



PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

FEBRUARY 2023

1. Introduction

Audit and Standards Committee
7 February 2023

Agenda Item 12

- 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 mid-January 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.

2. Summary of 2022-23 Internal Audit work delivered up to mid-January 2023

- 2.1 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.

2.2 **Audit Activity: Innovate to Renovate Grant Certification (Service Area: Place)**

- i. Assurance Level for this report: An assurance level was not required for this activity; 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** - This audit reviewed the procedures and controls to ensure compliance with the terms and conditions of the Grant Offer Letter (GOL) for the Innovate to Renovate project.

2.4 The aim of the project is to improve the capacity for delivering on Domestic Energy Service needs and retrofit projects (insulation) across Gloucestershire. The Council is the Host Partner for a consortium of Gloucestershire councils awarded this funding from the West of England Combined Authority and Local Enterprise Partnership (WECA). As Host Partner, the Council is the Grant Recipient and manages delivery against the project.

2.4 **Key Findings**

- i. Internal Audit has gained appropriate assurance that the conditions of the GOL have been met. The declaration was signed by the Section 151 Officer and the Internal Auditor's Report submitted to WECA in support of the claims. The Council has received the full amount claimed of £175,000. The consortium contributed £40,000 of match-funding bringing the total for the project to £215,000;
- ii. There were delays to the Council's performance on all dates as set out in the GOL. More time was needed to prepare before approaching the niche market due to the pioneering nature of the project. A large proportion of the project was recruitment focused and this added delays, as expected in the current employment climate;
- iii. Throughout the project, WECA had been informally agreeing to the Council's proposed changes regarding delays and eligible spend. Internal Audit highlighted that this did not conform to the requirements within the GOL and supported the Council in successfully pursuing the necessary evidence to substantiate WECA's approval. This work combined with the wider delays meant that disproportionately more Internal Audit resource was needed to achieve the grant certification than is standard. In some instances, the Council, however had already accrued expenditure whilst relying upon the earlier informal agreement;
- iv. The Council has already committed to developing corporate guidance to support officers in the management of grant funded projects. Based on the learning from this review, Internal Audit has made one medium priority recommendation to further aid the development of the guidance;

Risk: Financial loss due to expenditure not being in accordance with the terms and conditions of the GOL;

Recommendations: Corporate guidance for grant-funded projects should include:

- a. The roles and responsibilities of officers, including Internal Audit;
 - b. Officers should engage with Internal Audit early within the project life cycle. This will enable discussions on the expected internal control environment and the timeline and documentation required to substantiate that the grant terms and conditions have been met;
 - c. Supporting documentation should be collated and presented as an evidence pack to Internal Audit prior to commencement of the certification work;
 - d. Projects should be delivered according to the GOL (or similar); and
 - e. Officers should pay particular attention to the clauses within the GOL defining:
 - eligible expenditure;
 - documentation that should be provided to the grant funding body throughout the project and at the point of submission; and
 - managing changes to the terms and conditions of the GOL. Target date: December 2022.
- v. Internal Audit examined the recruitment and procurement process. The Contract and Procurement Procedure Rules were complied with throughout. The Council's recruitment process was followed by the Officers delivering the project. However, the Head of Service or Director did not sign the Authority to Fill (ATF) forms. Instead, approval was given via email. Human Resources (HR) accept approval from Head of Service, Directors, and the Strategic Leadership Team (SLT) via other communication methods such as email or Microsoft Teams message. HR do not hold completed ATF forms centrally in one location;

Risk: There is an inconsistent audit trail for the authorisation of ATF forms and evidence of approval may be lost;

Recommendation: The ATF form should be signed by each approver required. If SLT approval is needed, this must be recorded on the ATF form with the evidence attached. HR to store the completed ATF form and associated documentation in one central location. Target date: November 2022.

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: The draft document has been issued for SLT feedback. Policy to be finalised by year end;
 - ii. Delivering Enforcement training sessions: The first tranche of training has been delivered and received favourable feedback. A second tranche of training dates has also been offered to services; and
 - iii. Updating the Council's Counter Fraud and associated information available on the intranet and webpages.

Previous years' referrals closed case

- 3.3 The CFT continued 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 window for 2022-23 exercise data uploads has now closed. It is anticipated that the data matching reports will be released for review from January 2023 onwards.
- 3.5 All uploads were successfully actioned within the set deadlines with the exception of the payroll data.
- 3.6 In 2022 the Council's payroll system was replaced. Unfortunately, because of the system change, staff were unable to produce an NFI upload report in the correct format. A consultant has been engaged to rectify the issue. Once complete, the NFI data will be uploaded. The Council have kept the Cabinet Office up to date with the payroll system position at all stages. The Cabinet Office has however informed the Council that they are considering issuing a £125 fine for failing to provide the NFI data by the deadline. The Council has submitted information to the Cabinet Office for their consideration as part of the decision-making process. It is hoped that this information will help to mitigate against a fine being issued.
- 3.7 The full NFI timetable can be found using the link available on GOV.UK – www.gov.uk/government/publications/national-fraud-initiative-timetables
- 3.8 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.

- 3.9 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.

Proud of Stroud

- 3.10 At the start of December 2022, the CFT delivered two short presentations at the Proud of Stroud meetings. The presentations were entitled 'Twelve Fraud Risks of Christmas' and provided counter fraud advice at a strategic, service and officer level. The presentations were well received. Links to the presentation are available on The Hub.

National Anti-Fraud Network (NAFN)

- 3.11 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.
- 3.12 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.
- 3.13 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.