

# Internal Audit Activity Progress Report

2018-2019



## **(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 Stroud District Council, Gloucester City Council and Gloucestershire County 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 undertake 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 Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period January to April 2019; and
- Special investigations/counter fraud activity.

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

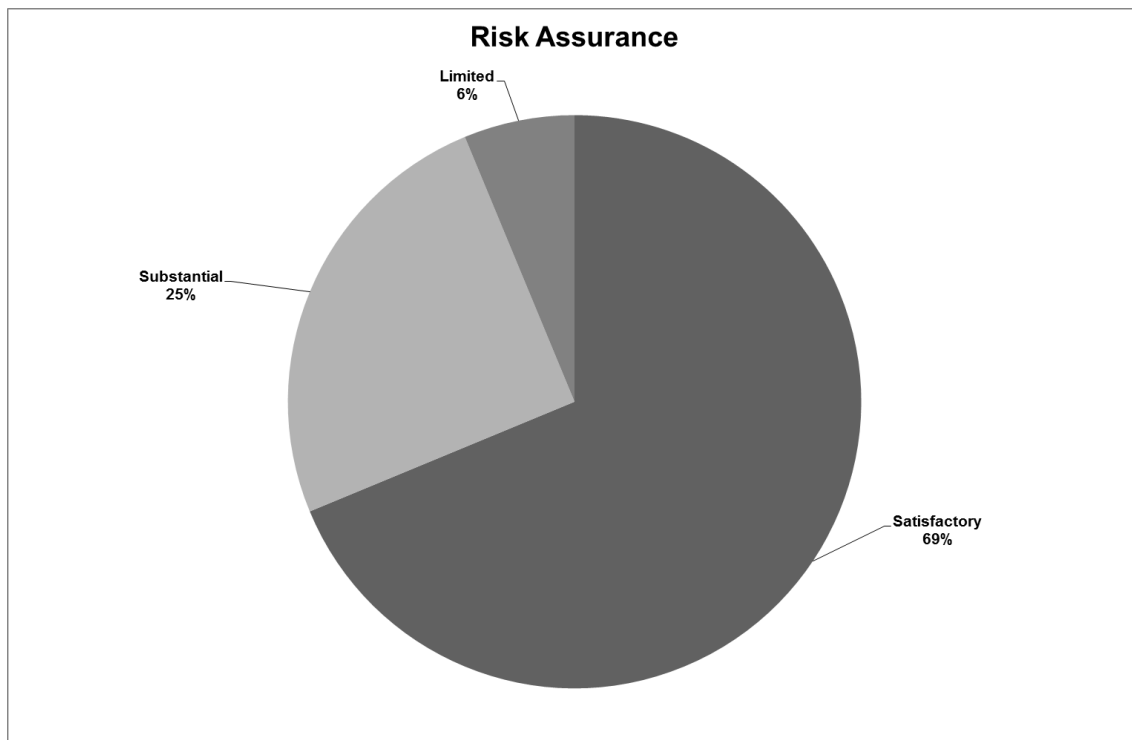
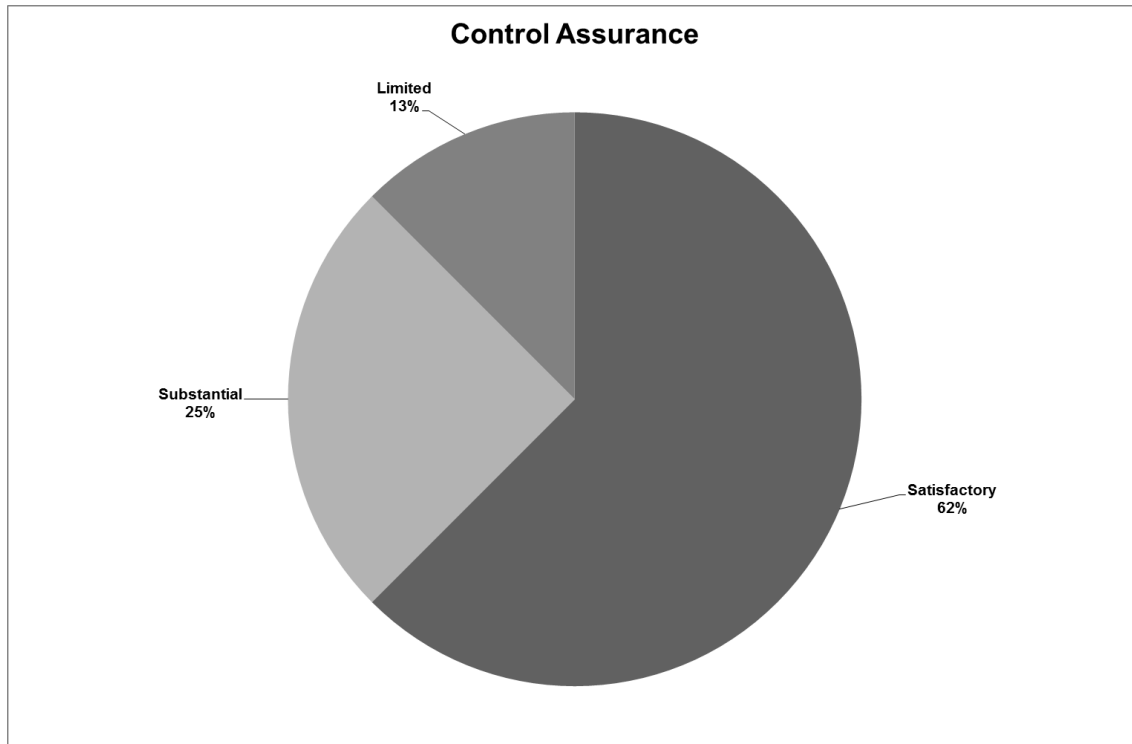
The schedule provided at **Attachment 1** provides the summary of 2018/19 audits which have not previously been reported to the Audit and Standards Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2018/19 Internal Audit Plan activity undertaken during the financial year to date, 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 Standards Committee. Explanations of the meaning of these opinions are shown in the below table.

| Assurance Levels    | Risk Identification Maturity  | Control Environment   |
|---------------------|---|---|
| <b>Substantial</b>  | <b>Risk Managed</b><br>Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Policy.  | <ul style="list-style-type: none"> <li>System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved</li> <li>Control Application – Controls are applied continuously or with minor lapses</li> </ul> |
| <b>Satisfactory</b> | <b>Risk Aware</b><br>Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. However some key risks are not being accurately reported and monitored in line with the Council's Risk Management Policy.  | <ul style="list-style-type: none"> <li>System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger</li> <li>Control Application – Controls are applied but with some lapses</li> </ul>    |
| <b>Limited</b>      | <b>Risk Naïve</b><br>Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council's Risk Management Policy, the service area has not demonstrated a satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff. | <ul style="list-style-type: none"> <li>System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls</li> <li>Control Application – Significant breakdown in the application of control</li> </ul>                    |

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

The pie charts 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 - April 2019.



**(4b) Limited Control Assurance Opinions**

Where audit activities record that a limited assurance opinion on control has been provided, the Audit and Standards 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 January to April 2019, 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 activities record 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 January to April 2019 Internal Audit made, in total, **10** recommendations to improve the control environment, **0** of these being high priority recommendations (**100%** of these being accepted by management) and **10** 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 January to April 2019, please note that no limited assurance opinions on risk have been provided on completed audits from the 2018/19 Internal Audit Plan.

## Completed Internal Audit Activity during the period January to April 2019

### Summary of Satisfactory Assurance Opinions on Control

#### Service Area: Customer Services

#### Audit Activity: Homelessness

##### Background

The Homelessness Reduction Act 2017 came into effect on 3rd April 2018. It placed new legal duties on local housing authorities and amended the existing Housing Act 1996 homelessness legislation.

The Homelessness Reduction Act 2017 now requires housing authorities to provide homelessness services to all those affected, not just those who have 'priority need'. These include:

- An enhanced prevention duty extending the period a household is threatened with homelessness from 28 days to 56 days, meaning that housing authorities are required to work with people to prevent homelessness at an earlier stage; and
- A new duty for those who are already homeless so that housing authorities will support households for 56 days to relieve their homelessness by helping them to secure accommodation.

Other new provisions cover enhanced advisory services and duties to agree and keep under review a 'personalised housing plan' with each eligible applicant.

Stroud District Council's (the Council's) Housing Advice Team supports the homeless and those facing homelessness in Stroud. Analysis by the Housing Advice Manager has ascertained that in 2017/18, the Housing Advice Team received 93 homeless applications and following government assessment guidelines 39 (42%) were classified as officially homeless and supported. In addition, 685 households who were threatened with homelessness in 2017/18 received support to prevent them from becoming homeless.

##### Scope

The objective of this review was to determine whether:

- The assessment of homeless applications to determine their eligibility, homelessness position, priority group and intentionality status is in line with Homelessness Reduction Act 2017;

- Risks associated with the assessment of homeless applications had been identified and recorded within the Council's performance and risk management system, Excelsis;
- Eligible applicants received a 'personalised housing plan'; and
- There is a robust process for lessons learned from the appeals procedure.

**Risk Assurance – Satisfactory**

**Control Assurance – Satisfactory**

**Key Findings**

- Internal Audit is pleased to verify (through documentation and process review, including discussion with key officers) that the Housing Advice Team, in line with Homelessness Reduction Act 2017:
  - Provide advice and information about homelessness and the prevention of homelessness, free of charge available to any person in their district; and
  - Understand how to assess: eligibility for homelessness support; whether a homeless applicant is actually homeless; if a homeless applicant has a priority need including whether they are vulnerable; and if a homeless applicant has made themselves intentionally homeless.
- Adverse decisions are when an officer assesses an applicant against the criteria of the Homelessness Reduction Act 2017 and disagrees with the applicant's opinion that they have a priority need, are vulnerable and/or are not intentionally homeless. Currently an officer's adverse decision does not go through a formal review process.
- The Housing Advice Team has acknowledged four inherent risks relating to homelessness and has captured this using the corporate system for recording, Excelsis. Excelsis homelessness risks documentation could be improved by ensuring that risks are reviewed and updated in a timely manner and through consideration of the risk of inappropriate/adverse homelessness decisions.
- Government legislation has an expectation that eligible homeless applicants receive a personalised housing plan. Audit sample testing of 2018/19 eligible homeless applicants identified that this does not currently happen for all applicants.
- The Housing Advice Team has a robust appeals process which could be further enhanced with a 'lessons learned' process.

## Conclusion

Internal Audit is pleased to confirm that there is a framework for assessing and managing homelessness applicants, in line with the Homelessness Reduction Act 2017.

The audit found that the current framework could be improved by:

- Ensuring that all relevant documentation is uploaded to Locata (the Council's homelessness system);
- An independent review of adverse decisions;
- Regular and timely review and update (as required) of the relevant risks documented on Excelsis;
- Ensuring that all eligible applicants receive a personalised housing plan; and
- Empowering process improvements through an appeals lessons learned process.

Internal Audit has made five medium priority recommendations in line with the above themes, to support the Housing Advice Team to further strengthen the current framework and working practices.

## Management Actions

Management have responded positively to the five medium recommendations made.

## Service Area: Finance

### Audit Activity: Communications (Publication of Financial Information)

#### Background

Over the life of the current Medium Term Financial Plan (MTFP) the Council face challenges to reduce its net budget whilst delivering its corporate aims.

It is key that finance is placed at the heart of decision-making and all decision-makers must understand their responsibility to take financial considerations into account. It is therefore vital that decision-makers have access to relevant, reliable and timely information, and that there is a robust framework in place for the release of internal and external financial information.



An Internal Audit investigation in 2017/18 of the Subscription Rooms Financial Reporting Error identified and agreed a number of actions, in respect of the generation, control and release of financial information.

The implementation of the agreed actions has been reviewed and tested as part of this internal audit, linking these to the wider control over published financial information.

### **Scope**

The objective of this audit review was to determine whether there is an effective control framework in place for the production of reliable financial information, prior to release to either internal or external parties. The review included implementation follow-up of the agreed actions from the Subscription Rooms Financial Reporting Error investigation.

### **Risk Assurance – Substantial**

### **Control Assurance – Satisfactory**

### **Key Findings**

Internal Audit is able to confirm that enhanced controls now operate reducing the risk in generating, presenting and releasing financial information for publication. Control examples are:

- Internal check and reconciliation processes operate to ensure the integrity of financial data extracted from the main accounting systems is retained.
- A protocol operates covering the comments made in the financial implications section of Committee reports.
- Internal check operates for financial information included in Committee reports, press releases or issued to Members.
- All financial information to be published (press releases and statements), is approved by both the Section 151 Officer, or their representative, and the Corporate Team. The Communications Manager oversees adherence to this control.
- Resource and workload management aids the control of intensive work pressure periods.
- Direct awareness of the financial implications of initiative and projects through finance team members attending / supporting Corporate and Project Teams.

Internal Audit evidenced a general move away from the Finance Team and the Section 151 Officer being reactive to requests for financial information, much of which may be published. Through being an integral part of the processes that are driving new initiatives, projects and change the Finance Team have the opportunity to be proactive in the provision of financial advice and guidance and the generation of information. Examples being, the Section 151 Officer attends Corporate Team meetings and Finance Team members are part of project teams.

### **Conclusion**

In many instances the financial information published by the Council informs and supports decision-making, and informs the public. Reliance on the accuracy and completeness of such financial information is essential. A more prominent role for the Head of Finance and the Finance Team in addition to the actions taken in response to the Internal Audit report following the Subscription Rooms Financial Reporting Error should now help to ensure that control lapses which have occurred before do not reoccur.

The Finance Team, and in particular the Section 151 Officer, plays a crucial enabling role within the Council and it is evident the Head of Finance is working proactively to ensure that officers and Members are able to call upon finance support throughout their projects and general work. It is the responsibility of the Head of Finance and the senior members of the Finance Team, through the systems and controls they operate, to secure and ensure robust and reliable financial information is produced. Managing the balance between being a responsive service, delivering to statutory deadlines and maintaining internal control is a key requirement. Internal controls are now present, however going forward it is of vital importance that the continued application of, and compliance with these controls remain assured irrespective of the Council's work demands and pressures.

### **Management Actions**

No recommendations were made by Internal Audit.

## **Service Area: Tenant and Corporate Services**

### **Audit Activity: Risk Management (Contracts)**

#### **Background**

Stroud District Council retains and manages its own housing stock of 5,071 council rented dwellings, with a balance sheet value of £271 million as at 31/03/2018.

Tenant Services handle contracts that relate to the management and maintenance of the housing stock, as well as other services for Stroud residents such as radon testing.

The management of risk is a key part of contract management and the risks that may arise in a contract are many and varied. In light of this it is important for Tenant Services to have effective arrangements in place to identify, evaluate and prioritise risks to support decision making and ensure contracts are managed in an effective way.

### **Scope**

The objective of this review was to determine whether Tenant Services have embedded risk management within the management of their contracts and that the arrangements are in line with the Council's Risk Management Policy Statement and Strategy.

### **Risk Assurance – Satisfactory**

### **Control Assurance – Satisfactory**

### **Key Findings**

- The Council has a corporate contract register that is available to officers to document all council contracts valued at £50,000 or higher.
- The Head of Contract Services has set up a Tenant Services contract register to support the management of his service area contracts. For each awarded contract on this register there is a nominated lead officer responsible for the risk management of their contract (i.e. the contract risk owner).
- Internal Audit through examination of both the Council's and Tenant Services' contract registers established that there are 28 current Tenant Services contracts.
- Internal Audit sampled three current Tenant Services contracts that had high contract values and found that each had an individual risk register. The Head of Contract Services confirmed to Internal Audit that these risk registers are reviewed at the monthly manager meetings held with each lead officer.
- Audit review of the sampled risk registers established that:
  - The registers used a standardised template supporting consistency of information and each register was up-to-date;

- All risks have been evaluated and a risk score documented that is in line with the Council's risk scoring requirements. However not all medium and high scored risks have a corresponding action plan;
  - Consideration to contract risk themes identified by the Local Government Association and the Chartered Institute of Public Finance and Accountancy would be advantageous; and
  - The registers document that the risks have been reviewed in the previous three weeks to audit testing.
- Tenant Services have identified and documented nine risks relating to contracts on the Council's performance and risk management system, Excelsis. Internal Audit reviewed the nine risks and found that five have been reviewed by their planned review date.
  - Internal Audit found that, on the whole, risks documented on Excelsis and the individual contract risk registers support the requirements of the Risk Management Policy Statement and Strategy, however enhancements could be made to provide the senior management team and Members with greater oversight of high scoring/significant contract risks.

### **Conclusion**

Internal Audit is pleased to confirm that from the review of the three sampled contracts and consideration of the processes in place, Tenant Services have an embedded risk management approach within the management of their contracts and that the arrangements are mainly in line with the Council's Risk Management Policy Statement and Strategy. However the risk management approach could be improved through:

- A review of the Tenant Services contract register to ensure it is complete and up-to-date;
- Consideration of additional risks based on good practice guidance from the Local Government Association and the Chartered Institute of Public Finance and Accountancy;
- Evidenced regular risk register reviews with the contractors;
- The timely review of risks documented on Excelsis; and
- The implementation of a control framework to ensure that contracts approaching their expiry date are re-procured in a timely manner.

## Management Actions

Management have responded positively to the five medium recommendations made.

## Summary of Substantial Assurance Opinions on Control

### Service Area: Finance

### Audit Activity: Debt Collection and Recovery

#### Background

Income can be a vulnerable asset and effective income/recovery systems are necessary to ensure that all income/debt due is collected.

The Council's main debtor billing systems are segmented into; i) Civica for Council Tax, Business Rates and Housing Benefit overpayment balances not recovered from on-going entitlement; ii) Northgate for Housing and Garage Rent; and iii) Agresso for sundry debtors.

In addition, there are debtor billing, collection and recovery procedures in place for car park fees and leaseholders charges.

#### Scope

This audit review considered whether there are robust arrangements in place for the management of debt owed to the Council, based on the principles of early contact, close monitoring, consistent action and adherence to agreed internal/external collection/recovery procedures.

#### Risk Assurance – Substantial

#### Control Assurance – Substantial

#### Key Findings

- The departmental procedures to run month end outstanding debtor reports are suitably embedded and adequate for the financial systems so that the procedure is effective. The previous recommendation for month end reports has been implemented.
- In addition, the monthly reporting procedure of outstanding debtor balances to service departments was verified as operating correctly, to minimise collection of debt.

- Based upon the results of sample testing 35 outstanding accounts at November 2018 month end; i) debtor arrears are subject to early contact; ii) managed using agreed payment plans; and iii) use is made of a set of rigorous debt recovery procedures.
- A consistent approach is adopted across the various income streams for debt recovery procedures such as timely reminder letters, final notices and payment arrangements.
- The use of debt recovery suppression controls is correctly applied and operating correctly.

### **Conclusion**

Audit review of the key processes and controls, supports the audit outcome of substantial assurance for both risk identification maturity and control environment.

### **Management Actions**

No recommendations were made by Internal Audit.

## **Service Area: Finance**

### **Audit Activity: Budget Savings**

#### **Background**

In January 2018, the Council updated its Medium Term Financial Plan (MTFP). The MTFP sets out the Council's core budget position to 2021/22. An important part of the Council's strategy will be the continued delivery of efficiencies, savings and increased income generation. This will help minimise the Council's need to support the general fund budget through the use of reserves.

For 2018/19 the Council's General Fund Saving Plan as stated in its Budget Strategy categorises savings as 'service savings achieved' and 'savings targets'. Both categories will require regular review and reporting to monitor and ensure the level of achieved savings (the 2018/19 budget levels) are maintained, and that target savings will be delivered within the year.

**Scope**

The objective of this audit review was to examine the progress of the 2018/19 General Fund Savings Plan through the budget monitoring process, to verify the 2018/19 savings 'achieved' and 'targeted' are being delivered, monitored and reported.

The review excluded savings associated with the Workforce Plan project, as this is the subject of a separate specific internal audit review.

**Risk Assurance – Substantial****Control Assurance – Substantial****Key Findings**

The 'service savings achieved' element of the Council's savings plan lists a number of areas, identified as part of budget setting, where savings or additional income generation can be achieved. Part of the budget setting control process is the confirmation by budget holders that the savings or income levels will be delivered. The sums agreed are deducted from or added to the budget and the budget holder is responsible for managing their budgets within the levels set.

Success in delivering these saving plan sums within the current year will then be demonstrated through the budget monitoring process, which should evidence spending and income against the approved budget levels.

Internal Audit has reviewed the first formal Budget Monitoring Report (reported to Strategy and Resources Committee on 4th October 2018) that shows a forecast of the outturn position against the revenue budget at 31st August 2018. Internal Audit has confirmed that, for the 'service savings achieved' section of the savings plan (excluding Workforce Plan project items); there are no significant projected variances in 13 of 14 of the saving / income generation areas. The one exception is the Littlecombe Business Units where the 'achieved' saving was stated as £62k, but the delays in completing and letting the units will result in the saving not being realised in 2018/19. There is a commentary to this effect within the budget monitoring report and further detail was provided to Members at the Committee meeting.

In the savings plan there is a second section 'saving targets', these are savings or areas where additional income will be generated, to be achieved during the current financial year. For 2018/19 the non Workforce Plan project items identified as target savings are the additional income generated from Business Rate Pooling and from spend consolidated.

In respect of Business Rate Pooling Internal Audit has obtained confirmation, from both the then Accountancy Manager (the across county lead on this initiative) and the Head of Finance independently, that the target saving of £100k for the year will be realised.

The consolidated spend saving of £50k relates to the savings to be generated from the award of a single supplier contract for the provision of agency staff and the combined benefits accruing from a two staged approach to generating print cost savings - initial print savings resulting from a drive to reduce print usage and associated costs and a planned second phase to contract with a small number of print suppliers. Internal Audit has examined both areas and confirmed that the movement in costs from 2017/18 to the current year (predicted outturn) indicate the target savings will be delivered within the year.

The pressures to make savings and to generate additional income continue, as reflected in the Budget Strategy 2019/20 to 2022/23 report to Strategy and Resources Committee (draft MTFP) of 4th October 2018. Planning future savings will introduce degrees of uncertainty. The Littlecombe Business Units (2018/19) and the introduction of parking charges in other towns (2019/20) being examples of planned income streams, approved by Council, being subsequently delayed and withdrawn respectively. It may assist Members to indicate byway of a traffic light system or similar, the current degree of certainty over items contained within MTFP saving plan. This becomes more pertinent as increasingly savings are targets to be delivered through complex change programmes within the year and beyond.

## **Conclusion**

In line with the agreed audit scope, this conclusion is relevant to the Council's non Workforce Plan project savings 2018/19 only.

For 2018/19 the majority of planned budget savings to be derived from service activities are achieved prior to the start of the financial year. Therefore, realising these savings is achieved by service managers managing within their set budgets. The budget monitoring process to the end of August 2018 indicates that budget management, in the majority of the areas where savings or increased income generation were set, will be delivered. Where 2018/19 target savings or income streams have been set, evidence obtained by Internal Audit indicates the target levels will be delivered.

In determining the audit opinion for this review, consideration has been given to the limited scope of the audit, against the wider and long term budget saving challenges faced by the Council. The Council is risk aware in terms of the future year budget pressures, but the strategy to achieve these will need to become more complex and this is acknowledged by the Head of Finance.



## **Management Actions**

No recommendations were made by Internal Audit.

## **Service Area: Tenant and Corporate Services**

### **Audit Activity: IR35s – Off Payroll Working through an Intermediary**

#### **Background**

IR35 is tax legislation that is designed to combat tax avoidance by workers supplying their services to clients via an intermediary, such as a limited company, but who would be an employee if the intermediary was not used. Such workers are referred to as 'disguised employees' by Her Majesty's Revenue and Customs (HMRC).

The Council is responsible for determining IR35 status when procuring services and if the rules do apply must ensure that tax and Class 1 National Insurance (NI) Contributions are deducted at source. If any such persons are paid through agencies it still remains the responsibility of the Council, as the client, to determine IR35 status and ensure that the agency is aware that tax and NI must be deducted at source.

This review will seek to determine whether the Council has effective arrangements in place to ensure that it conforms to these regulatory requirements.

#### **Scope**

To review the systems, policies and procedures in place to ensure that new and existing off payroll workers are identified and assessed against IR35 requirements.

#### **Risk Assurance – Substantial**

#### **Control Assurance – Substantial**

#### **Key Findings**

The Council has suitable guidance available on the Hub (the Council intranet) to direct service area managers of the required process to recruit an agency worker or consultant. Human Resources (HR) have oversight of these processes to ensure the necessary considerations to the IR35 legislation are applied.

Previously the Council engaged directly with employment agencies to obtain agency workers, however as at 24th September 2018 the Council has a contracted Neutral Vendor who facilitates the engagement of agency workers. The Council currently has agency workers across both methods, with the aim of moving all agency workers onto the Neutral Vendor framework. Moving forward, the Resourcing Advisor

confirmed that all agency recruitment will go through the Neutral Vendor framework.

Through both the Neutral Vendor framework and directly engaging with employment agencies, the Council is required to state if a role is within scope of the IR35 legislation. This is assessed by the completion of the HMRC checking tool. Where a role is deemed to be within the legislation, the Council are required to inform the employment agency of this. It is then the responsibility of the employment intermediary/agency to make the necessary deduction for tax and NI. The Council holds no risk of penalty for incorrect deductions made by the employment agencies under HMRC 'agency rules'.

The Council has a separate process for acquiring consultants, which requires approval from senior management and HR before being processed. HR are able to advise service area managers of the IR35 requirements including helping define if the consultancy role is within the IR35 legislation. The consultancy guidance notes available to all managers via the Hub clearly state that where a role is within the IR35 legislation, consultants must be paid via payroll to deduct tax and NI at source.

Internal Audit sample tested nine workers across a range of 2018/19 engagements (employment agency, Neutral Vendor and the consultancy process). The processes were found to be operating as intended in all cases, including evidence of the completed HMRC checks where required and audit trail of the necessary body of being informed of its requirements under the IR35 legislation. Appropriate assurance was gained of the correct payment method of the workers for the audit sample and that the risk associated with IR35 was being suitably managed.

### **Conclusion**

The Council has an effective process to ensure that the correct payment method, in line with IR35 is used when engaging a worker either through an employment agency, the Neutral Vendor framework or the consultancy process.

Due to the centralised nature of engaging agency staff and consultants, HR is able to ensure the necessary processes are completed, including determining the workers employment status, informing the necessary bodies of this status and confirming the correct payment method is being used.

### **Management Actions**

No recommendations were made by Internal Audit.

## 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: Tenant and Corporate Services

#### Audit Activity: De-pooling of Rents (Consultancy)

Approximately 40% of the Council's general needs tenants have their rent and some service charges combined, whilst sheltered housing tenants have a universal service charge.

Service charge de-pooling is a process whereby a landlord stops sharing the costs of these services amongst tenants and introduces a separate service charge payable only by those tenants who receive additional services, providing a clear link between what someone pays for shared services and the service they receive.

The Council has formed a Service Charge Operational Project Group to review service charges and oversee the implementation of the service charge de-pooling. Internal Audit has provided the project lead with professional advice, with the aim of designing out risk and ensuring that there are effective mitigating controls to support the delivery of the project's aims and objectives.

### Service Area: Council Wide

#### Audit Activity: Workforce Plan Transitional Arrangements (Consultancy)

##### Background

Local Government continues to operate in a climate of financial uncertainty and volatility. For the Council in particular, due to a reduction in settlement from central government the Council will incur a significant reduction in its General Fund finances by 2022-23. The General Fund Medium Term Financial Plan (presented to full Council in January 2019) highlighted that it forecasts that there will be a shortfall year on year totalling approximately £1.7m by 2022-23. The deficit net of planned savings is to be covered by the Council's reserves to ensure it maintains a balanced budget.

The Council's Corporate Change Programme is part of a wider programme to help the Council achieve the changes that are needed to shape the Council for the future. Focus on initiatives that support the use of technology, enabling staff to work more flexibly, promoting customer self service, office redesign, organisational culture, with the overall aim of delivering greater efficiencies in order to address the funding gap and enable a cohesive and aligned approach to the achievement of the Council's Corporate Delivery Plan.

The workforce plan is an efficiency initiative and has focused upon a 20% reduction in the workforce over a four year period. A phased programme of service reviews has been scheduled, with the objective of achieving the best future direction of the service under review, taking into consideration its priorities, risks and options to achieve financial savings, whilst maintaining value for money, and excellent service delivery.

### Scope

Due to the significance of the change programme, Internal Audit will provide professional advice and support to the project to ensure that the control environment is not comprised.

### Key Findings

The following service areas, which formed part of phase two of the workforce plan, were subject to a review by the Council's project team and completed during 2018-19:

- Museum in the Park;
- Creditors (transfer of service from Finance to Revenue and Benefits only);
- Human Resources;
- Community Services; and
- Regeneration.

Service area management advised Internal Audit that following a review by the workforce plan project team there followed a reduction in the number of personnel, which resulted in organisational structure amendments. In addition no material changes have been made to the above service areas processes and controls and / or there was a withdrawal or significant reduction in the service provision.

A review by Internal Audit of the Creditors team supplier payment process and controls, following a request from the Revenue and Benefits Manager, highlighted that the process was not efficient and that the controls, particularly around supplier

bank account details, were not operating effectively. Internal Audit suggested a number of improvements to the Revenue and Benefits Manager and Head of Finance for their consideration e.g. focus checks on new suppliers, high value supplier payments, changes to supplier bank account details, update and enhance service area guidance, etc.

**Conclusion**

Internal Audit support and advice was not sought by service area management whose services were subject to phase two of the workforce plan as the existing processes and controls remained and / or the service provision was withdrawn or significantly reduced.

However Internal Audit did, following a request from the Revenue and Benefits Manager (post transfer of service), provide controls advice and support in order to strengthen the supplier payments control environment operated by the Creditors team.

## Summary of Special Investigations/Counter Fraud Activities

### Current Status

During 2018/19 to date 24 potential irregularities have been referred to Internal Audit, 14 of which have previously been reported to the Audit and Standards Committee. All of the 10 new cases relate to revenue and benefit claims, seven of which are joint working investigations with the Department for Work and Pensions (DWP). It is anticipated that at least two of these cases are likely to result in sanctions:

- 1 x undeclared work case with a housing benefit overpayment of £2,250.04 and Council Tax Reduction Scheme (CTRS £890.09); and
- 1 x undeclared work case with a housing benefit overpayment of £2,405 and Council Tax Reduction Scheme (CTRS) £945.30.

In respect of the majority of cases referred in 2018/19, ARA has liaised with Gloucestershire's Counter Fraud Unit (CFU) to investigate potential irregularities. Of the cases referred in 2018/19, 13 have now closed with varying outcomes; the details of ten have previously been reported to the Audit and Standards Committee. Of the three cases not previously reported there was insufficient evidence and the cases were closed, not proven.

In addition ARA/CFU continued to work on two cases brought forward from 2017/18. One of these cases has now closed and has previously been reported to the Audit and Standards Committee. The remaining case is a CTRS overpayment of £5,081.20. There is a prosecution pending that falls outside of the parallel working provisions with the DWP, however, the CFU and the Council's Legal Services are attempting to co-ordinate the prosecution with the Crown Prosecution Service (CPS) in respect of the housing benefit and council tax benefit case to bring the cases to court on the same day and therefore enable the offences to be heard and considered in one hearing.

ARA previously reported a commissioned piece of work, through the CFU, on Right to Buy (RTB) which identified an additional six cases requiring further review. Four of these have now been closed and have been previously reported to Audit and Standards Committee. Of the two cases remaining, one has been closed with no issue in respect of the RTB, although the case has been referred back to the Revenue and Benefits Service for Single Person Discount SPD / CTRS issues. The final case is still being investigated.

Any fraud alerts received by Internal Audit from the National Anti-Fraud Network (NAFN) are passed onto the relevant service area within the Council, to alert staff to the potential fraud.

**National Fraud Initiative (NFI)**

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The 2018/19 data collections were successfully uploaded to the Cabinet Office during October 2018 and data matching reports are now available for review. Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

In addition, there is an annual data matching exercise undertaken relating to matching the electoral register data to the single person discount data held within the Council. Once all relevant data has been uploaded onto the NFI portal, a data match report is instantly produced and available for analysis.