

INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2018/19



ARA
Audit Risk Assurance

(1) Introduction

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that a relevant authority “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. The Internal Audit Service is provided by Audit Risk Assurance under a Shared Service agreement between Gloucestershire County Council, Stroud District Council and Gloucester City Council and carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

The guidance accompanying the Regulations recognises the Public Sector Internal Audit Standards 2017 (PSIAS) as representing “proper internal audit practices”. The standards define the way in which the Internal Audit Service should be established and undertakes its functions.

(2) Responsibilities

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements.

Internal Audit plays a key role in providing independent assurance and advising the organisation that these arrangements are in place and operating effectively.

Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance and these are set out in the Council’s Code of Corporate Governance and its Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the standards is that the Chief Internal Auditor should provide progress reports on internal audit activity to those charged with governance. This report summarises:

- The progress against the 2018/19 Internal Audit Programme, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period October to December 2018; and
- Special investigations/counter fraud activity.

(4) Progress against the 2018/19 Internal Audit Programme, including the assurance opinions on risk and control

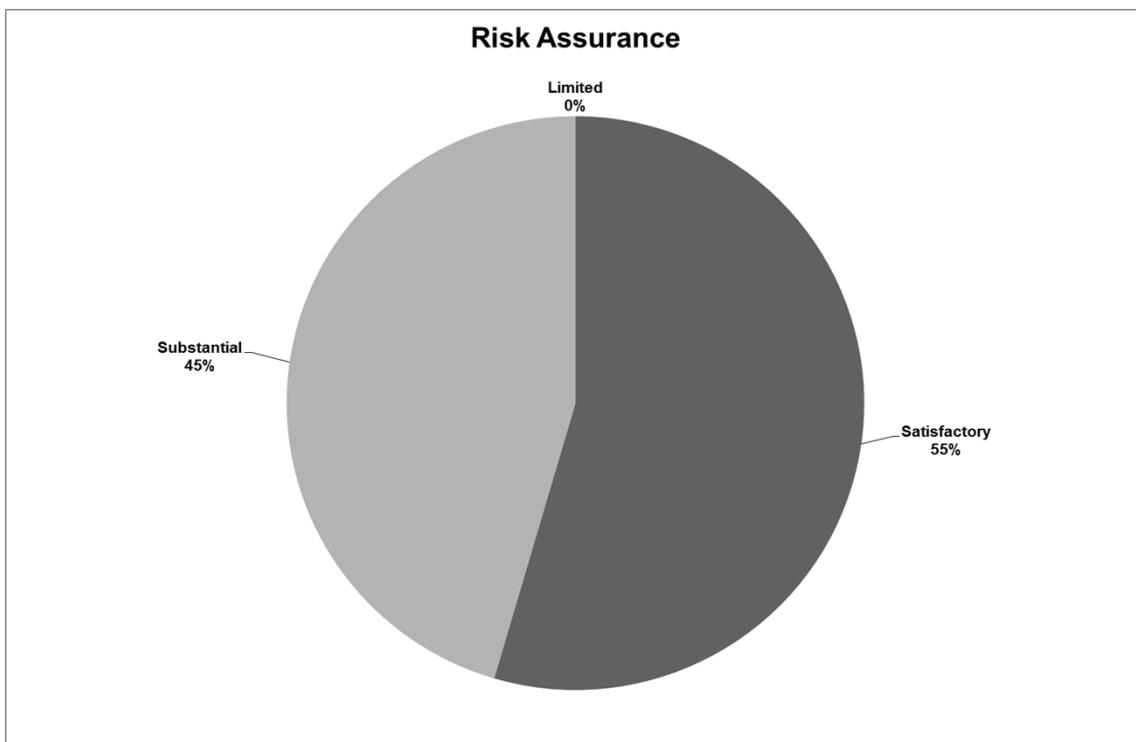
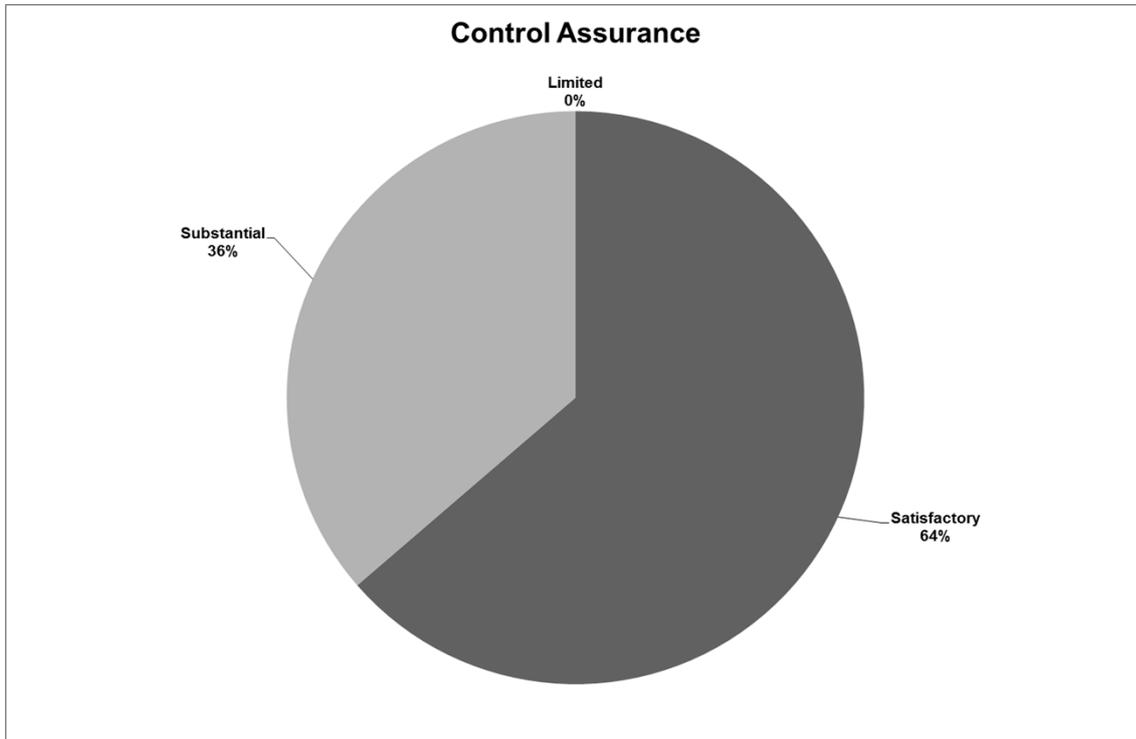
The schedule provided at **Appendix 1** provides the summary of 2018/19 audits which have not previously been reported to the Audit and Governance Committee.

The schedule provided at **Appendix 2** contains a list of all of the audit activity undertaken during 2018/19, 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 service areas, 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 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 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 accurately and regularly reporting and monitoring of the key risks in line with the Corporate Risk Management Strategy, the service area has not demonstrated an satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.</p>	<ul style="list-style-type: none"> • System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls • Control Application – Significant breakdown in the application of control

(4a) Summary of Internal Audit Assurance Opinions on Risk and Control

The pie charts provided below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the audit activity undertaken during the period April 2018 to December 2018.



(4b) 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.

(4c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During the period October to December 2018, no limited assurance opinions on control have been provided on completed audits from the 2018/19 Internal Audit Plan.

(4d) Satisfactory Control Assurance Opinions

Where 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 Committee can take assurance that improvement actions have been agreed with management to address these.

(4e) Internal Audit Recommendations

During the period October 2018 to December 2018 Internal Audit made, in total, **2** recommendations to improve the control environment, none of these being high priority recommendations (100% of these being accepted by management) and **2** being medium priority recommendations (**100%** accepted by management).

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

(4f) Risk Assurance Opinions

During the period October to December 2018, no limited assurance opinions on risk have been provided on completed audits from the 2018/19 Internal Audit Plan.

Where a limited assurance opinion is given, the Shared Service Senior Risk Management Advisor will be provided with the Internal Audit report(s) to enable the prioritisation of risk management support.

Completed Internal Audit Activity during the period October to December 2018

Summary of Substantial Assurance Opinions on Control

Service Area: Strategic Finance

Audit Activity: Capital Programme

Background

A Capital Programme is a set of capital projects that a Council plans to undertake within a given timeframe and should be based on the Capital Strategy, which in turn should be linked to the Asset Strategy.

The development of a Capital Programme, as per Chartered Institute of Public Finance and Accountancy (CIPFA) Capital Strategies and Programming 2014 guidance involves the following key activities:

- Setting the parameters;
- Identifying and developing project proposals;
- Evaluating and prioritising project proposals; and
- Finalising and approving the programme and confirming the funding.

The Council's Capital Programme total scheme investment within the Medium Term Financial Strategy (approved by Council as at 14/02/2018) over the period 2017/18 – 2020/21 totals £504m. It is therefore vital that the programme is effectively managed from prioritisation of capital bids, approval to inception, through to completion.

Scope

This review sought to provide assurance that the Council has a robust governance framework in place for management of the Capital Programme and is compliant with good practice requirements.

The specific objectives of the audit were to provide assurance on the following areas:

- Capital strategies and plans have been developed, aligned, documented and approved;
- The process for making capital bids, evaluation criteria and funding options are clearly documented and published;
- Capital proposals are supported with appropriate documentation to ensure alignment to Council strategies and provision for an effective assessment of feasibility, options and funding requirements; and

- Capital projects are subject to appropriate authorisation and monitoring.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

The audit review considered the following Council key documents, to confirm and evaluate the Council's governance framework in place for management of the Capital Programme:

- Corporate Strategy;
- Medium Term Financial Strategy;
- Property Acquisition and Investment Policy and the Policy for Disposal of Property;
- Approved business cases;
- Capital Programme; and
- SAP the Council's financial system.

In addition to this and for all four audit objectives, a combination of audit walk-through and sample testing was completed relevant to 2018/19 capital projects.

Appropriate audit trail and assurance has been obtained (subject to one recommendation) from this audit approach to demonstrate Council compliance with CIPFA best practice. It must also be highlighted that Strategic Finance staff demonstrated a thorough understanding, and comprehensive set of supporting documentation, to support the Capital Programme.

The audit recommendation raised refers to further development of the Capital Programme business case pro-forma in relation to "Invest to Save" schemes.

Conclusion

Based upon the audit review and sample testing outcomes, substantial assurance can be provided that the Council's Capital Programme processes and controls are mainly compliant with the CIPFA Capital Strategies and Programming guidance.

One medium priority recommendation has been raised to further strengthen the Capital Programme controls and enable full compliance with the guidance.

Management Actions

Management have responded positively to the audit recommendation raised.

Service Area: Communities and Infrastructure**Audit Activity: Highways Term Maintenance Contract – Review of Procurement****Background**

The current term maintenance contract with Amey was for five years and is due to end on 31st March 2019. Although the contract allowed for extension periods the Council is proposing to double its structural maintenance spending to £150m over a five year period (May 2017 to April 2022) which is considered likely to represent a material change to the existing contract. Consequently the Council decided not to pursue any extension recognising that this change creates an opportunity to consider moving to a different delivery model.

On 27th September 2017 Cabinet received details of the recommended procurement strategy and operating model for service delivery from April 2019. In essence this sought approval to break-down the delivery of the existing service provision into three new key contracts:

- A smaller term maintenance contract delivering day to day maintenance works;
- A structural maintenance contract delivering resurfacing works; and
- A professional services contract to provide specialist design, project management and transport planning services.

Having considered the options Cabinet resolved to authorise the Commissioning Director: Communities and Infrastructure to carry out three legally compliant competitive tender processes for the delivery of highway services from April 2019. In relation to the highway services term maintenance contract this would be for an initial seven year period with the option to extend by a further two periods of two years (eleven years in total).

Scope

To provide oversight of the procurement of the highways term maintenance contract and provide assurance that the outcome stands up to scrutiny. In particular that this procurement has been:

- Subject to competition;
- Conducted in an open and transparent manner; and
- In compliance with the Council's Constitution, Financial Regulations and relevant legislation.

Risk Assurance – Substantial**Control Assurance – Substantial**

Key Findings

Internal Audit was able to gain substantial assurance that:

- The procurement was subject to a competitive tendering process with a contract notice dispatched for publication in the Official Journal European Union (OJEU) on 30th November 2017.
- This process was conducted in an open and transparent manner utilising the Council's preferred e-tendering system i.e. ProContract.
- Appropriate oversight, input and advice has been received from:
 - a) Member and senior officer participation in the Highways Procurement Board;
 - b) Experienced officers in Highways, Strategic Finance and other support services e.g. Risk Management, Insurance and HR;
 - c) Gloucestershire County Council Commercial Services; and
 - d) An external solicitor i.e. Bevan Brittan.
- The tender submissions were evaluated by experienced officers and in accordance with the published criteria and methodology. Suitable records are readily available to support the scores awarded to each bidder.
- The decision to make final award of the contract to the preferred bidder was taken by the Commissioning Director: Communities and Infrastructure (under delegated authority received from Cabinet and in compliance with the Council's Scheme of Delegation) and was adequately documented and published on the Council's website.
- A challenge to the process and subsequent award has not been made.

Conclusion

From the close monitoring and review of associated records, Internal Audit's principal conclusion is that throughout the procurement process the Council can demonstrate appropriate levels of compliance with the Public Contracts Regulations 2015. As a consequence, no recommendations have been raised.

Management Actions

No management actions required.

Service Area: Pensions

Audit Activity: Receipt and accounting for pension contributions

Background

As at August 2018 the outturn forecast provided by the Finance Manager, Pension Investments and Accounting indicated that the Pension Fund will receive approximately £105m for employers (£88m) and employees (£17m) pension contributions in 2018/19 for the Gloucestershire County Council Local Government Pension Scheme (LGPS).

Due to the high value of the contributions, it is important that all of the contributions are received in a timely manner and that an efficient reconciliation process is undertaken to ensure that all the expected contributions are actually received and appropriately coded in the SAP General Ledger.

Scope

This audit was to provide assurance that an appropriate and effective control framework is in place with regard to:

- All expected contributions are received by the 19th of the following month, as required under the Local Government Pension Scheme rules; and
- Regular, accurate and timely reconciliation controls are in place for the pension contributions received.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

Audit review confirmed:

- A well embedded process is in place to receipt and account for pension contributions from admitted bodies of the Gloucestershire scheme. This is supported by complete and up to date internal procedure notes for pensions officers to use and guidance templates provided to admitted bodies.
- Guidance is provided to admitted bodies requiring pension contributions receipt by the Pension Fund by the 19th of the following month. Audit sample testing confirmed that this requirement was met for all sampled admitted bodies.
- Monthly monitoring controls are in place for checking that pension contributions are received by the due date. Review of the controls confirmed that for the first six months of 2018/19 the date deadline has been met by all admitted bodies.

- Quarterly reconciliation controls comparing the monthly pension return cash receipts with the SAP General Ledger are completed by the pensions finance team. Audit review confirmed that the reconciliations were up to date at the point of audit and supported by audit trail. There is the opportunity to strengthen this quarterly control through completion and evidencing of segregation of staff duties between reconciliation completion and review/authorisation.
- A robust annual process is in place to transfer County staff pension contributions per the SAP payroll system into Altair (the pensions administration system).
- Audit sample testing confirmed that the correct pensionable pay employee and employer contribution percentage rates have been used for 2018/19 sampled cases.

Conclusion

One improvement area only was identified by the internal audit to support the strengthening of internal controls through reconciliation independent review and authorisation. No other improvement opportunities were identified, supporting the receipt and accounting for pension contributions audit outcome of substantial assurance for both risk identification maturity and control environment.

Management Actions

Management have responded positively to the audit recommendation raised.

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

No audit assurance opinions on risk and control are provided in this section as this section relates to other audit activity such as statutory Chief Internal Auditor grant certification sign off and consultancy work i.e. where internal audit advise management on the risk and control environment in relation to new and emerging risks, projects, systems and processes to help 'design out' risk at the developmental stage.

Service Area: Strategic Finance (Grant Certification)

Audit Activity: Bus Subsidy Ring-Fenced (Revenue) Grant

Background

On 17th May 2017 a letter was issued by the Department for Transport (DfT) confirming the payment of £458,365 to Gloucestershire County Council (GCC) as a grant to cover the period 1st April 2017 to 31st March 2018. The purpose of the grant is to provide support to local authorities in England towards expenditure lawfully incurred or to be incurred by them.

The Bus Service Operators Grant (BSOG) may only be used for the purpose of supporting bus services (including community transport services under a section 19 permit), or for the provision of infrastructure supporting such services in that authority's, or neighbouring authority's, area. The letter stated that the DfT reserve the right to request data/information from local authorities and other Local Decision Bodies on the way in which devolved funds have been used and the cost of the services/infrastructure bought with the funds.

Scope

The Chief Executive and the Chief Internal Auditor were required to return to DfT a declaration by 30th September 2018 in the following terms:

"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 Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant Determination 2017/18 have been complied with."

Key findings

- The Council received funding of £458,365 under the Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant Determination [31/3082] scheme;
- The total expenditure in 2017/18 for tendered bus services was £2,944,727.83, as recorded within the GCC 'Devolved BSOG Grant – Annual Outputs Report 2018' survey. The survey as required in condition 3 of the grant determination has to be published on the GCC website and sent to the DfT;

- Both the total expenditure and grant funding amounts have been agreed to the SAP (the Council's financial management system) general ledger;
- Internal Audit sample tested 13 lines of expenditure totalling £164,474.59 (35.88% of grant funding) and found that the expenditure was appropriate under the grant determination [31/3082] and the amounts recorded matched to the supporting invoices; and
- The survey has been completed by the Integrated Transport Unit (ITU) and the information uploaded to the GCC website with a link being sent to the DfT as required by the grant determination.

Conclusion

From a review of the contract arrangements with bus operators, the SAP general ledger 2017/18 totals for BSOG relevant income and expenditure, and audit sample testing of invoices paid in 2017/18, Internal Audit was able to gain reasonable assurance that BSOG 2017/18 expenditure was in accordance with the requirements of the grant determination.

Service Area: Grant Certification

Audit Activity: Troubled Families Grant Claim 1

Background

The Families First (payment-by-result) programme was introduced in a renewed drive to help improve the outcomes for troubled families.

The Department for Communities and Local Government (DCLG) has produced a Financial Framework for local authorities. This document makes clear that payment-by-result (PBR) is the subject of self-declaration, and therefore the purpose of this audit was to provide assurance that the Families First grant conditions and criteria had been met by the families to support the PBR grant claim.

Scope

To provide assurance that those families forming the PBR claims made to the date of the audit met the criteria and that there was sufficient evidence to support the outcomes recorded.

Key findings

As at 27th September 2018 there were 313 PBR claims prepared for submission. The claims reviewed related to the period April 2018 to September 2018.

Internal Audit testing was completed on 16 claims (5.11% of the population) to ensure appropriate coverage of all six eligibility criteria and the six localities. Internal Audit testing confirmed:

- 15 of the 16 sampled PBR claims met the criteria outlined by the Troubled Families Grant. One claim did not meet the necessary criteria and therefore was removed by the Families First Team.
- A total of 312 PBR claims were made in September for the period covering April 2018 to September 2018.

Conclusion

Internal Audit identified that effective systems and processes are in place for how families, their eligibility markers and related outcomes are being collated and verified. Audit testing confirmed the validity of the claims for the sampled cases.

Management Actions

No recommendations were raised.

Service Area: Grant Certification

Audit Activity: Disabled Facilities Capital Grant

Background

The Disabled Facilities Grant is for the provision of adaptations to disabled people's homes to help them to live independently in their own homes for longer. This funding is part of the Better Care Fund, allocated to County Councils by the DCLG to be further distributed to District Councils as the local housing authorities.

Gloucestershire County Council (GCC) received an allocation of £5,135,142 in 2017/18 from the Better Care Fund Disabled Facilities Capital Grant under the grant determination 2017/18: No 31/3059.

Scope

To provide assurance that:

- 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 Disabled Facilities Capital Grant Determination (2017/18) No 31/3059 have been complied with.

Key findings

- The Council received funding of £5,135,142 in 2017/18 under the Disabled Facilities Capital Grant Determination [31/3059] scheme;
- It was decided from discussions with the County Council and the District Councils, that the full allocations would not be distributed at the outset due to the District Councils being unlikely to spend the full allocations in 2017/18. Instead, it was agreed that the District Councils would be fully funded for their respective actual spend on issued DFGs from the BCF with the remainder of the DFG being used to create a pooled budget held by the County Council. This decision was formally agreed at the Gloucestershire Chief Executives and Heads of Paid Service Meeting in November 2016 and approved at the Health and Wellbeing Board on the 17th January 2017.
- The District Councils recorded actual DFG expenditure in 2017/18 was £2,327,824.60;
- In line with the grant conditions in Annex A of the grant determination, with the express agreement of the District Councils, funding can be made available for other social care capital projects. This accounted for a further £286,000 across three schemes;
- It was further agreed by the District Councils that in addition to the above payments, a fund for community equipment, would be administered by the County Council. The Community Equipment (pooled between GCC and CCG) is used for larger home adaptations, e.g. hoists, wheelchairs, beds etc. This accounted for £837,891.24 of expenditure in 2017/18.
- For the Financial Year 2017/18 there is a reported underspend of £1,683,426.16 (£5,135,142 - £3,451,715.84). Discussions between the District Councils and County Council have agreed this remaining grant funding has been carried forward as part of the BCF for 2018/19; and
- Detailed records of expenditure have not been requested from the District Councils. However, all Section 151 Officers within the District Councils have confirmed their compliance with the following statement in respect of actual DFG expenditure in 2017/18:

“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 Disabled Facilities Capital Grant Determination (2017/18) No 31/3059 have been complied with”.

Conclusion

Based on declarations provided by District Councils and GCC and having undertaken a review of records maintained by the Council, we have gained assurance that the conditions of the grant determination have been fulfilled and as such the declaration can be signed and submitted to the DCLG.

Management Actions

No Management Actions were required.

Summary of Special Investigations/Counter Fraud Activities**Special Investigations/Counter Fraud Activities**

The Counter Fraud Team within Internal Audit has received 14 new referrals in 2018/19, to date, and also continued to work on 14 cases from previous years. Eight of the brought forward cases plus eight of the new cases referred in 2018/19 have now been completed, four of which have previously been reported to Audit and Governance Committee.

The service areas of the cases referred to Internal Audit within 2018/19 to date are categorised as follows: Adults (3); Children and Families (6); Council Wide (1); Communities and Infrastructure (1); and Core (3).

In respect of the additional four 2018/19 cases closed which have not previously been reported to Audit and Governance Committee, one involved a care provider where it was suggested that the hours provided were insufficient to meet the contracted hours. However, this was a general issue concerning travel time between visits and the service area concerned has now reviewed contract arrangements with all providers where travel time between visits may be an issue. There were no safeguarding issues and electronic call monitoring is being used to monitor attendance care hours provided.

Another case involved the potential mis-use of a pool car although there were extenuating circumstances and the individual concerned received an informal warning. Additional information has also been provided to staff through Staffnet to clarify the use of a pool car for business use.

The third case involved a fraudster intercepting a supplier's email which initially resulted in a payment being made to bank account of a fraudster instead of the genuine supplier, although the monies were recovered with no resulting loss to the Council. Fraud warnings have been issued across the Council, including to schools, making staff aware of the potential for this type of bank mandate fraud.

The fourth case involved poor cash handling procedures which resulted in the loss of £116. This was not necessarily a theft, although a number of learning points were identified within the service area and more robust procedures have been introduced to prevent similar unaccountable losses.

In respect of the investigation / internal audit reviews into GFRS governance, practices and processes please refer to the separate internal audit report presented to the Audit and Governance Committee on 12th October 2018.

Previous years' referrals

Of the 14 cases brought forward eight have been closed, all of which have previously been reported. One of the outstanding cases is a consultancy referral and Internal Audit is keeping a watching brief.

Many of the cases referred to Internal Audit involve intricate detail and Police referral. This invariably results in a delay before the investigation can be classed as closed and reported to the Audit and Governance Committee.

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The next data collections were uploaded to the Cabinet Office throughout October 2018 and data matching reports will be provided for investigation from January 2019 onwards. Examples of data sets include insurance, payroll, creditors, pensions, care provision, blue badges and concessionary bus passes. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.