PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

NOVEMBER 2022

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 2022-23;

   ii.   The outcomes of the 2022-23 Internal Audit activity delivered up to October 2022; and

   iii. Special investigations and counter fraud activity.

1.4   Internal Audit plays a key role in providing independent assurance and advice to the Council that these arrangements are in place and operating effectively. However, it should be emphasised that management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non-financial) and governance arrangements.

2.   Summary of 2022-23 Internal Audit work delivered up to October 2022

2.1   The following Assurance criteria are applied to Internal Audit reports:

   i.   <u>Substantial assurance</u> – all key controls are in place and working effectively with no exceptions or reservations. The Council has a low exposure to business risk;

   ii.   <u>Acceptable assurance</u> – 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. <u>Limited assurance</u> – not all key controls are in place or are working effectively. The Council has a medium to high exposure to business risk; and

   iv.   <u>No assurance</u> – no key controls are in place, or no key controls are working effectively. The Council has a high exposure to business risk.

2.2 **Audit Activity: Demonstrator Grant - Social Housing Decarbonisation Fund (Service Area: Communities)**

    i.   Assurance Level for this report: Acceptable Assurance; and

    ii.   Recommendations arising from this review have been prioritised as:

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

2.3 **Scope** – The Council received a grant of £426k from the Department for Business, Energy and Industrial Strategy (BEIS). The funding was used to retro fit 28 social housing properties on a single sheltered housing scheme, leading to decarbonisation of the units. The aim of the audit was to provide assurance that, in all significant respects, the conditions of the relevant Grant Determination had been complied with.

2.4 **Key Findings**

    i.   Review of the project's processes and documentation has provided acceptable assurance that use of the grant is in compliance with the BEIS Grant Determination;

    ii.   Retro fit installation costs were compiled from application claims submitted by the main contractor. Audit review of a sample of applications confirmed that robust vetting and monitoring controls were in place, and operating correctly;

    iii. The memorandum of understanding between the Council and BEIS details the expected monthly reporting for the Demonstrator project progress. Testing of the reporting process confirmed that a comprehensive, detailed monthly update was provided by the prescribed deadlines;

    iv. Review of the Housing Services operational risks in the Council's Performance and Risk Management system (Excelsis) identified that the Demonstrator project had not been included. As the Demonstrator project has now been substantially completed, there would be no added value in completing the risk process;

    v.   The Council have been awarded new Decarbonisation 'Wave One' grant funding by BEIS totalling £3.4m and the project is at its early stage. The Wave One project's risk recognition process should be completed and appropriately documented in the Excelsis system;

        Risk: Inherent and residual operational business risks for the grant award are not recognised, documented or being managed;

        Recommendation: An operational risk assessment for the Decarbonisation Wave One project should be completed. The Council's Risk Management Policy Statement and Strategy should be used as guidance, to ensure the Wave One operational risk is documented in the Excelsis register. Target date: November 2022.

vi. Enquiries were made regards project reporting to senior staff. It was established there was a gap in providing a written summarised report of the project's significant progress. A progress report would provide the opportunity to communicate how the first line of defence management controls are operating. As the Demonstrator project has now been successfully completed a recommendation for the Decarbonisation Wave One project has been made;

Risk: Lack of management oversight leading to unsuccessful implementation of the project;

Recommendation: The format, content and frequency of progress reporting for the Wave One project should be agreed with the Interim Housing Manager and the Director of Communities. Target date: November 2022.

vii. Evidence of project reporting to the Housing Committee was checked to agenda reports and meeting minutes. Review of these two sources found that the Demonstrator retro fit project had been correctly reported on;

viii. The management arrangements for the post programme evaluation process were checked to guidance issued by BEIS. A complete set of documentation had been reported to BEIS by the 15th July 2022 reporting deadline;

ix. Each of the project's 28 properties had previously been subject to Standard Assessment Procedures (SAP), which is a methodology set by BEIS. The SAP calculation results in an Energy Performance Certificate (EPC) for a property. A post programme evaluation procedure is in place for the 28 properties to have an updated assessment for the SAP EPC, following the retro fit project.

2.5 **Audit Activity: Planning Enforcement Consultancy - Interim Update (Service Area: Place)**

i. Assurance level for this report: An assurance level is not required for this activity; and

ii. No formal recommendations arose from the interim update. Improvement observations fed back to management have been captured within the Key Findings section.

2.6 **Scope** – Goal three of the service's Business Improvement Plan is to "Review and update back-office set-up and upgrade IT software infrastructure, including improving data." Included within goal three, is the introduction of the Enterprise software, to facilitate a performance framework and improved case management complaint monitoring.

2.7 The consultancy review was to provide input during the development stage of the Enterprise system.

2.8 **Key Findings**

i. The number of new Planning Enforcement complaints for the calendar year to 30th September 2022 totals 361; and the number of open complaints cases as at 30th September 2022 total 261;

ii. The introduction of Enterprise software for the complete Planning Enforcement process is at the test system stage. Currently, the Enterprise system workflow from receipt of a new complaint through to allocation to an Enforcement Officer is in live mode. The subsequent procedures and controls are completed using the:

  – Draft Planning Enforcement operational protocol; and
  – Uniform management system;

iii. The outline plan is to continue with the trialling of the test system from the investigation stage to complaint closure during November to December 2022. If the testing is successful, the aspiration is for full introduction of the Enterprise software early in 2023;

iv. Configuration of the overarching Enterprise system control environment requires various set-up pages to be completed, with the objective of being consistent with the Planning Enforcement process. Evidence seen by Internal Audit confirmed that the relevant data fields had been correctly completed;

v. Draft system guidance notes with example Enterprise screen pages have been created. Internal Audit review of these documents found they will be a useful and effective aid to staff;

vi. Internal Audit used the Enterprise system guidance notes and screen pages, with the objective of tracing a complaint in the test system through to closure. The results confirmed that the case had correctly followed the guidance, and staff had appropriately followed the draft Planning Enforcement operational protocol;

vii. A traffic light prioritisation process will be recorded in the Enterprise system, which will facilitate effective handling of complaint cases;

viii. Internal Audit made an enquiry on the Enterprise system to establish the current activity levels for new complaints. When complaints are received, an initial triage assessment takes place. The enquiry established there were six complaints at the triage stage being assessed by Enforcement Officers. None of these had been in the workflow process for more than ten days;

ix. The next stage in the process is to allocate complaints for an initial investigation. Internal Audit confirmed that there were three available cases waiting for allocation. On inspection, the oldest case waiting workflow allocation was seven working days old. The evidence indicates that there is no material bottleneck of new cases at the triage and allocation stage;

x. The Idox supporting system acts as the library for keeping key primary documents during the complaint process. On inspection of the documentation type facility, this indicated that an improvement could be made to benefit enquiry; tracing; and classification. The service have considered this option and confirmed it will not be actioned, as it will complicate the future deletion process;

xi. The draft Enterprise task test system procedures were reviewed to consider any process improvements opportunities. Complaints which could lead to potential irreversible harm require a priority site visit within two days. Internal Audit suggested having a contingency measure in place if IT access to Enterprise is not possible. The suggested measure would be to create an automated e-mail

addressed to the allocated Enforcement Officer, with complaint details and requesting the priority site visit. The suggestion will be researched by Planning Enforcement staff;

xii. The format of the current reporting for Planning Enforcement data using Structured Query Language (SQL) was reviewed with the objective of identifying any quick wins. There is an Enforcement Workload Register available by the allocated member of Planning Enforcement staff. On enquiry, there was no control parameter to total the number of open cases a member of staff is handling. The report control parameter would be of benefit to the Senior Enforcement Officer, when they are considering allocation of existing or new complaints to staff. This point has been taken forward by Planning Enforcement staff;

xiii. Internal Audit will continue to support the Planning Enforcement team with consultancy and testing of the Enterprise system during the period up to successful implementation. A subsequent report will be presented to the Audit and Standards Committee when Internal Audit have concluded their work.

2.9 **Audit Activity: Covid 19 Business Grants – Post Payment Assurance Tranche 1 (Service Area: Resources)**

i. Assurance Level for this report: An assurance level will be confirmed on conclusion of the overall review, following Tranche 2 testing completion within Quarter 4 2022-23.

ii. Recommendations arising from this review have been prioritised as:

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

2.10 **Scope** - This audit forms the first half of a data analytics led Post Payment Assurance review of Covid 19 grants administered by Stroud District Council in 2021-22. It examines three discrete grants: Restart Grant, Additional Restrictions Grant (ARG) and Omicron Grant.

2.11 **Key Findings**

i. Checks undertaken by the Council to both identify and resolve any incorrect, incomplete, or suspicious grant applications were completed to an appropriate standard by the Revenue and Benefits team. However, the instruction from central Government at the time was to prioritise disbursing grant awards over running enhanced due diligence on the applications. As such, the Council did not identify all potential issues;

ii. Data analysis produced more than 100 results which were reviewed by Internal Audit using a range of techniques — including the specialist tracing and network analysis tool GBG Investigate. Results were assessed and referred to the Revenue and Benefits Manager as either Major Queries, Minor Queries or No Query;

iii. Key results are summarised below:

– Major query: Two linked companies which were subject to strike off action at Companies House at the time their Omicron grants had been applied for and paid. In each case the strike off action was discontinued and the companies are still trading to date which, on this occasion, mitigates the fraud risk. However, these grants were paid to 'inactive' companies contrary to government guidance, which represents a control failure;

– Major query: One mechanic received £2,000 under the ARG award despite operating within a 'key industry' and thus not being subject to additional restrictions. There were no other instances of mechanics being paid this grant; and

– Minor query: Two companies were paid an Omicron grant despite open-source data suggesting they may be ineligible under the definitions of 'leisure and hospitality'. One company appears to run residential property as opposed to short term or holiday lets. The other company provides leases for retail premises. It does not itself directly provide the 'leisure' aspect of the grant and its lease income may have remained unaffected by Covid 19.

iv. The Tranche 1 detailed testing results and observations have been reported to the Revenues and Benefits Manager;

Risk: Potential ineligible payments creating financial losses;

Recommendation: The Revenue and Benefits Manager should review all referred 'Major Query' and 'Minor Query' results to establish whether the Council should seek to recover monies paid.

3. **Counter Fraud Update – Summary of Counter Fraud Activities**

Current Year Counter Fraud Activities

3.1   To date in 2022-23 there have been no new irregularities referred to the ARA Counter Fraud Team (CFT).

3.2   The CFT is currently working on a number of projects including:

   i.   Writing an Enforcement Policy;

   ii.   Delivering Enforcement training sessions which have received very favourable comments from officers;

   iii. Update of the Council's counter fraud and associated information available on both 'The Hub' (Council intranet) and the main website; and

   iv.   International Fraud Awareness Week.

Previous years' referrals closed case

3.3   The CFT continue to work on the remaining one Covid 19 Grant related case. The outcomes will be reported to the Audit and Standards Committee on the case's conclusion.

National Fraud Initiative (NFI)

3.4   Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The data collections for the 2022-23 exercise are due to be uploaded to the Cabinet Office from 7th October 2022. It is anticipated that the data matching reports will be released for review from January 2023 onwards.

3.5   The full NFI timetable can be found using the link available on GOV.UK – www.gov.uk/government/publications/national-fraud-initiative-timetables

3.6   Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market traders or operators, taxi drivers and personal licences to supply alcohol.

3.7   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.

3.8   In addition, ARA has been advised that the services of the Counter Fraud and Enforcement Unit (CFEU) have been employed to undertake some of the match reviews on behalf of the Council. The CFEU findings will be separately reported to the Audit and Standards Committee.

National Anti-Fraud Network (NAFN)

3.9   NAFN is a public sector organisation which exists to support its members in protecting the public interest. It is one of the largest shared services in the country

managed by, and for the benefit of its members. NAFN is currently hosted by Tameside Metropolitan Borough Council.

3.10   Membership is open to any organisation that has responsibility for managing public funds or assets. Use of NAFN services is voluntary, which ensures delivery of value for money. Currently, almost 90% of councils are members and there are a rapidly growing number of affiliated wider public sector bodies including social housing providers.

3.11   Many potential attempted frauds are intercepted. This is due to a combination of local knowledge together with credible national communications, including those from the NAFN. Fraud risk areas are swiftly cascaded to teams by the CFT for the purpose of prevention, for example national targeted frauds.

International Fraud Awareness Week (IFAW)

3.12   This year as in previous years, Stroud District Council is signed up as a supporter of IFAW.

3.13   The week ran from 13th to 19th November 2022. The aim of IFAW is to encourage proactive steps to minimise the impact of fraud by promoting anti-fraud awareness and education. By being a supporter of the event the Council is demonstrating its commitment to preventing and detecting fraud.

3.14   The ARA CFT provided IFAW materials to the Council's communications team and other targeted services. In addition, the CFT promoted:

i.   The new counter fraud pages on 'The Hub'; and

ii.   The offer of a procurement fraud training package.