



PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

JULY 2023

1. Introduction

- 1.1 The Council's Internal Audit service is provided by Audit Risk Assurance (ARA) under a Shared Service agreement between Gloucestershire County Council, Stroud District Council and Gloucester City Council.
- 1.2 ARA provides these services in accordance with the Public Sector Internal Audit Standards 2017 (PSIAS) which represent the "proper Internal Audit practices". The standards define the way in which the Internal Audit service should be established and undertake its operations.
- 1.3 In accordance with the PSIAS, the Head of ARA is required to regularly provide progress reports on Internal Audit activity to management and the Audit and Governance Committee. This report summarises:
 - i. The progress against the Internal Audit Plan 2023-24;
 - ii. The outcomes of the 2022-23 and 2023-24 Internal Audit activity delivered up to mid June 2023; and
 - iii. Special investigations and counter fraud activity.
- 1.4 Internal Audit plays a key role in providing independent assurance and advice to the Council that these arrangements are in place and operating effectively. However, it should be emphasised that management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non-financial) and governance arrangements.

2. Summary of 2022-23 and 2023-24 Internal Audit work delivered up to mid June 2023

- 2.1 The following Assurance criteria are applied to Internal Audit reports:
 - 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 low to medium exposure to business risk;
 - iii. Limited assurance – not all key controls are in place or are working effectively. The Council has a medium to high exposure to business risk; and
 - 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.

2.2 Activity Name: Procurement (Service Area: Finance)

- i. Assurance Level for this report: **Limited**; and
- ii. Recommendations arising from this review have been prioritised as:

High Priority:	4
Medium Priority:	2
Low Priority:	0
Rejected:	0

2.3 **Scope** - this audit reviewed the procedures and controls in place regarding procurement.

2.4 Key Findings

- i. Following the cyber incident in November and December 2021 the main focus of Gloucester City Council (the Council) was to ensure the continued operation of its services. The Interim Head of Finance and Resources advised Internal Audit that certain key procurement controls (see below) were suspended and remain so as at the point of this audit. This was to ensure that payments were verified effectively and correctly paid to suppliers. However, the relaxation in the control environment, and therefore a change in the Council's risk appetite, has not been formally documented and managed through the Strategic Risk Register;
- ii. The Contract Rules, which form part of the Constitution, were approved by the full Council on 30th January 2020. The Contract Rules are available to officers for guidance when performing procurement activity;
- iii. Procurement training to officers was suspended following the cyber incident and, as at the point of this audit, has not been reinstated. The Interim Procurement Advisor has updated the procurement training material and plans to provide refresher training to senior managers and budget holders during 2023-24;

Risk: Officers are not fully aware of the Council's Contract Rules and procurement regulations resulting in non-compliance, financial losses, and adverse publicity.

Recommendations: Procurement training should be recommenced and provided to all authorised officers and new starters as part of their mandatory induction training.

Contract management and procurement guidance should then form part of the Council's mandatory programme of regular officer training;

- iv. The Interim Procurement Officer advised Internal Audit that before the cyber incident he regularly performed oversight and monitoring of expenditure to ensure procurement compliance with Contract Rules. At the point of this audit the key control had not been reinstated, although there are plans to recommence in 2023-24;

Risks: Non-compliance with Contract Rules and procurement regulations resulting in:

- a. Challenge by alternative contractors who have not been offered the opportunity to submit a quotation or tender;
- b. Reputational damage;
- c. Breach of legislation and fines; and
- d. Fraud and corruption.

Recommendations: Regular monitoring of expenditure by the Interim Procurement Advisor should be reintroduced.

A quarterly review of ProContract procurement activity should be undertaken to confirm that all events are promptly and properly completed and that no events have been deleted.

Consideration should be given to providing an annual report to the Audit and Governance Committee of identified procurement issues;

- v. A sample of 17 purchase orders for the period January 2022 to January 2023 was selected by Internal Audit to confirm compliance with the Contract Rules. The main results of the tests highlighted the following:
 - a. The dedicated e-tendering procurement system (ProContract) was not used to procure the expenditure as required by Contract Rules (five cases). In addition, there was no formal evidence that quotes were obtained from other suppliers (three cases);
 - b. Multiple procurement activity undertaken for similar types of expenditure possibly creating additional work for officers and reduction in value for money – one case;
 - c. Procurement events have not been fully actioned on ProContract. In particular publication to Contracts Finder for advertising, notification of award of the contract on Contracts Finder and or update to the Contracts Register – 13 cases;
 - d. Framework agreements have not been updated to ProContract. There is therefore a lack of evidence to confirm the supplier award has been published on Contracts Finder and the Contracts Register – two cases; and
 - e. A procurement waiver to the Contract Rules was not formally approved by One Legal and the previous Section 151 Officer – one case.
- vi. There is a lack of an effective regular review of procurement activity on ProContract to confirm completion of all required events with no deletions;

- vii. A dedicated procurement officer has been contracted, since at least 2018, by the Council for one and a half days a week. The role is to provide procurement guidance to officers and deliver an oversight and monitoring role (second line of defence). Since the officer was contracted the procurement activity of the Council has significantly changed and more high-profile projects have been initiated;

Risk: Ineffective procurement advisory, oversight and monitoring function resulting in additional costs, non-compliance with Contract Rules and procurement regulations and adverse publicity.

Recommendations: A review of the Council's requirements for the procurement advisory, oversight and monitoring role should be undertaken to confirm it is still appropriate and effective.

As part of the above assessment the Council's risk appetite to procurement should be determined, documented, and used to help inform the review. The results should then be implemented;

- viii. There are four officers assigned the ProContract systems administrator function. This is an important high-level access which enables them, amongst other things, to setup new users, assign privileges and open the seal to supplier tenders. One officer assigned this access may not be considered independent of the procurement process, which may result in dilution of the segregation of duties control;

Risk: Erosion of separation of duties key control in the procurement process resulting in unauthorised activity, financial losses, and reputational damage.

Recommendations: The systems administrator function should be removed from the Senior Building Works Surveyor. If appropriate it should be reassigned to an appropriate senior officer in Finance.

Going forward the systems administrator function should be limited to a small number of officers who are independent of the procurement process;

- ix. The Cabinet Office issued a Procurement Policy Note (PPN 10-21) in December 2021 providing advance notification of a change to the methodology for estimating contract values. The change required Value Added Tax (VAT) to be included when assessing the contract value and therefore applying the appropriate procurement threshold process. This change has not been incorporated in the Contract Rules and nor was a global communication sent out to officers;

Risk: Officers may not be fully aware of procurement regulations resulting in non-compliance and financial losses including adverse publicity.

Recommendations: Contract Rules should be promptly updated to reflect current procurement regulation changes.

Officers should be promptly made aware of any new procurement regulations and changes to the Contract Rules;

- x. At the point of this audit there were 48 officers with ProContract access to obtain supplier quotes or apply a full competitive procurement process. A review by Internal Audit of user access established the following:
 - a. Seven officers had not logged on to the system (oldest dated 2012) since first assigned access; and
 - b. 21 officers (excluding the seven above) have not logged on to the system for more than a year (oldest was 2016). At least one of the officers has left the Council's employment in January 2021.

Risk: Unauthorised access to the Council's procurement system resulting in adverse publicity, disruption, and fraudulent activity.

Recommendations: A review of user access should be undertaken by the Interim Procurement Advisor to identify and remove officers that do not require or should not have access to the procurement system.

At a minimum, a six-monthly review of user access should then be undertaken. Users that have not signed into the procurement system for more than four months should be contacted to confirm their access is still required or removed.

2.5 **Activity Name - Housing, Homelessness and Rough Sleeping Strategy (Service Area: Communities)**

- i. Assurance Level for this report: **Acceptable**; and
- ii. Recommendations arising from this review have been prioritised as:

High Priority:	1
Medium Priority:	0
Low Priority:	0
Rejected:	4

2.6 **Scope** – this audit reviewed the governance arrangements around Gloucester City Council's (the Council) Housing, Homelessness and Rough Sleeping Strategy (HH&RS Strategy). In addition, the progress towards delivering the Council's commitments in this area were reviewed.

2.7 **Key Findings**

- i. A HH&RS Strategy for the period 2020-25 has been developed, documented, and approved by the Managing Director and Members;
- ii. The HH&RS Strategy is corporately owned, with Housing Services responsible for its delivery;

- iii. The links between the four performance measures to the 17 outcomes and 49 actions are not formally documented within the HH&RS Strategy. The same holds true for the 27 performance measures recorded in the Housing Service Plan. The Director of Communities was able to demonstrate four examples of links between the HH&RS Strategy and the Housing Service Plan;

Risks: Non- achievement of the Council's HH&RS Strategy vision due to lack of governance.

Inability to establish whether the actions being undertaken will contribute towards the achievement of the key performance measures.

Recommendation: Formally document the linkage between the actions and outcomes against the four key performance measures in the HH&RS Strategy and to those in the Housing Service Plan;

- iv. Internal Audit raised a further two high and two medium priority recommendations to mitigate the risks associated with the findings detailed below. Management have not accepted the recommendations and have instead chosen to accept the risks;
 - a. There are no documented target outcomes for the four performance measures in the HH&RS Strategy or for 20 of the 27 measures recorded in the Housing Service Plan. Therefore, it may be difficult to establish the performance of the Council in this area and whether it is achieving its vision and objectives. In addition, the performance measures do not fully conform to the SMART principles (High priority). The risks are non-achievement of the Council HH&RS Strategy vision due to lack of governance. In ability to establish whether the results are showing progress towards, or achievement of, the Council's objectives;
 - b. Between six and seven of the 27 Housing performance measures are combined with other service areas' results and reported quarterly to Members. Reasons for any under or over performance are also recorded. There is however no separate reporting of all 27 performance measures to the Overview and Scrutiny Committee. (High priority). The risks are senior management and Members are unable to apply due focus, specific to the performance of the HH&RS Strategy. In addition, they may not be able to obtain full understanding of whether the Council's objectives have been successfully achieved;
 - c. The 2022-23 Housing Service Plan detailed its top three operational risks of which two were directly associated with the HH&RS Strategy. These risks were focused towards COVID-19, rather than on the other current factors affecting housing such as the cost-of-living crisis and the effects of the conflict in Ukraine (Medium priority). Risks may not be understood or successfully managed resulting in adverse publicity, loss of reputation and hardship; and
 - d. Another officer does not independently check to source data to confirm that the performance results reported to senior management and Members are correct; (Medium priority). The risks are that incorrect performance results are reported resulting in perceived over or under achievement of targets and incorrect management decisions.

- v. The Housing Recovery Action Plan (actions in the HH&RS Strategy) and Rough Sleeping Action Plan updates were provided to the Overview and Scrutiny Committee and the Cabinet in March 2021. The Cabinet received a similar update for 2022, but the Overview and Scrutiny Committee did not request one. Instead, they requested and received a focused report on the performance of affordable homes delivery;
- vi. The Director of Communities advised Internal Audit that a review of the HH&RS Strategy is undertaken on an annual basis. Also, that the annual update report details whether anything has influenced progress, where priorities have changed and what the reasons for this are.

2.8 **Activity Name: Test and Trace Support Payment Scheme (Service Area: Policy and Resources)**

- i. Assurance Level for this report: An assurance level is not required for this activity; and
- ii. No recommendations arose from this review.

2.9 **Scope** - This audit was to review funding received by Gloucester City Council via the Test and Trace Support Payment Scheme (TTSPS). Internal Audit's review was to ensure the expenditure incurred was in accordance with the guidance and grant determinations supplied by the Department for Health and Social Care (DHSC).

2.10 **Key Findings**

- i. As a result of the Covid-19 pandemic, the UK Government implemented local and national restrictions on movement, commerce, and public activity throughout 2020 and 2021. The UK Government attempted to curtail the spread of Covid-19 by requiring a period of self-isolation after testing positive for Covid-19 (or being identified as a close contact of someone who had).
- ii. To support those who might encounter hardship by being required to remain at home (and unable to work), the TTSPS was rolled-out. These payments of £500 to eligible individuals were administered by the relevant council. The TTSPS could be received via the 'Standard Scheme' or via the 'Discretionary Scheme'. The Standard Scheme eligibility criteria were set by central government. The criteria for payments to be made via the Discretionary Scheme were agreed and approved by the GCiC Councillors with the aim of supporting local residents.
- iii. Internal Audit confirmed that GCiC had received a total of £554,882 in funding. The total spend on support between the Standard and Discretionary Schemes as well as administration was £575,210.96. The breakdown of the spend was as follows;
 - a. Standard Scheme £279,500, overspend of £54,000;
 - b. Discretionary Scheme £187,500, overspend of £1,000; and
 - c. Administration costs at £108,210.96, remaining balance £34,670.84.

- iv. Internal Audit sighted the grant determinations and the guidance provided by the DHSC in August 2021. These indicated that overspends within the discretionary scheme would not be liable for reimbursement. Discussions with the Revenues and Benefits Manager that led on the scheme identified that there had been guidance provided and direct contact with the DHSC that confirmed this funding could be reclaimed. It is accepted that throughout the time the scheme was operational, there were a number of changes to the guidance due to the fluid nature of the Covid-19 pandemic. Therefore, GCiC may wish to pursue a course of action for the reclaiming of this £1,000. This is to be resolved directly between GCiC and the DHSC.

2.11 **Audit Activity: Section 31: Biodiversity Net Gain**

- i. Assurance Level for this report: An assurance level is not required for this activity; and
- ii. No recommendations arose from this review.

2.12 **Scope** – The Environment Act 2021 included provisions that made the achievement of 10% biodiversity gain mandatory for most developments under the Town and Country Planning Act 1990. The requirement is due to come into force in November 2023 after a transition period. The grant was intended to support local planning authorities in their preparations for the introduction of mandatory Biodiversity Net Gain (BNG), and provided by the Department for Environment, Food, and Rural Affairs (DEFRA). £26,807 of funding was allocated to the Council under grant determination 31/6499.

2.13 This audit reviewed whether the conditions of the grant determination had been complied with.

2.14 **Key Findings**

- i. The grant determination was provided to Gloucester City Council (GCC) in March 2023 with the requirement for evidence and declaration to be provided back to DEFRA by the 30th March 2023. At the time of the audit review GCC was still awaiting the grant funding.
- ii. For GCC the BNG grant was managed by the Planning team. Discussion with the Accountancy Manager confirmed that a ring-fenced cost centre would be created for the BNG grant funding when received. This cost centre had not yet been created owing to the continued recovery from the cyber incident.
- iii. The Planning team had to provide two documents to DEFRA. The first (Annex C i) was a declaration confirming agreement to the grant conditions found in the grant determination 31/6499. The second document (Annex C ii) was a summary of evidence of works carried out regarding BNG and the value of the works completed that also required return to DEFRA. The total estimated costs for 2022-23 stood at £2,000. Annex C ii was submitted on conclusion of the audit.

- iv. Due to the deadline attached to the document Annex C ii, it had been completed with estimates for the works undertaken in preparation for BNG. Internal Audit reviewed the estimated costs that were to be charged to the grant funding once received from DEFRA. These were all found to be reasonable with evidence provided to Internal Audit for estimated costs having supporting documentation.
- v. At the end of March 2023, it was expected that there would be an underspend of £24,807 from this specific stream of funding. The grant determination confirmed that on the condition that the funding remained ring-fenced for future BNG use it would not be liable for repayment and could be used in 2023-24.

3. Counter Fraud Update – Summary of Counter Fraud Activities

- 3.1 To date in 2023-24 there have been two new referrals made to the ARA Counter Fraud Team (CFT).
- 3.2 Both cases are ongoing, and the outcomes will be reported to the Committee on their completion.
- 3.3 Not all investigations (for example conduct, non-compliance and ethics issues) can have an assessed value attached to them or result in the recovery of monies. CFT investigations, analytics and consultative work may add value in other ways such as providing assurance to members and residents, reducing Council vulnerabilities and mitigating risk.
- 3.4 It should be noted that many of the cases referred to the CFT involve intricate detail and, sometimes, police referral. This invariably results in a delay before the investigation can be classed as closed and the summary outcome reported to Committee.
- 3.5 In addition to the above, counter fraud advice and alerts are routinely provided outside of the creation of referrals and cases.

Previous Years' Referrals

- 3.6 The CFT has recently closed the two Covid-19 grant cases carried forward from prior years.
- 3.7 Despite extensive work undertaken by Gloucester City Council staff and the CFT it was not possible recover the Covid-19 funds fraudulently claimed by the two individuals. One claim of £10,000 involved multiple councils across the country.
- 3.8 The fraudulent applications (£10,000 and £25,000) have been referred to the Department for Business and Trade (previously known as the Department for Business, Energy and Industrial Strategy (BEIS)) as per central government guidance.
- 3.9 One ongoing case concerns licensing (animal welfare) related issues. A Newton Hearing had been set for 1st June 2023 at Gloucester Crown Court. However, the CFT has been notified that this has now been postponed until September 2023. This is to clarify issues between the prosecution and defence before sentencing can take place.

National Fraud Initiative (NFI)

- 3.10 The CFT continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The data matching reports for the 2022-23 exercise have been released for review.
- 3.11 It should be noted that the changes of working practices following the December 2021 cyber-attack impacted on the data available to be uploaded for the 2022-23 exercise. Therefore, it is recognised that this may have created false positive matches.
- 3.12 Full details of the NFI timetables can be found using the link available on GOV.UK website – www.gov.uk/government/publications/national-fraud-initiative-timetables.
- 3.13 Examples of NFI data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader or operator, taxi drivers and personal licences to supply alcohol.
- 3.14 Not all matches are investigated. Where possible, all recommended or high fraud risk matches are reviewed by either the CFT or the appropriate service area within the Council.

National Anti-Fraud Network (NAFN)

- 3.15 NAFN is a public sector organisation which exists to support its members in protecting the public interest. It is one of the largest shared services in the country managed by, and for the benefit of its members. NAFN is currently hosted by Tameside Metropolitan Borough Council.
- 3.16 Membership is open to any organisation that has responsibility for managing public funds or assets. Use of NAFN services is voluntary, which ensures delivery of value for money. Currently, almost 90% of councils are members and there are a rapidly growing number of affiliated wider public sector bodies including social housing providers.
- 3.17 Many potential attempted frauds are intercepted. This is due to a combination of local knowledge together with credible national communications, including those from the NAFN. Fraud risk areas are swiftly cascaded to teams by the CFT for the purpose of prevention, for example national targeted frauds.