



PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

NOVEMBER 2023

1. Introduction

- 1.1 The Council's Internal Audit service is provided by Audit Risk Assurance (ARA) under a Shared Service agreement between Gloucestershire County Council, Stroud District Council and Gloucester City Council.
- 1.2 ARA provides these services in accordance with the Public Sector Internal Audit Standards 2017 (PSIAS) which represent the "proper Internal Audit practices". The standards define the way in which the Internal Audit service should be established and undertake its operations.
- 1.3 In accordance with the PSIAS, the Head of Internal Audit is required to regularly provide progress reports on Internal Audit activity to management and the Audit and Standards Committee. This report summarises:
 - i. The progress against the Internal Audit Plan 2023-24;
 - ii. The outcomes of the 2023-24 Internal Audit activity delivered up to October 2023; and
 - iii. Special investigations and counter fraud activity.
- 1.4 Internal Audit plays a key role in providing independent assurance and advice to the Council that these arrangements are in place and operating effectively. However, it should be emphasised that management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non-financial) and governance arrangements.
- 1.5 The following Assurance criteria are applied to Internal Audit reports:
 - i. Substantial assurance – all key controls are in place and working effectively with no exceptions or reservations. The Council has a low exposure to business risk;
 - ii. Acceptable assurance – all key controls are in place and working but there are some reservations in connection with the operational effectiveness of some key controls. The Council has a low to medium exposure to business risk;
 - iii. Limited assurance – not all key controls are in place or are working effectively. The Council has a medium to high exposure to business risk; and
 - iv. No assurance – no key controls are in place, or no key controls are working effectively. The Council has a high exposure to business risk.

2. Summary of 2023-24 Internal Audit work delivered up to October 2023

Audit	Assurance Level	Supporting Paragraph
Changing Places Grant	Substantial	2.1
Insurance	Acceptable	2.2
Contract Management Framework	Acceptable	2.3
Canal Restoration Project – Risk Management	Acceptable	2.4

2.1 Audit Activity: Changing Places Grant (Service Area: Communities)

- i. Assurance Level for this report: Substantial; and
- ii. No recommendations arose from this review.

2.1.1 **Scope** – In 2022-23, The Department of Levelling Up, Housing and Communities (DLUHC), provided a £80,000 grant allocation conferred by grant determination 31/6222. The aim of the audit was to provide assurance that the terms and conditions of the grant determination had been complied with.

2.1.2 Key Findings

- i. The purpose of the Changing Places grant was to provide larger and accessible toilet facilities for severely disabled people. A need for improved facilities was identified at the Wildfowl and Wetland Trust (WWT) based at Slimbridge, Gloucestershire.
- ii. Audit review of Council records and WWT supporting documentation confirmed:
 - Receipt of the £80,000 DLUHC grant on 15th August 2022;
 - £80,000 eligible expenditure within 2022-23;
 - Inspection of the facilities by the Community Services Manager in November 2022 to ensure they were open and appropriately operating;
 - Registration of the complete asset with the Changing Places UK Consortium (which have subsequently been rated as suitable by the Muscular Dystrophy charity);
 - Complete and accurate project reporting through the DELTA government IT system;
 - A complete and accurate S151 Officer assurance report to DLUHC; and
 - Future revenue funding (asset maintenance) is to be met by WWT.
- iii. The audit outcomes provide substantial assurance that the statement of grant usage, in all material respects, fairly represents the 2022-23 eligible expenditure in accordance with grant determination 31/6222.

2.2 Audit Activity: Insurance (Service Area: Resources)

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

High Priority:	0
Medium Priority:	3
Low Priority:	0
Rejected:	0

2.2.1 **Scope** – The internal audit reviewed the procedures and controls in place for the Insurance function. This included consideration of strategy, risk management protocols, claims handling, analysis and management, and specialist support and advice.

2.2.2 Key Findings

- i. Procurement of the majority of insurance is assisted by professional insurance advisers who provide a tender evaluation report. The tender evaluation report sets out the insurance cover options and costs in a clear and comprehensive manner. This approach will be applied for the Council's renewal due later in 2023-24.
- ii. The remaining insurance is procured using the Council's standard procurement process. This includes the use of a Procurement Plan form, which requires submission to the Principal Procurement Officer prior to commencement of a quotation or tender exercise of £25,000 or more.
- iii. Specialist insurance provision was found to be fit for purpose. This relates to cyber insurance, which is a key risk area given high reliance on IT infrastructure. It was confirmed there had been no claims against the Council's cyber insurance cover at the point of audit.
- iv. During the audit it was established that insurance is procured on a comprehensive basis using a low level of excess. However, a clear strategy driving this approach and confirming clear future objectives was not provided.

Risk: Insurance coverage may not be comprehensive and complete.

Recommendation: The Council should ensure that a clear strategy is in place within which the insurance service can operate.

- v. The Insurance Team maintain a list of current insurers for each type of insurance cover.
- vi. Claim management processes and controls were found to be fit for purpose.
- vii. A sample of claims was reviewed during audit testing and found to be well managed. The volume of insurance claims is relatively low (approximately 60 claims during the current five-year insurance cycle).
- viii. Insurance claims data is collected, available and well controlled by the Insurance Team. However, there is no routine production of data analysis relating to claims. This means that trends or the opportunity to drive the overall strategy around future

insurance procurement are missed. This could help to identify, for example, the level of acceptable insurance excess versus the potential saving on future insurance premiums.

Opportunity: There is an opportunity for greater use of insurance claim data analysis to identify trends.

Recommendation: The Council should review whether a regular set of statistics should be produced by the insurance team and shared with the Senior Leadership Team (SLT) or other appropriate Council forum.

Risk: The future insurance procurement strategy may not be properly informed, particularly relating to the level of acceptable excess versus the potential reduction in overall premium.

Recommendation: The Council should ensure for the 2023 insurance renewal process it has utilised all available data from claims over the last five years. This should be utilised to determine the level of acceptable excess for each category of insurance, as increasing the excess may reduce the overall premium.

2.3 **Audit Activity: Contract Management Framework (Service Area: Resources)**

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

High Priority:	0
Medium Priority:	8
Low Priority:	1
Rejected:	0

2.3.1 **Scope** – This audit reviewed the procedures and controls in place with regard to the Contract Management Framework (CMF).

2.3.2 **Key Findings**

- i. Key contract management controls have been introduced corporately by Policy and Governance from February 2022. This provides the Council with a strong foundation for a control framework that supports the management of contracts and our recommendations, once implemented, will serve to strengthen it further.
- ii. Inevitably, there are live contracts which pre-date the CMF and these contracts may not comply with the Council's recently introduced corporate policy and procedures.

Risk: The criticality of these contracts to the Council may not be understood and therefore the risks not effectively managed.

Recommendation: Consideration should be given to identifying any pre-existing contracts which may benefit from a CMF compliance review. Criteria could be based on value, sensitivity or length of time the contract has remaining. The criticality of the contract should be recorded on the 'internal use only' part of the Contracts Register.

- iii. Internal Audit conducted a detailed review of the CMF key controls. This review highlighted a number of positive actions, and also some areas where there is opportunity for the Council to further strengthen the robustness of its framework.
- iv. The current CMF policy and procedures provide a good foundation in this area. Internal Audit were pleased that the report to Audit and Standards Committee in February 2023 recognised the progress made on embedding the CMF and endorsed plans for its continued development.

Recommendation: Documents are updated to provide some additional guidance, and to set out the role of officers in some further key areas of the contract management process.

- v. Officers confirmed that it was the intention for all new starters to receive some basic contract management awareness training as part of their induction process. However, audit review identified 23 officers with start dates ranging from May 2022 to January 2023 who at the time of the audit, had not received this training.
- vi. In addition, Human Resources (HR) do not maintain a complete record of temporary, contract and agency staff. Sample testing of seven highlighted four instances of new officers not notified to the Policy and Governance team.

Risk: Officers do not fully understand their roles and responsibilities for the management of contracts resulting in poor contract management, increased costs, adverse publicity, and adverse publicity.

Recommendation: Contract management training requirements should be revisited, and consideration given to the benefits of a more specific, targeted, approach. The outcome of this review should be discussed with HR as it is important that the Policy and Governance team can rely on the lists provided.

- vii. The Council is currently reviewing its induction programme, and this provides an ideal opportunity to revisit the approach to contract management training. This should consider whether training for all staff remains relevant or if there should be a move to a more specific approach.
- viii. The CMF has been published on the staff intranet and promoted through the Leadership and Management Team (LMT) meetings. Some service areas, such as Canals, The Pulse, Building Control and Community Services have not taken up the offer of refresher contract management training (as of 31st March 2023).
- ix. 15 out of 19 (78.9%) LMT officers who responded to a questionnaire sent by Internal Audit to establish their awareness of the CMF highlighted the following:
 - One was not aware of the CMF;
 - Eight indicated that they had not, or could not remember receiving contract management training; and
 - Six did not perform the required contract management oversight and monitoring role but relied on the results of Internal Audit reports and Contract Managers advising them of any issues.

Risk: Officers may not be fully aware of their responsibilities. This could result in poor management of contracts and financial losses, non-compliance with Contract Rules or Government legislation, adverse publicity, loss of reputation and poor customer service.

Recommendation: Appropriate refresher contract management training (focused on officer role and responsibilities) should be provided to all existing Contract Managers and Contracts Owners.

- x. As of 31st March 2023, the Policy and Governance team have completed two rounds of quarterly monitoring checks on a sample of contracts. The results have reported 100% compliance in the sample of contracts checked. Internal Audit are pleased to note that going forward even more robust scrutiny, verification and challenge of the information provided will be carried out by the Corporate Governance Group.

Risk: Contracts are not effectively managed resulting in increased costs, poor service delivery and adverse publicity.

Recommendation: Consider the benefits of updating the second line of defence regime checks to include verification of compliance with the CMF and substantiation of Contract Manager and Owner assessments. Undertake a periodic exercise to identify those creditors whereby cumulative payments require a contract and compare to the Contract Register.

- xi. As of 18th April 2023, there were no contract management risks recorded, on the Council's Performance and Risk Management System. At the point of audit, the Council was moving from the legacy performance management system, Excelsis, which was not well used by Managers to the new system, Ideagen Risk Management. This new system is currently being embedded with the aim to improve how the Council manages performance and risk.

Risk: Contract risks are not managed resulting in financial and reputational exposure and non-achievement of Council objectives.

Recommendation: The implementation of Ideagen Risk Management provides an ideal opportunity to determine any contract management risks which should be recorded on the risk management system, together with the mitigating controls and risk appetite.

- xii. There is also a lack of documented assurance that risk management is embedded within the management of contracts. Eight out of 10 contracts selected for review highlighted that risk management did not feature as a fixed agenda item for the supplier management meetings. In addition, a review of the relevant meeting minutes (three did not have minutes confirmed) contract risks were not discussed.
- xiii. The Strategic Director of Resources advised that whilst risks are not being formally documented, managers are informing Directors of the key risks of their service when discussing service performance at face-to-face meetings.

2.4 **Audit Activity: Canal Restoration Project - Risk Management (Service Area: Place / Resources)**

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

High Priority:	2
Medium Priority:	1
Low Priority:	1
Rejected:	0

2.4.1 **Scope** – The procedures and controls in place for the Canal Restoration Project – Risk Management arrangements were reviewed.

2.4.2 **Key Findings**

- i. The overarching risk management structure of the project is fit for purpose. Representation from stakeholders on the various project teams is comprehensive. Minutes, notes and meeting inputs were all reviewed and found to be clear, thorough and supporting the information held within the project documentation. Enabling key decision makers to be well informed on the key risk areas, cost position and decisions required.
- ii. The risk management arrangements at an operational level are functionally effective and reflective of the current position on the project. The Project Manager maintains and updates the register on a regular basis. During audit interviews it is apparent that there is a comprehensive understanding of the detail behind each of the key red and amber risks.
- iii. The processes in place to facilitate the escalation of risk both within the project and to the Council at a strategic level are robust. The risk register, minutes and project documentation clearly identify the three major risk areas to the effective delivery of the project, and these have been discussed at the highest levels within the Council. The key risks are a) land acquisition and planning; b) finance; and c) engineering.
- iv. The finance risk relating to the funding gap is flagged on the risk register as red. March 2023 Board minutes include discussion of the funding gap. The Cotswold Canals Connected Board March 2023 minutes record this as the biggest risk to the project and explain that the National Lottery Heritage Fund (NLHF) require for the funding gap to be underwritten. Audit evidence shows this issue to have been discussed in detail and a critical path set out that documents actions to be taken over the next twelve months.
- v. The Council faces a challenging decision on whether to underwrite the funding risk.

Risk: The project is unable to secure sufficient funding to complete.

Recommendation: Full exploration of all avenues of potential additional funding (for example further NLHF support, major donors, and increased fundraising) should continue as part of the determination on the level of shortfall the Council is willing to fund. The maximum amount (including any contingency for future cost increases)

should be clarified, clearly documented, and formally agreed by the Council and then communicated to relevant parties.

- vi. Given the current economic climate and cost inflation (particularly relating to labour and materials) the risk of further cost increases over the life of the project is a very real one.

Risk: The project suffers significant cost escalation.

Recommendation: The Council should ensure it has an effective ongoing monitoring programme to model, predict and monitor future costs. The project maintains significant data on current project costs, and this can be very useful if fully utilised in supporting the process of future cost forecasting.

- vii. There is a clear method for new risks to be identified and the Project Manager then controls the process for assessing, documenting, and communicating additional risks. It should be noted that the project is very mature, and the likelihood of significant new risks is low. It is much more likely that major changes to existing risks and their mitigations are required. There is a clear framework for the review and escalation of risk in place for the project.
- viii. Given the complexity of the project and the current substantial risk to funding, it does not seem practicable for the Project Manager to have the additional responsibility for fundraising.

Risk: The Project Manager is unable to discharge the responsibility for fundraising effectively given the level of work required on managing the whole project resulting in either (or both) roles not being effectively discharged.

Recommendation: The Council should make additional concerted efforts to fill the role, especially given the part that additional fundraising plays in the strategy of closing the funding gap.

- ix. The processes for effective oversight, monitoring, operational and management reporting, and governance over the Canal Restoration project are satisfactory.
- x. There are more advanced Project Management Software programmes and Risk Management tools available than the current method used within the project.

Risk: Using a proprietary risk management system may provide additional benefits if they are determined to be cost effective and worth the investment.

Recommendation: The Canal Project Director should consider the benefits and impact of using a revised Risk Management System. The decision should be approved at an appropriate level within the Council.

3.0 Counter Fraud Update – Summary of Counter Fraud Activities

3.1 Current Year Counter Fraud Activities

- i. To date in 2023-24 there has been one new irregularity referred to the ARA Counter Fraud Team (CFT). This case is on-going, and outcomes will be reported on completion.
- ii. Not all investigations (for example conduct, non-compliance and ethics issues) can have an assessed value attached to them or result in the recovery of monies. CFT investigations, analytics and consultative work may add value in other ways such as providing assurance to members and residents, reducing Council vulnerabilities and mitigating risk.
- iii. Many of the cases referred to the CFT involve intricate detail and, sometimes, police referral. This invariably results in a delay before the investigation can be classed as closed and the summary outcome reported to Committee.
- iv. In addition to the above, counter fraud advice and alerts are routinely provided outside of the creation of referrals and cases.
- v. The CFT is continuing to work on a number of projects including but not limited to:
 - Updating of the Counter Fraud Strategy, Statement and Policy;
 - Reviewing the Council's Fraud Risk Management arrangements to provide advice and guidance on undertaking fraud risk assessments; and
 - Maintaining the Council's counter fraud intranet and webpages.

3.2 National Fraud Initiative (NFI)

- i. Internal Audit continues to support the NFI, a biennial data matching exercise administered by the Cabinet Office. Stroud District Council data for the 2022-23 NFI exercise has been uploaded successfully and is considered compliant.
- ii. Data matches have been released by NFI and are now available for the Council's teams to review.
- iii. Between 30th November 2023 and 19th January 2024, the Council will be uploading the Council Tax and Electoral Register data.
- iv. The full NFI timetable can be found using the link available on GOV.UK – <https://www.gov.uk/government/publications/national-fraud-initiative-timetables>.
- v. Examples of data sets includes housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol.
- vi. Not all matches are always investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area within the Council.

3.3 International Fraud Awareness Week (IFAW)

- i. The Council is a supporter of IFAW. IFAW runs from 12th to 18th November 2023. As in previous years the CFT will share fraud awareness articles, details of the latest scams and how to avoid falling victim to the scammers.
- ii. As a supporter of the event the Council is entitled to use any of the official IFAW resources. This includes the use of the two below banners on official documents and correspondence, for example email footers.



3.4 National Anti-Fraud Network (NAFN)



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