

Audit and Governance Committee

Date: 23rd January 2015

Agenda No:

Title of Report:	Internal Audit (IA) activity progress report 2014/2015
Purpose of Report:	To inform Members of the progress of Internal Audit activity in relation to the 2014/2015 Internal Audit Programme and provide a progress report in relation to those audits undertaken during the period October to December 2014.
Recommendations:	<p>It is recommended that the Committee:</p> <ol style="list-style-type: none">1. notes the amendments to and progress against the 2014/2015 Internal Audit Programme;2. requests senior management attendance at the next meeting of the Committee to provide an update on the actions taken in relation to the recommendations made in the Business Continuity Management, Gloucestershire Care Partnership and Workforce Development of Social Workers audit reports; and3. notes the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the internal audit activity completed to date.
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Key Risks	Failure to deliver an effective Internal Audit Service will prevent an independent, objective assurance opinion to be provided to those charged with governance that the key risks associated with the achievement of the Council's objectives are being adequately controlled.

internalaudit

Gloucestershire County Council

INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2014/2015

(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 (England) Regulations 2011. The latter states that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control, comprising risk management, control and governance, in accordance with the proper practices in relation to internal control”. Within Gloucestershire County Council the Internal Audit function, which sits within Strategic Finance, 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 (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 2014/2015 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 2014; and
- special investigations/counter fraud activity.

(4) Progress against the 2014/2015 Internal Audit Programme, including the assurance opinions on risk and control

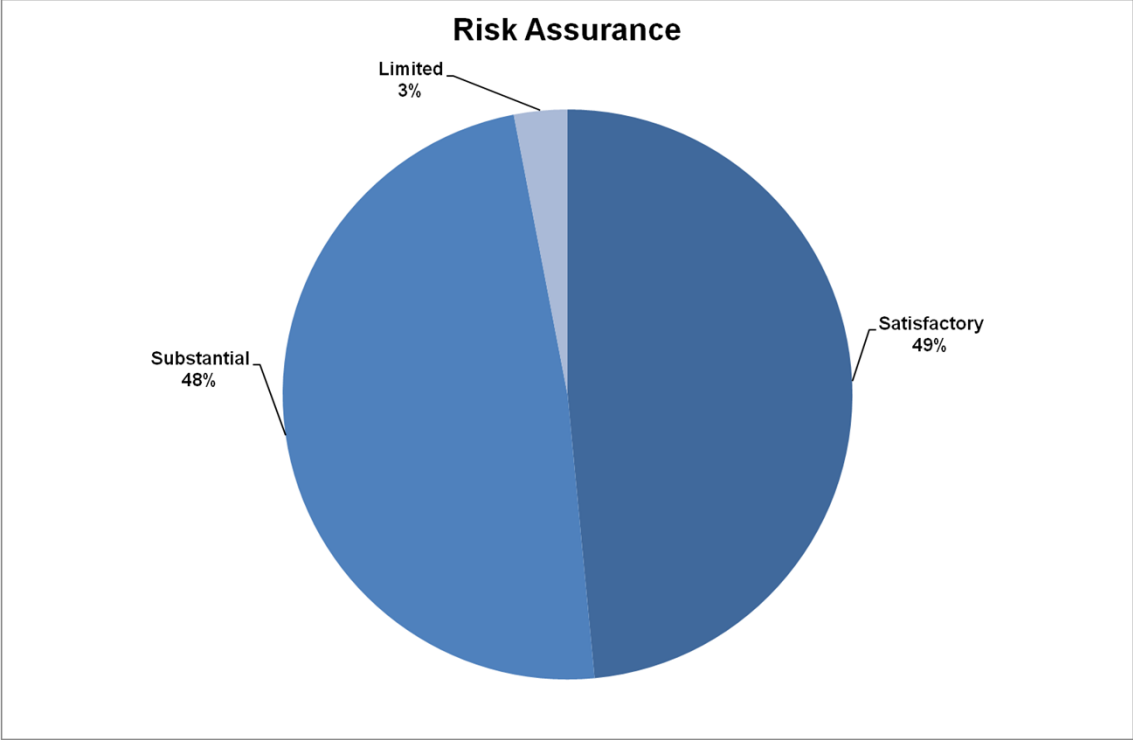
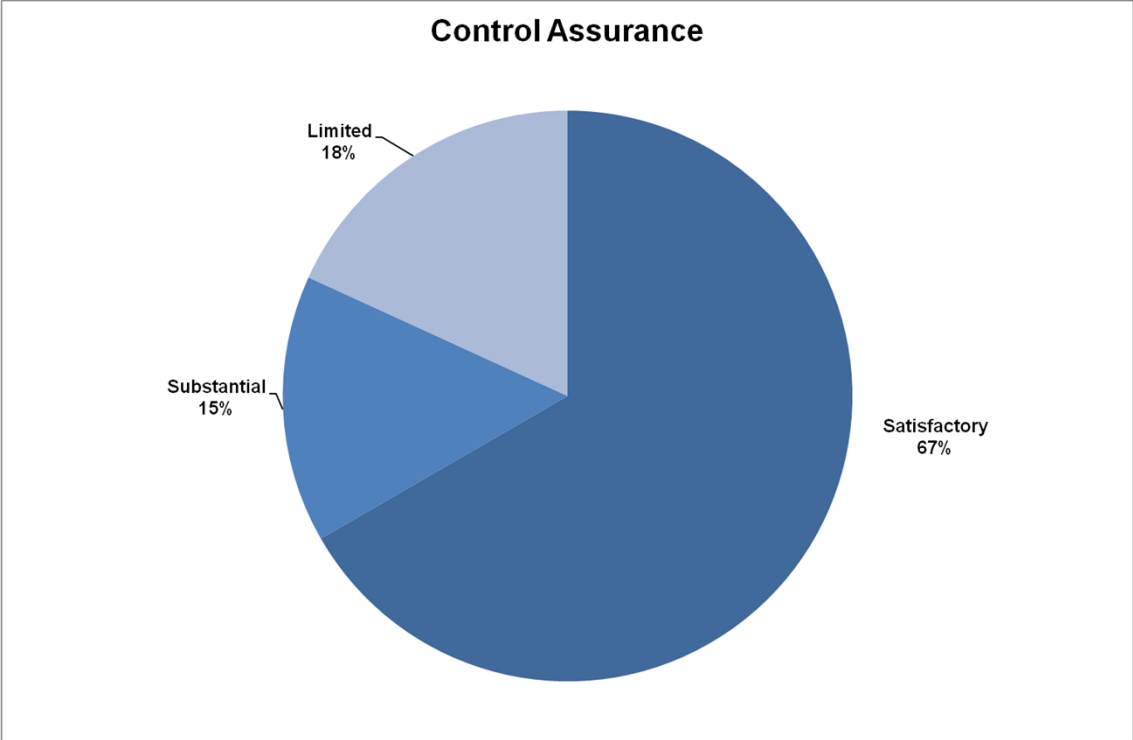
The schedule provided at **Appendix 1** provides the summary of 2014/15 audits which have not previously been reported to the Audit and Governance Committee, including, very importantly, three limited assurance audit opinions on control.

The schedule provided at **Appendix 2** contains a list of all of the audit activity undertaken during 2014/2015, 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 directorates, 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 directorates, 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 directorates, 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 October to December 2014.



(4b) Limited Control Assurance Opinions

Where audit activity record 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 Limited Assurance Opinions have been provided on Control

During the period October to December 2014, three audit reviews have been provided with a limited assurance opinion on control, these relate to:

- Business Continuity Management;
- Gloucestershire Care Partnership, contract management arrangements; and
- Workforce Development of Social Workers.

(Please refer to Appendix 1 pages 6 – 10 for details).

It is important to note that whilst limited assurance opinions have been provided, management have responded positively to the recommendations made and actions are being taken to address them.

(4d) Satisfactory Control Assurance Opinions

Where audit activity record that an 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 to December 2014 Internal Audit made, in total, **52** recommendations to improve the control environment, **28** of these being high priority (fundamental) recommendations (**100%** of these being accepted by management) and **24** being medium priority (significant) 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

There was one limited assurance opinion on risk during the period October to December 2014. This related to the Business Continuity Management Audit. (Please see Appendix 1 page 6 for details).

Where limited assurance opinions on risk are provided, the reports are given to the appropriate risk champion to ensure that the risks highlighted by Internal Audit are placed on the service areas risk register.

The monitoring of the implementation of the recommendations is then owned by the relevant manager and helps to further embed risk management into the day to day management, risk monitoring and reporting processes.

In addition, the Corporate Risk Management Team is provided with the Internal Audit reports where a limited assurance opinion is provided, to enable their prioritisation of risk management support.

Completed Internal Audit Activity during the period October to December 2014

Summary of Limited Assurance Opinions on Control

Service Area:	Communities & Infrastructure
Audit Activity:	Business Continuity Management

Background

The Civil Contingencies Act 2004 requires all Local Authorities to have Business Continuity Management (BCM) arrangements in place so that critical parts of the service can continue or be reinstated with minimal delay following a severe disruption e.g. prolonged loss of ICT, power loss, high staff absenteeism, flooding. Service disruption is one of the key strategic risks of the Council and formally recorded and reported under SR10.2.

Audit Scope

The Council's BCM Strategy requires senior management to identify 'critical services' and to then establish BCM arrangements. A key component of the framework is the consideration and drafting of a service BCM Plan using the Council's agreed methodology. This audit:

- a) Evaluated service compliance with the Council's strategy, which requires BCM arrangements to be:
 - Formulated after the consideration of a:
 - Business Impact Analysis;
 - Risk Assessment; and
 - Business Continuity Strategy for the service.
 - Documented to an appropriate level of detail using the Corporate template;
 - Effectively communicated to staff within the service area;
 - Regularly reviewed to ensure the arrangements and contact details remain current; and
 - Subject to testing on a periodic basis.
- b) Ascertained how strategic risk SR10.2 is updated, who is responsible to do this and what information / assurances are received by the risk owner, prior to the update.

Risk Assurance – Limited

Control Assurance – Limited

Key findings

Following the introduction of the New Operating Model, the Civil Protection Team no longer has a coordination role or provides training and plan preparation on BCM. Whilst they retain their response role, the change in emphasis in the last few years means there is no corporate support available to Service Managers.

The guidance on Staffnet on how to consider BCM is appropriate and if the methodology is followed it will assist service managers to identify the service critical functions / assess the risks facing their delivery and to consider appropriate arrangements. However, the guidance needs updating to clarify contact details i.e. where any queries or requests for help from service managers should be directed to.

Service managers fully appreciate the importance of BCM. However, conflicting resourcing requirements can mean that BCM will not receive the required level of attention, particularly around (1) Business Impact Analysis and (2) Risk Assessment and subsequent drafting, maintenance and ongoing review of the plan.

The onus is on service managers to consider and establish the BCM arrangements for their services. However where a Business Continuity Plan (BCP) is in place, the contents are generally not subject to on-going familiarisation with team members nor would the arrangements be subject to a rolling programme of scenario based / desktop testing exercises. Whilst it is acknowledged that some aspects of the plan will be tested for real (as day to day operational incidents unfold) this may not cover all elements should widespread / major disruption occur.

The Corporate Recovery Plan has been developed to provide a framework for maintaining council priority services in the event of a major disruption e.g. Floods. Both the plan and BCM pages on Staffnet record that this will be subject to scenario based testing on an annual basis by CoMT with the results used to help inform any future changes to the plan. The audit has identified that the last review/exercise by CoMT was undertaken in February 2011 and therefore this key governance / oversight is not operating as envisaged. The plan is work in progress as Section 3: Critical Services – Individual Service Priorities have not been identified / listed and in our opinion to capture this information represents a major task as there is no effective mechanism to achieve this.

The Property Management – Initial Recovery Plan was drafted in 2009 and this has not been updated to reflect operational / service changes across the Council and the subsequent disposal of a high number of properties in the following 5 year period. The plan needs to be updated and for AMPS to consider how the Council would respond to a sustained closure/non-access of key premises (particularly the Shire Hall complex given its strategic importance).

The ICT Recovery Plan seeks to include the recovery of critical business services, although this list is likely to be incomplete being last updated in 2009. Although the plan does not reflect the change, in practice, the Council's Disaster Recovery strategy has evolved with a contract now in place, via Steria, to continue to provide Mobile IT Recovery services. Moving forward, there is a need to identify the Council's critical systems / services and once this is achieved to update the ICT Recovery plan (to also incorporate the current strategy) with the key elements then reflected in the Corporate Recovery Plan.

This Strategic risk had (at the time of the audit) been identified as a residual "low risk" based upon the expected controls and a number of further actions to be completed. However, following audit dialogue with the risk owner, it was reassessed to a medium risk.

Actions taken by management

Management have accepted the issues identified above and have agreed to review the roles of the Civil Protection Team in relation to BCM, review the corporate recovery plan and other key recovery plans and assess the need for additional resource to support the Council with the application of BCM principles, to enable good governance.

It is recommended that senior management attend the next meeting of the Audit and Governance Committee and is requested to provide an update on the action taken in relation to each recommendation made.

Service Area: Adults

Audit Activity: Gloucestershire Care Partnership

Background

The Gloucestershire Care Partnership (GCP) is a single purpose vehicle set up and funded by contributions from the Orders of St John Care Trust (OSJCT) and the Bedfordshire Pilgrims Housing Association (BPHA). The Partnership arrangement allows for the OSJCT to provide care under a sub let arrangement as it is to GCP that the Council has let its former Elderly People's Homes and with whom it has contracted the refurbishment / development and rationalisation of properties under an agreed Estates Strategy.

The arrangement is made up of two coterminous interdependent elements in the form of a commercial agreement and a service contract for the day-to-day provision of care. These relationships are covered by a 35 year contract, signed in 2005. The contract value, based on 2013/14 spend is circa £17m per annum, this would therefore equate to a value of £374m over the remaining term.

In terms of its commercial significance, under the Council's corporate framework for managing contracts it is categorised as being a Platinum contract, i.e. high in terms of business criticality and contract spend. It is therefore paramount that this contractual relationship is effectively managed to ensure that quality, service and cost outcomes are being met or exceeded.

In 2012-13, Internal Audit undertook a planned review of the GCP commercial agreement to look at the strategic fit of the Estates Strategy to ensure that it was in line with the Council's corporate objectives for the future delivery of adult care provision within Gloucestershire.

The review highlighted that the Estates Strategy, as agreed in 2007, needed to be revised to ensure that it reflected the future delivery requirements for adult care provision within Gloucestershire. In addition, the governance arrangements for the future delivery/management of the programme of work would need to be further developed and aligned to the Council's new operating model. Roles and responsibilities of key individuals to be clearly defined, ensuring that all relevant disciplines are included and for the programme of work to be formally documented in line with the Council's corporate policies for programme/project and risk management arrangements.

In addition, an approach to the development and implementation of contract management activities across the Council was adopted by the Chief Officers Management Team in July 2013, with the expectation that all contracts would be aligned to these principles in the forthcoming 12-18 months.

Audit Scope

In light of the above, it was agreed that a planned review of the contract management and monitoring arrangements would be undertaken as part of the 2014-15 Internal Audit plan and in order to effectively direct our audit resource, where appropriate, assurance from the intelligence gathered from the ongoing work being undertaken by the Commercial Team would be considered in order to establish whether:

- There are effective contract management and monitoring arrangements in place to ensure that the contract deliverables are being achieved; and
- The agreed management actions to address the recommendations emanating from the 2012-13 Internal Audit review have now been fully implemented.

Risk Assurance – Satisfactory

Control Assurance – Limited

Key findings

The agreed management actions to address the recommendations emanating from the 2012/13 Internal Audit review of the Gloucestershire Care Partnership-Estates Strategy, in particular the development of the governance arrangements for the future delivery/management of the programme of work to revise the Estates Strategy have not been fully implemented.

We conclude that the current control framework for the management and monitoring of these contractual agreements need to be significantly strengthened to ensure that there are effective arrangements in place for the future.

In addition, although the implementation of the Council's corporate Contract Management Framework is still in its infancy, as a matter of priority, focus now needs to be given to ensuring that the control environment for the management and monitoring of contracted provision across all Adult Social Care and Public Health is aligned to the Council's corporate requirements as laid down within the Contract Management Framework and other corporate policies; i.e. programme/project and risk management.

Actions taken by management

Internal Audit made two high priority recommendations to address the above issues and these have been accepted by management.

It is recommended that senior management attend the next meeting of the Audit and Governance Committee and is requested to provide an update on the action taken in relation to each recommendation made.

Service Area: Adults

Audit Activity: Workforce Development of Social Workers

Background

In December 2009, the Government's Social Work Task Force made fifteen focused recommendations to tackle the education and training, development, regulation and working conditions of social workers that together amounted to a comprehensive programme of reform.

Then in January 2010, the Social Work Reform Board, made up of representatives of social workers, service users and carers, employers and educators and supported by Government, embarked on a joint endeavour to drive through the recommendations made by the Task Force in order to bring about sustained and lasting improvements to social work.

This work has resulted in the formation of a set of standards that, although currently only best practice, the Council is looking to adopt and build into business as usual.

Audit Scope

The objectives of this audit were to establish whether the Council has an effective strategy and robust governance arrangements in place to drive through the social care reform guidelines as outlined in the Social Work Reform Board's Standards for Employers of Social Workers in England.

Risk Assurance – Satisfactory

Control Assurance – Limited

Key findings

There is evidence to support that work to introduce the standards into business as usual is being undertaken. The use of a self assessment questionnaire, using the Local Government Association-Standards for Employers as a bench mark, has helped to further inform and develop a position statement that monitors implementation progress. Although, having reviewed the position statement, we found that the document lacked clarity and detail e.g. it did not identify actions for improvement, action owners or target dates and this needs to be reviewed and enhanced if it is to be used as a progress monitoring and reporting tool.

Actions taken by management

Internal Audit recommended that focus should be given to formalising the high level strategy and governance framework for the implementation of these standards in order to ensure that there is an effective process in place for the management of the delivery of the implementation of the standards and monitoring the progress of these against key milestones. This recommendation has been accepted by management.

It is recommended that senior management attend the next meeting of the Audit and Governance Committee and is requested to provide an update on the action taken in relation to each recommendation made.

Summary of Satisfactory Assurance Opinions on Control

Service Area: Enabling and Transition - Business Service Centre (Key Financial System)

Audit Activity: Creditors – overpayments - credit notes

Background

On an annual basis Gloucestershire County Council (GCC) pays creditors for the supply of goods and services to the value of approximately £590m with some 142,000 invoices and spreadsheet transactions (excluding schools) being processed. Due to the value and number of transactions it is essential that secure procedures and controls are in place and operating effectively throughout the creditor's system.

Audit Scope

The creditor's system is a Key Financial System and as such is considered to be a high risk area being reviewed on a regular basis (either in full or in part) in accordance with the Internal Audit work-plan. The objective of this audit is to review one-part of the system, namely to evaluate the effectiveness of the control over the processing of credit notes received from suppliers. In particular to:

- Ascertain the policy for accepting credits from suppliers/providers (both as credits on statements and credit notes);
- Establish:
 - how any credits received are processed;
 - who is responsible to monitor their clearance; and
 - the effectiveness of any corporate oversight.
- Confirm that the credits received have been processed accurately in SAP and that the documentation that was received by GCC complies with HMRC requirements.

Risk Assurance – Substantial

Control Assurance – Satisfactory

Key findings

The Council receives and processes a high number of credits received from contactors or suppliers e.g. in 2013/14 a total of 4,573 entries were processed with net value (excluding vat) circa £17.6m. The vast majority of credits are offset automatically in SAP against future invoices received.

The analysis did however highlight that 82 vendor accounts were effectively dormant with debit balances of circa £77k with a high proportion dating back two / three years. Following some positive follow up action by Internal Audit, Care Services Finance Team, Payments and Income and some budget holders this amount has now been reduced to circa £45k which due to the age of the credit is now considered to be at high risk of non-recovery and likely will require writing off.

In 2013, Payments and Income commissioned consultants to undertake a one-off Statement & Supplier Review which recovered some £181k from 84 credits. Whilst clearly a good initiative, this may also indicate that the day to day corporate oversight needs to be strengthened unless we are to rely on a similar approach in the future.

The absence of a corporate debt recovery team in recent years and a reduction in resources within the Payments and Income Team means that less time can now be allocated to chasing up dormant credits when placed alongside competing priorities. This can result in lengthy time delays between when the credit is posted to identifying that it has not been cleared and notifying the budget holder / Care Services Finance Team of this debt. As a consequence, the long delay will inevitably reduce the likelihood of the credit subsequently being recovered.

In view of the high volumes involved, we consider that overall the control environment for the processing of credits received by GCC is working satisfactorily. However, going forward this needs to be kept under review.

Actions taken by management

Management responded positively and agreed to formulate a clear policy for accepting credit notes and subsequent monitoring to ensure clearance and prompt action is taken when deemed to be dormant, agree on and implement a consistent process for the monitoring, notification, recovery or the write off of dormant credits held on a vendor account; and the VAT compliance checks (currently undertaken on invoices paid) being extended to the processing of credit notes/statements. Strategic Finance is currently in discussion with the Business Service Centre, to review and implement these revised processes and more widely, intends to introduce a Service Level Agreement for 2015/16 which clearly sets out expected service standards.

Service Area: **Enabling and Transition – Business Service Centre - Key Financial System**

Audit Activity: **Cash Handling and Income Receipting**

Background

The cash receipting system is one of the Council's key financial systems that allow direct input to SAP (the Council's financial reporting system).

In the 2013 calendar year, GCC processed approximately 13,500 cheques to a value of £15.3 million and cash to a value of £64k. All of this income has to be processed into the general ledger in a timely and accurate manner to ensure that the end-of-year financial statements are correct.

Audit Scope

The objectives of the audit were to ensure that:

- There are adequate policies and procedures in place for cash handling and income receipting;

- There are robust processes in place within the Business Service Centre (BSC) to manage the cash and cheques that are received into the section; and
- All income is promptly recorded and that action is taken in a timely manner to clear unidentified income.

Risk Assurance – Substantial

Control Assurance – Satisfactory

Key findings

There are adequate policies and procedures in place for the management of cash and income and testing confirmed that these are being adhered to.

Controls over the security of cash are good. The only issue that arose was that the cash held in the safe in the BSC often exceeds the insurance limit which is £3,000.

Income receipting procedures are working well to ensure that income is processed accurately and in a timely manner in SAP. The income receipting procedures involve joint working between the BSC and Strategic Finance.

Actions taken by management

Management agreed to ensure that the amount of cash held would comply with the Council's insurance policy. In addition, a security company collects cash regularly to limit the amount of time that cash is held within the Council.

Service Area: **Enabling and Transition (ICT)**

Audit Activity: **Electronic Social Care Records System (ERIC) - System Controls and Parameters.**

Background

ERIC is an in-house developed system designed to record payments for adult care. Some payments for adult care, both to external providers and to individuals are generated within ERIC, via an interface with SAP. Other payments are made through normal creditors or directly from the system.

As part of the 2013/2014 Internal Audit Plan, a review of the logical access controls of ERIC was undertaken.

Scope

The objectives of the audit were to give assurance that:-

- access to the system is restricted to authorised individuals;
- access to the processing functions of application software is controlled in a manner that permits authorised users to gain access only for purposes of performing their assigned duties and precludes unauthorised persons from gaining access;

- procedures are enforced so that application programmers are prohibited from making unauthorised program changes;
- user/application programmers are limited to the specific types of data access (e.g., read, update) required to perform their functional responsibilities;
- security profile override capabilities are restricted;
- security data and audit trails, including audit trails of the use of the access control software, are protected from unauthorised modification;
- modifications or changes to the access control software itself are restricted to the appropriate personnel, and those changes are made according to authorized procedures; and
- controls are in place to identify changes to the interface data.

Payment methods were not reviewed as part of this audit.

Risk Assurance - Satisfactory

Control Assurance – Satisfactory

Key findings

The processes relating to user and logical access controls were found to be satisfactory only one recommendation was made relating to adding ERIC to the checklist for starters, movers and leavers to ensure that access is reviewed when an individual's job changes or when they leave.

The automated routine which runs the interface between ERIC and SAP was reviewed. An expected key control would be to automatically calculate the financial batch total before the export file is run, then compare this to the batch value once it has been uploaded into SAP. Any differences would indicate that financial values had been altered. This is not currently being done. At present, the only batch total which is reported is the record count. The export file calculates the count, but the SAP Advisor manually enters this information into an email which is sent to the Task Lead - Care Services Finance. Therefore there is no independent check on records counts that have not been manually processed in some way, therefore this check is not a reliable control to confirm that the number of records have not been altered. A recommendation was made that as a minimum the record count, and preferably the monetary batch value should be reconciled.

Actions taken by management

The recommendations to address the improvement areas identified above were all accepted by management.

Service Area: Enabling and Transition (ICT)

Audit Activity: ICT Managed Services Contract

Background

Gloucestershire County Council's contract for the ICT Managed Services expired on 31st March 2014. A decision was made to use the Government Procurement Service (GPS) RM717 framework to engage a new contractor for the next 3 years, with an option to extend up to a maximum of 7 years.

Audit Scope

Internal audit were involved from the outset of the project to provide assurance that:-

- the procurement was compliant with Contract Standing Orders and EU procurement legislation;
- the evaluation of the tender submissions was undertaken in an open and transparent manner in accordance with published documents and the framework agreement;
- clarification questions are properly managed and a record kept of all correspondence received and issued;
- adequate records are held to support the selection of the preferred bidder; and
- the decision to award the contract is taken in accordance with the Council's Constitution and key decision making procedures; and that a formal contract is executed.

Risk Assurance - Satisfactory

Control Assurance – Satisfactory

Key findings

Internal Audit was invited to meetings of the ICT Procurement project, which considered the strategy for procurement and the drafting of the Invitation to Tender (ITT). Subsequently Internal Audit attended evaluation meetings. This enabled Internal Audit to give assurance on the procurement process. The process was found to comply with both the requirements of the GPS framework and EU regulations.

Management responded positively to the advice received by internal audit and support services during the procurement process and as a result remedial actions were taken to avoid potential pitfalls, which could have resulted in the Council being challenged by unsuccessful bidders and which may have resulted in financial penalties or even the setting aside of the contract.

We are satisfied that adequate records are held to support the selection of the preferred bidder; that a standstill period was observed and that the outcome and debrief information was appropriately notified to the respective bidders. The decision to award the contract to the preferred bidder was taken in accordance with the Council's Constitution and key decision making procedures; and a formal contract has been executed.

Actions taken by management

One recommendation was made that lessons learned are documented and shared with the newly formed Commercial Unit, to enable this learning to be shared more widely across the organisation. This has been welcomed by management who feel that it is important to document both the issues raised in this audit and other issues that arose during the procurement.

Service Area: Enabling and Transition

Audit Activity: Payroll – Review of e-Forms

Background

The Business Service Centre (BSC) has streamlined its services, significantly reducing the number of staff that process payroll payments. One of the main factors in enabling these efficiency savings has been the introduction of e-Forms which will replace existing paper forms. Information recorded on the e-Forms is uploaded automatically into SAP (the Council's main accounting system).

An entire suite of e-Forms has been rolled out to schools and the intention is to make these available to the rest of GCC in due course.

Audit Scope

The audit focused on the use of e-Forms by schools where the objectives of the audit were to:

- Review the adequacy of the controls in place within the BSC and at a sample of schools to ensure that they were operating as intended; and
- Establish the reasons why all maintained schools have either not signed up to use e-Forms, or have signed up, but are not using them.

Risk Assurance – Substantial

Control Assurance – Satisfactory

Key findings

BSC staff are well trained in the use of the e-Form system which also maintains audit trails of all input. Comprehensive information about e-Forms is available on Staffnet and training is offered to all new users that sign up to use e-Forms.

A sample of schools was visited to test for compliance with the use of e-Forms. In the majority of cases, the schools were able to provide authorised hard copy evidence which acted as the source documentation for input to the e-Form system. School staff were confident in the use of the system but did have some observations that BSC management have agreed to consider for future improvements that may need to be made.

The source documentation and the input to the e-Form system were compared to the payments that had been made in SAP to ensure that they all agreed. In the majority of cases, all entries were found to be correct.

However, a number of anomalies were identified and BSC management have agreed to investigate these and take corrective action as necessary.

Internal Audit conducted two surveys to establish why some schools had not yet signed up to use e-Forms and why some schools, who had signed up to use e-Forms, were not using them. The reasons were varied but the following common issues were identified:

- Schools are happy with their current paper-based system;
- The e-Form system is too time consuming; is not flexible enough; is too slow;
- Schools computer systems are not able to cope with the volume of data on the e-Forms system;
- Staff are newly appointed and have not yet had any training;
- Negative feedback from other users has delayed some schools in signing up; and
- Practical issues, e.g. where the authoriser is based elsewhere, makes the application of e-Forms difficult.

Actions taken by management

Management has agreed to review the common issues identified and take any action as necessary for improvements that may need to be made.

Service Area: Communities and Infrastructure

Audit Activity: Gloucestershire Local Transport Board

Background

The Department for Transport (DfT) has, from April 2015 onwards, devolved funding for local major transport schemes to “Local Transport Bodies (LTB)”. In March 2013, the Gloucestershire Local Transport Board (GLTB) was formed being a consortium of three partner organisations: Gloucestershire County Council (GCC); Local Enterprise Partnership (LEP); and Leadership Gloucestershire (LG).

Gloucestershire County Council (GCC) is a full member of the GLTB, and will also undertake the role of the Accountable Body for the £9.8m funding allocated by the DfT during the period April 2015 to March 2019. The DfT requires independent scrutiny of the GLTB’s work.

Audit Scope

The Commissioning Director: Communities and Infrastructure commissioned GCC Internal Audit Service (via the Internal Audit work-plan for 2014/15) to perform this scrutiny role.

Therefore this audit:

- evaluated compliance of the workings of the GLTB against the requirements of the agreed “Assurance Framework”; and
- prepared a report (based on the key findings) for submission to the DfT.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key findings

The audit concluded that overall there was appropriate compliance by the GLTB and by GCC as the Accountable Body against the requirements contained within the approved Assurance Framework. The majority of the key requirements that were included in the evaluation are considered to have been consistently met in full or to have been met with some minor aspects to be completed or are to be considered going forward when these fall due.

There is however a need for GCC (as accountable Body) to gain assurance that the non-GCC Full Members of the GLTB have professional indemnity insurance in place to cover their personal involvement in the governance of the GLTB.

Actions taken by management

The recommendation made to address the insurance issue was accepted by management.

Service Area: Communities and Infrastructure - Gloucestershire Fire and Rescue Authority

Audit Activity: Annual Statement of Assurance for 2013/14

Background

Fire and Rescue Authorities function within a clearly defined statutory and policy framework. The key documents setting this out are the:

- Fire and Rescue Services Act 2004;
- Civil Contingencies Act 2004;
- Regulatory Reform (Fire Safety) Order 2005;
- Fire and Rescue Service (Emergencies) (England) Order 2007;
- Localism Act 2011; and
- Fire and Rescue National Framework for England.

The National Framework for England (published in July 2012) sets out a requirement for fire and rescue authorities to publish Statements of Assurance. It says:

'Fire and rescue authorities must provide annual assurance on financial, governance and operational matters and show how they have had due regard to the expectations set out in their integrated risk management plan and the requirements included in the Framework. To provide assurance, fire and rescue authorities must publish an annual statement of assurance'.

The purpose of the Statement is to provide assurance to local communities and government on financial, governance and operational matters, and demonstrating how authorities have met the Framework commitments.

Audit Scope

To undertake verification checking of the GFRS Annual Statement of Assurance for 2013/14 in order to provide assurance that the statement will stand up to scrutiny prior to its subsequent sign off and publication.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key findings

The guidance published (May 2013) by the Department for Communities & Local Government provides a broad overview of the contents to be included in the Statement of Assurance and indicates how existing assessment processes might feed into the statements in order to avoid duplication. When reviewing the initial draft it was difficult to draw an informed assessment of actual performance as a number of agreed targets had not been included. However the final version was amended to reflect our suggested improvements and we were therefore able to conclude that the content of the final Statement of Assurance for 2013/14 clearly sets out how the Fire and Rescue Authority is meeting the requirements of the Framework.

Service Area: Children and Families

Audit Activity: Contract Monitoring of Children's Centres

Background

In December 2012, the Council awarded seven contracts to four different providers for the provision of Children's Centres across Gloucestershire. The contracts commenced on 1st April 2013, cover an initial three-year period with an option to extend for a further two years plus a further two years after that. The contracts have a combined initial three-year value of circa £25m.

According to the new Contract Management Framework the Children's Centre contracts are all classified as 'Platinum' and a desk top baseline assessment was carried out by the Commercial Team in June 2014.

Audit Scope

The objectives of the audit were to:

- Review a sample of evidence in support of the Platinum contract management criteria to provide assurance that appropriate arrangements have been established to monitor the contractors' performance so that the required outcomes for this key service provision will be delivered; and
- Obtain assurance that any potential shortfalls that have been identified as part of the baseline assessment have been actioned.

Risk Assurance – Substantial**Control Assurance – Satisfactory****Key findings**

The seven contracts are all managed in the same way and the systems and documentation requirements are also consistently applied across all four providers. The review of documentary evidence was therefore undertaken on a sample basis but included evidence from each of the providers.

The only issues where the evidence did not support the answers and gradings that were awarded in the baseline assessment were for finance-related matters. Financial statements had not been requested from the providers, invoice payments to one provider needed to be adjusted to take account of overpayments that had been made between in the first three quarters, and pension bond values needed to be reviewed and correctly applied as they affect the contract price that is actually paid. Roles and responsibilities between Commissioning and Strategic Finance also needed to be clarified.

Actions taken by management

Management has agreed to the recommendations made to address the issues above and to develop an action plan so that Internal Audit can undertake a review of the outstanding evidence at a later date.

Summary of Substantial Assurance Opinions on Control

Service Area: Strategy and Challenge

Audit Activity: Members Allowances and Expenses

Background

Gloucestershire County Council currently has 53 elected Councillors (Members) which are eligible to receive allowances and claim expenses. To facilitate payment of these allowances and expenses the Council has adopted a scheme of members' allowances. The scheme was drawn up in regard to the recommendations of an independent remuneration panel and is reviewed annually.

In addition to the basic and special responsibility allowances that Members receive, they are also entitled to claim for other allowances including travel and subsistence.

Audit Scope

The audit covered a sample of Members allowances and claims processed during the period 1st April 2013 and 31st March 2014. The objectives of this audit were to evaluate the effectiveness of the systems and processes in place for ensuring that:

- Expenses paid to Members meets the criteria detailed in the Constitution; and
- The allowances received by members are paid in accordance with the Members Allowances Scheme.

Risk Assurance – Substantial

Control Assurance – Substantial

Key findings

Democratic Services have developed a good set of systems and processes for scrutinising expense claims prior to their approval. A sample (21%) of claims submitted, by Members, for processing during the Financial Year 2013/14 were reviewed for accuracy (arithmetical and completeness). Of that sample, all the claims were found to be correct, with the exception of one, due to an input error, which resulted in one very small overpayment.

In addition, a 100% review of allowances paid to Members in during the Financial Year 2013/14 was also undertaken. Apart from one minor overpayment (write off appropriately authorised), all of the payments made were found to be correct.

The current systems and processes are considered to be robust and working well and no recommendations were made.

Summary of Consulting Activity and/or Support where no Opinions are provided

Service Area: Grant Certification

Audit Activity: Severe Weather Recovery Scheme Grant

Background

On 20th March 2014 a letter was issued by the Department for Transport (DfT) stating that the authority was to be allocated additional capital funding of £1,214,077 for highway flood recovery. This funding titled 'Severe Weather Recovery Scheme' is to be reported as part of the Specific Grant Determination No.31/2150.

Audit Scope

To provide assurance to the Chief Executive and the Chief Internal Auditor (who are required to confirm to the Department for Transport) that the conditions of the Specific Grant Determination 2013-14: No 31/2150 have been complied with.

Key findings

The letter from DfT states that the use of this grant should be in accordance with regulations made under section 11 of the Local Government Act 2003. Internal Audit held discussions with the key personnel within Strategic Finance responsible for monitoring the capital expenditure of the Severe Weather Recovery Scheme Grant. Through these discussions (coupled with our own independent testing) it was confirmed that although there has been no expenditure to date, the whole of the grant has been allocated / committed to specific projects all of which fully relate to the purchase of capital items.

Internal Audit concluded that the conditions of the Grant Determination for 2013/14 have been fulfilled and as such the declaration could be signed and submitted to DfT in accordance with their terms.

Service Area: Adults

Audit Activity: Complaint

Background

A complaint was received by the Customer Service Team concerning a complaint within adult services.

The complaint was investigated under Gloucestershire County Council's (GCC) Adult Social Care Complaints Policy. A response was given to the points of the complaint but the complainant was dissatisfied with the response. A management decision was taken to treat the complaint as a Stage 2 complaint which would normally be investigated by senior management. However, the complainant had suggested that the original investigation lacked impartiality and failed to address the facts of the complaint. On this basis, Internal Audit were approached to undertake an independent review of the documents and the process followed to date before senior management drafted a Stage 2 response.

A report was provided to management providing the relevant assurances to enable a response to be drafted to the complainant.

Service Area: Enabling and Transition

Audit Activity: Photovoltaic (PV) Panels Framework

Background

The procurement of a PV Panels Framework contract commenced during 2010. The intention was to set up a Framework for Gloucestershire, worth £14m, whereby a number of contractors would be appointed under the Framework. Schools, Academies, GCC premises managers and other public sector bodies would then call off against the Framework. Internal Audit were originally requested to undertake a review to establish why the contract was taking so long to procure and the extent to which this was influenced by changes in government policy.

A number of circumstances led to the Framework contract not being awarded. Internal Audit's role in the process therefore changed but a report was nevertheless produced to provide assurance that lessons learned had been identified.

Audit Scope

The objectives of the revised audit were as follows:

- To meet with a number of key stakeholders in the process to gain an understanding of their involvement and to establish whether any lessons had been learned and had been formally documented and reported.

Key findings

The members of staff that were interviewed were able to identify lessons learned from their perspective. It was also confirmed that the lessons learned had not yet been formally documented or reported.

Actions taken by management

A recommendation was made that the lessons learned from the process should be documented to avoid future recurrence of issues. Management has agreed to complete this task.

Service Area: Children and Families

Audit Activity: Adult Education Service

Background

The Adult Education Service (AES) is funded by the Skills Funding Agency (SFA) to the value of approximately £2.8m, and also receives funding from other minor government grants and income generating activities. The SFA will not fund expenditure in excess of the allocation/maximum contract value. For 2013/14, the AES delivered a breakeven position at no cost to GCC.

The current restructure of the AES revealed a number of concerns and issues around the extent to which the Council's HR and financial policies and procedures have been followed. The Operations Director: Education, Learning and Libraries requested Internal Audit to undertake a consultancy review of these areas and to report the findings accordingly.

Audit Scope

The audit included a review of the following areas:

- Budgetary control;
- Staffing;
- Income; and
- Purchasing.

Key findings

The review highlighted a number of control weaknesses and non compliance with Council policy within staff/tutor recruitment processes, travel claims, cash handling, debtor accounts, procurement, general authorisation processes and financial management.

Actions taken by management

Management have responded very positively to all of the recommendations made and are developing an action plan to address the issues highlighted.

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

The Counter Fraud Team within Internal Audit (IA) have received 18 new referrals in 2014/15 to date, and 5 cases referred in 2013/14 were continued to be investigated in 2014/15. Four of these have now been completed. The last referral received at the very end of the financial year was a piece of Counter Fraud work, concerning staff travel. We continue to work in this area and follow-up irregularities with management as they arise. Currently this has involved investigating a number of staff for potential over claiming, one of which has resulted in a member of staff repaying around £1,200. An overall report will be produced once all highlighted concerns have been fully investigated. We have previously reported on the other four cases which were brought forward and are now closed.

New referrals in 2014/15

Of the 18 new cases referred to Internal Audit in 2014/15 8 have been closed, two of which have previously been reported. In respect of the 6 newly closed cases:

- No evidence of fraud was identified but the audit led to a management review of the service area and three staff were put through the disciplinary process as a result;
- Again fraud was not identified but processes were not being followed and a member of staff received a performance improvement notice;
- A Headteacher undertaking OFSTED inspections, whilst still employed by the Council, has repaid £9,600, following their retirement;

- A member of school support staff has resigned following an investigation into accounting issues and missing cash;
- IA was involved in providing management with information relating to using work time for private purposes, which led to a member of staff being given a formal written warning; and
- An investigation into allegation of fraudulent activity via a complaint was not substantiated.

National Fraud Initiative (NFI)

Internal Audit continues to support the National Fraud Initiative (NFI) which is a biennial data matching exercise administered by the Audit Commission. The next data collections will be October 2014 and reports will start to be received with matches from January 2015. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

The Committee can also take assurance that all special investigations/counter fraud activities are reported to the Statutory Officers i.e. the Chief Executive, Monitoring Officer and Director of Finance, a monthly basis.

Service Area:	Adults
Audit Activity:	Amenity Funds

Background

The Council operates a number of in-house respite and day centres for service users who have learning disabilities. The vast majority of income and expenditure for these centres is processed and recorded through the Council's main financial accounting system. However, these establishments can also run separate bank accounts for unofficial transactions. These accounts are generally referred to as 'amenity funds'.

Amenity funds are mainly used to hold fundraising income and donations which have been given for the benefit of a specific centre or group of service users, or to process income/expenditure for activities which are not funded by the Council. Whilst these accounts are kept apart from the main financial system they are still operated by paid GCC staff and, as such, the Council has a duty of care to ensure all amenity funds are adequately managed. Internal Audit reviewed the amenity funds at six of the centres.

Audit Scope

The scope of the audit was to review the adequacy of the governance and administration of the amenity funds to ensure that they are being operated for their intended purpose and in line with the Council's financial Regulations and Standing Orders.

Key findings

The main concerns were the low balances at two of the centres, which had reduced significantly as a result of not collecting sufficient income to cover the cost of activities, including drinks and other refreshments provided within both centres. This level of subsidy could not be sustained and virtually all funds had been exhausted at the time of the audit. Records of catering activities were also incomplete.

A similar situation existed at another centre, where it was found that income collected/recorded for some activities did not cover the cost, and no charges were being made in respect of one activity. This was not equitable as some service users were being charged and others were not. The balance of the fund however was not at risk and balances were not reducing.

Recommendations were made in respect of two out of the six centres visited relating to improvements in financial management, monitoring and recording processes.

Actions taken by management

All recommendations have been accepted by management. Managers will also ensure that activities are fully funded and that records are retained to ensure that there is a clear audit trail, especially concerning catering operations.

***NEW Requirement - Local Government Transparency Code 2014**

Introduction

This Code is issued to meet the Government's desire to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services. Transparency is the foundation of local accountability and the key that gives people the tools and information they need to enable them to play a bigger role in society. The availability of data can also open new markets for local business, the voluntary and community sectors and social enterprises to run services or manage public assets.

Detecting and preventing fraud (taken from Annex B of code)

Tackling fraud is an integral part of ensuring that tax-payers money is used to protect resources for frontline services. The cost of fraud to local government is estimated at £2.1 billion a year. This is money that can be better used to support the delivery of front line services and make savings for local tax payers.

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

Local authorities must annually publish the following information about their counter fraud

work ¹ (as detailed for GCC) in the table below:

Internal Audit Fraud and Irregularity activity relating to 2013/2014

Question	GCC Response
Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.	N/A
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud.	1
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists.	2.45
Total amount spent by the authority on the investigation and prosecution of fraud.	£46,140
Total number of fraud cases investigated.	9

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

Question	GCC Response
Total number of cases of irregularity investigated.	21
Total number of occasions on which a) fraud and b) irregularity was identified.	a) 9 b) 4
Total monetary value of a) the fraud and b) the irregularity that was detected.	a) £16,990 b) N/A
Total monetary value of a) the fraud and b) the irregularity that was recovered.	a) £2,820 b) N/A

¹ (The definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse*).

Total GCC (including Internal Audit) fraud and irregularity activity

The total GCC Fraud and Irregularity activity relating to 2014/2015 and beyond will be published annually within the Internal Audit Annual Report, commencing in June 2015.

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

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/360711/Local_Government_Transparency_Code_2014.pdf