audit Plan 2021/22 activities.

(5d) Satisfactory Control Assurance Opinions

Where Internal Audit activities record that a satisfactory assurance opinion on control and recommendations have been made, the Committee can take assurance that improvement actions have been agreed with management.

(5e)   Internal Audit Recommendations

For the completed Internal Audit Plan 2021/22 activities, Internal Audit made 25 recommendations in total to improve the control environment. Five of these being a high priority recommendation and 20 being a medium priority recommendation.

24 (96%) of the recommendations have been accepted by management.

Management have not accepted one medium priority recommendation stemming from the Procurement Cards internal audit, as reported to Audit and Governance Committee in November 2021. The management decision was based on the wider controls in place within the process and risk appetite.

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.

(5f)   Risk Assurance Opinions

No limited assurance opinions on risk have been provided for the completed Internal Audit Plan 2021/22 activities.

Concluded Internal Audit Plan 2021/22 Activity during the period March 2022 to July 2022

Summary of Satisfactory / Acceptable Assurance Opinions

Service Area: Council Wide

Audit Activity: Health and Safety Limited Assurance Second Follow-Up

Background

Health and Safety of staff, service users and members of the public is a requirement of the Management of Health and Safety at Work Regulations 1999.

The Internal Audit report dated 14th May 2020, concluded that there were four recommendations which required full implementation.

Scope

The follow-up audit reviewed the four original recommendation themes. This included review of procedures, controls and supporting documentation for: i) staff training; ii) guidance, completion and recording of annual risk assessments; and iii) for Council buildings determining the Health and Safety responsibilities shared with partners and service users and documenting this in a user manual.

Assurance Opinion – Acceptable (equivalent to the Satisfactory assurance opinion)

Key Findings

i.   Review of Council's processes for the Health and Safety of staff and service users, has demonstrated incremental improvement in how it meets the challenges to safeguard wellbeing. Two of the four original recommendations have been implemented.

ii.   Since the last review in May 2020 there has been good progress made in providing Health and Safety training interventions to staff to facilitate improvement of awareness and understanding. One of the training outcome objectives is in managing potential risks such as corporate damage to credibility and reputation.

iii. Overseeing service responsibility for Health and Safety is an experienced Community Wellbeing Officer, who demonstrated that they are well educated in this subject area.

iv.   Staff in need of Health and Safety training received this intervention in March 2022.

v.   Service area annual risk assessments of Health and Safety were completed in 2021. Evidence reviewed showed that the risk assessments had not been consistently recorded with details of the author's name and completion date.

vi.   This oversight in completing the risk assessment, leads to lack of transparency and identifying the relevant member of staff responsible for completion.

vii.   The corporate project utilising Techforge systems as a buildings database, which would include documenting Health and Safety responsibilities for the Council, partners and tenants needs to move forward in its implementation.

viii.   Enquiries established that additional staff resource would be required to populate the Techforge database with the buildings data to aid providing clarity on responsibilities for Health and Safety.

ix.   As a result of the above project pause, the potential inherent risk to Council reputation with its stakeholders for Health and Safety is still present.

Conclusion

From a review of the systems and processes, it is evident that there has been positive progress against the original ARA recommendations. With two recommendations fully implemented and two in progress, pending further action (the completeness of risk assessment activity and division of relevant Health and Safety responsibilities).

The follow-up review has re-freshed the two outstanding recommendations, with the objective of improving the existing Health and Safety processes and control environment.

The two recommendations refer to: i) improved evidencing of the service risk assessments; and ii) progressing the Techforge project so that improved clarity and understanding for Health and Safety responsibilities are identified.

Management Actions

Both recommendations have been agreed by management. The latest date for implementation is 31st July 2022.

Service Area: Communities

Audit Activity: Section 202 Reviews

Background

Section 202 of the Housing Act 1996 states that an applicant has the right to request a review of the housing officer's decision. The Homelessness Reduction Act 2017 places a legal duty on the Council to provide more support to a wider range of people who are homeless or threatened with homelessness and to intervene earlier.

The Homelessness Reduction Act 2017 expands the list of decisions that can be reviewed to include the prevention and relief duties. The Homelessness Review Regulations 2018 provide clarity on the process to apply.

Scope

This audit reviewed the procedures, controls and supporting documentation to provide assurance that the process used is compliant with statutory legislation.

Note:

During the audit, Internal Audit were informed by management that a change in operational arrangements for Section 202 reviews would take place from Quarter 4 2021/22. Due to the impact of Section 202 review long-term staff sickness, the emergency decision was taken to outsource this service for twelve months.

In agreement with officers, the audit review was completed based on the original audit scope and in-house Section 202 service provision delivered to the point of audit. The ARA observations and recommendations remain relevant to the updated service provision model.

Assurance Opinion – Acceptable (equivalent to the Satisfactory assurance opinion)

Key Findings

i.   Audit review of the Council's processes for administering Section 202 requests from people who are homeless or in temporary accommodation, has found that a robust approach is adopted. Council procedures are compliant with legislation.

ii.   An experienced Housing Officer or the Housing Review Company who is independent of the original allocated member of staff, completes the Section 202 review, based on the contents of the request.

iii. A sample of six reviews covering the period April 2020 to November 2021 was completed to assess the procedures, controls and supporting Housing Locata system documentation records in place.

iv.   The evidence inspected verified that the reviews were materially complete. This demonstrated: i) case details from inception to completion of the process; ii) the members of staff responsible for procedures and actions; and iii) the resulting review requestor housing outcomes.

v.   The Council's website page for Homelessness and Section 202 reviews does correctly document the approach which should be used by staff. However, there is a need for greater clarity at the beginning of the page to document that The Homelessness Review Regulations 2018 influence how the review will be completed.

vi.   As a result of a complex housing case, the Council requested an independent Section 202 review of the case which was carried out by a specialist company.

vii.   The synopsis completed by the review company, found that the Council should have invited the review requestor to an oral hearing or interview so that additional information of their personal circumstances and wellbeing could have been collected. The information collected would have helped to inform the review decision and confirming letter.

viii.   As a result of these findings, a recommendation has been made for future reviews to introduce a procedure to consider the need for an oral hearing or interview with the review requestor. With the outcome to be documented.

ix.   From the sample of six cases reviewed; i) one housing plan was not attached on the Locata record; ii) one review request was not retained in its original format; and iii) one Locata Housing review request was not correctly completed. Future Section 202 reviews should ensure that the three points are rectified and subsequently documented correctly on the Locata records.

x.   Business Continuity arrangements were assessed. Enquiries made, and evidence reviewed confirmed that a service level agreement with a specialist Housing Review company is in place until December 2022.

Conclusion

From a review of the systems and processes, ARA conclude that the existing procedures and controls provide an Acceptable Assurance level in meeting the control objectives.

Three recommendations have been raised, with the objective of improving the existing Housing processes and control environment.

The three recommendations refer to: i) improved clarity on the Council's website Housing page for the legislation that is applicable; ii) per case, to consider and document whether there are gaps in knowledge of the review requestor's circumstances and if so, request an oral hearing or interview to gather information; and iii) implementing control checks to ensure complete case detail documentation on the Locata Housing system.

Management Actions

The Housing Innovation Manager and Housing Operational Lead Manager have accepted the three recommendations, with the objective of adding value to the existing robust control environment. The management actions for the three recommendations will be completed by 31st October 2022.

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

Service Area: Cultural Services

Audit Activity: Cultural Strategy Review

Background

The Council developed a ten year (2016 to 2026) cultural plan as a positive statement of the Council's ambition to develop culture in the City. The Cultural Vision and Strategy is at its midway point and therefore it has been recently reviewed and revised.

The revised strategy has added two more objectives (now eight) and details the revised actions that will deliver each objective. The strategy states that success will be measured through a range of key performance indicators.

Scope

The audit review process was that of a critical friend, assessing and advising on the further development of the performance management processes and the performance measures proposed. The review assisted with the assessment of the existing arrangements and the performance indicators currently operating. It also considered the opportunity for further performance measures (indicators, milestones, outputs, and outcomes) that could enable the tracking of actions that have been designed to deliver each objective.

Key Findings

Internal Audit worked with the Head of Culture to develop the performance framework of the Cultural Strategy. This included:

    i.   Reviewing Key Performance Indicators (KPIs) to ensure they encourage the desired outcome of a given objective;

    ii.   Ensuring that there are appropriate KPIs to cover all elements of a given objective set out in the Cultural Strategy, using multiple KPIs per objective where required;

    iii.   The use of qualitative measures to give further insight into the performance against the objective as well as giving details on why actions have been successful or not;

    iv.   The difference between efficiency indicators and effectiveness indicators in measuring performance;

    v.   Ensuring that KPIs captured the success of the outcomes from actions undertaken and not just the number of actions completed against a given objective;

vi. Ensuring that financial measures are not the sole measure of performance in any given area; and

vii. Providing ideas of how data, especially qualitative data can be gathered to gain further insight into performance.

Conclusion

Management took onboard the advice from Internal Audit as part of the review and is using this to update and refresh the Culture Strategy Delivery Tracker and subsequent performance reports.

Management Actions

As per the conclusion section.

Service Area: Cultural Services

Audit Activity: Culture Recovery Fund - Round Two

Background

Responding to the coronavirus pandemic and the unprecedented challenges it brought to culture and creativity across the UK, the government announced a series of measures in March 2020 to help save these sectors.

The grant funding from the Arts Council aimed to support significant organisations which were financially sustainable before Covid-19, but were at imminent risk of failure and had exhausted all other options for increasing their resilience.

Scope

To review the Culture Recovery Fund Round Two income and expenditure to provide assurance that the Final Activity Report is accurate.

As a result, a statement of income and expenditure for the activity can been certified by an independent qualified accountant.

Key Findings

i. The Council applied and was subsequently approved for £50,000 grant funding under the Culture Recovery Fund Round Two to support and develop services provided by the Guildhall and Museum of Gloucester. This funding was to be spent or committed from 1st April 2021 to 31st December 2021.

ii. Expenditure recorded against the grant totalled £50,302 (excluding VAT). Internal Audit selected and reviewed a sample of transactions covering £21,439 (42.6%) to ensure that the expenditure was in line with the grant guidance and could be evidenced by supporting invoices.

iii.   It was confirmed that all sampled expenditure was in accordance with the relevant grant conditions, with appropriate supporting evidence maintained by the Council to confirm the money had been spent.

iv.   Internal Audit was provided with the income figures relating to the Culture Recovery Fund Round Two by the Visitor Experience Manager. Internal Audit reviewed and confirmed the income figures corresponded to the till operating system and manual room hire record. Due to the cyber incident, the Council did not have access to the Financial Management System (general ledger) and therefore records could not be agreed to this. The Arts Council confirmed the use of manual records was acceptable.

v.   The Council are required to complete a Final Activity Report which shows the actual income and expenditure against the budgeted figures for the relevant grant areas (Guildhall and Museum of Gloucester). Audit review of the Final Activity Report confirmed that the quoted income and expenditure figures were in line with the documentation sighted for this period for the Guildhall and the Museum of Gloucester.

Conclusion

ARA have completed review of the available records maintained by the Council for the income and expenditure related to the Culture Recovery Fund Round Two. Reasonable assurance has been gained that the conditions of the grant have been fulfilled and as such the declaration has been signed and submitted to the Arts Council.

Management Actions

No management actions required.

Service Area: Cultural Services

Audit Activity: Culture Recovery Fund - Round Three

Background

Responding to the coronavirus pandemic and the unprecedented challenges it brought to culture and creativity across the UK, the government announced a series of measures in March 2020 to help save these sectors.

The grant funding from the Arts Council aimed to support significant organisations which were financially sustainable before Covid-19, but were at imminent risk of failure and had exhausted all other options for increasing their resilience.

Scope

To review the Culture Recovery Fund Round Three income and expenditure to provide assurance that the Final Activity Report is accurate.

As a result, a statement of income and expenditure for the activity can been certified by an independent qualified accountant.

Key Findings

i. The Council applied and was subsequently approved for £50,000 of funding under the Culture Recovery Fund Round Three to support and develop services provided by the Guildhall and Museum of Gloucester. This funding was to be spent or committed to support the period 1st November 2021 to 31st January 2022.

ii. Expenditure recorded against the grant totalled £49,980 (excluding VAT). Internal Audit selected and reviewed a sample of transactions covering £14,480 (29%) to ensure that the expenditure was in line with the grant guidance and could be evidenced by a supporting invoice.

iii. It was confirmed that all sampled expenditure was in accordance with the relevant grant conditions, with appropriate supporting evidence maintained by the Council to confirm the money had been spent.

iv. Due to the overlap in funding round dates, ARA testing also considered whether the expenditure claimed had been duplicated between funding rounds. No instances of expenditure duplication were identified.

v. Internal Audit was provided with income figures relating to the Culture Recovery Fund Round Three by the Visitor Experience Manager. ARA reviewed and confirmed the income figures corresponded to the till operating system, donation records and manual room hire records. Due to the cyber incident, the Council did not have access to the Financial Management System at this time and therefore records could not be confirmed to this. The Arts Council confirmed this was acceptable.

vi. The Council are required to complete a Final Activity Report which shows the actual income and expenditure against the budgeted figures for the relevant grant areas (Guildhall and Museum of Gloucester). Audit review of the Final Activity Report confirmed that the quoted income and expenditure figures were in line with the documentation sighted for this period for the Guildhall and the Museum of Gloucester.

Conclusion

ARA have completed review of the available records maintained by the Council for the income and expenditure related to the Culture Recovery Fund Round Three. Reasonable assurance has been gained that the conditions of the grant have been fulfilled and as such the declaration has been signed and submitted to the Arts Council.

Management Actions

No Management actions required.

Summary of Special Investigations and Counter Fraud Activities 2021/22

Current Status

In 2021/22 there were nine new potential irregularities referred to the ARA Counter Fraud Team (CFT). Six of the nine cases have been closed and five have previously been reported the Audit and Governance Committee.

The recently closed case related to an employee's non-compliance with the Council's ICT policy. The Council completed an internal review and have taken action with the employee. There was no evidence to suggest that the non-compliance had in any way compromised the Council's ICT. The Council's robust internal controls prevented any issues occurring.

The outcomes of the remaining three cases will be reported to the Audit and Governance Committee on their conclusion.

In addition, a non-grant related case from prior year is still ongoing. An independent Barrister has been appointed to progress this area and the case has been provisionally listed at Cirencester Magistrate Court.

It should be noted that the Council's ICT position has impacted on the progression of the above cases.

For Committee awareness, to date in 2022/23 there have been no new irregularities referred to the ARA CFT.

Many potential attempted frauds are intercepted. This is due to a combination of local knowledge and the credible national communications. Including those from the National Anti-Fraud Network (NAFN) being swiftly cascaded to teams where more national targeted frauds are shared for the purpose of prevention.

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

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 were uploaded to the Cabinet Office in October 2020 with the data matching reports released for review from January 2021 onwards.

The full NFI timetable can be found using the link available on GOV.UK – https://www.gov.uk/government/publications/national-fraud-initiative-timetables.

Examples of data sets includes housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol.

Not all matches are always investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area within the Council.

To date the review of the matches identified errors leading to the recovery of £39,904. Together with the identification of further savings of £2,322 due to delays in updating notifications of Benefits changes in circumstances. Making a total saving of £42,226 (of which £31,883 is Small Business Grant Fund related).

ICT issues at the Council have impeded the Council's ability to review the volume matches. The NFI and Cabinet Office were kept appraised of the situation. To assist the Council, the CFT assisted with uploading the pre-payment Covid-19 grant applications data. This enabled the NFI to undertake bank verification checks using the business names and bank details on the applications. This action mitigated the risk of grants being issued to individuals not meeting the set criteria.

The CFT continues to work with the Council's Intelligent Client Officer (Revenues and Benefits) where it is identified that further investigation is required.