



PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

JULY 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 2022-23 and 2023-24 Internal Audit activity delivered up to mid-June 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 and 2023-24 Internal Audit work delivered up to mid-June 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 Activity Name: Cleaner Estates Strategy

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

High Priority:	3
Medium Priority:	1
Low Priority:	0
Rejected:	0

Scope - this audit reviewed whether associated risks and mitigating controls are identified and managed; and that the Action Plan incorporates key activities that will address each of the Strategy's four objectives.

2.3 Key Findings

- i. The inherent or other risks associated with the Cleaner Estates Strategy have not been identified or evaluated either within the Council's corporate risk register (Excelsis) or in an offline project risk register.

Risk: Failure to deliver the Strategy. Damage to the Council's reputation.

Recommendation: The Responsible Officer should update Excelsis to ensure that significant inherent risks for the Cleaner Estates Strategy are identified, evaluated, and managed to within the Council's risk appetite. Identified risks are then monitored and reported in line with the Council's Risk Management Policy Statement and Strategy.

- ii. The Action Plan format has been revised, and as part of the revision now includes a red, amber, green (RAG) rating for each action. This aids identification of actions progressing well (green), not so well (amber) and not progressing at all (red). There are currently six green, three amber and five red actions. The red actions are:
 - a. Regeneration Projects;
 - b. Define and agree cleaning service standards;
 - c. Condition of gardens;
 - d. Bike Storage or other storage facilities; and
 - e. Nouncells Cross laundry areas.

- iii. Internal Audit's view of the revised Action Plan is that it is not as robust as the original. This is due to actions no longer being timebound and the progress for each action is not documented. In addition, not all actions in the adopted Action Plan feature within the revised version. The Housing Manager advised Internal Audit that this was due to four of the original actions being amalgamated. The other three actions had not been included as these could not be progressed currently due to lack of financial and human resource. Details are as follows:

Amalgamated Actions:

- a. Ward Member Insight, and Own and Parish Council Insight actions – These will be covered as part of the Estate Walkabout action;

- b. Resident communication and reinforcement of consistent messages action – This will be actioned at the four times a year Tenant Engagement Café Conversations activity;
- c. Bulky items (incl. white goods) pilot programme to encourage engagement with the existing system or residents propose alternatives action – will be part of the ‘Love where you Live’ events; and
- d. Set up a governance board on cleaning standards action – will be considered as part of the depooling service charge project.

Actions with no resource due to cost and staff time:

- a. Investigate the use of Community Protection Notices;
- b. Cleaning of communal bins; and
- c. Offer garden waste collections.

Risk: Lack of transparency on action progress and therefore the Strategy as a whole. The Strategy outcomes may not be achieved. Damage to the Council’s reputation.

Recommendation: The Action Plan should be updated to include:

- a. How each action will be measured to ensure it is successfully achieved;
 - b. The addition of a Review Date column;
 - c. The current progress of all actions (as originally adopted); and
 - b. Any known barriers and their solutions
- iv. There is no written framework that outlines the expectation for monitoring and reporting the progress of the agreed actions. It is evident from discussions held with the Housing Manager that she is very knowledgeable of the progress and status for each action;

Risk: Lack of transparency on action progress and therefore the Strategy as a whole.

Recommendation: The Responsible Officer to produce a written framework that outlines the expectation for monitoring and reporting upon the progress of the agreed actions.

2.4 **Activity Name: Biodiversity Net Gain Grant**

- i. Assurance Level for this report: Appropriate; and
- ii. There were no recommendations arising from this review.

2.5 **Scope** – The aim of the audit was to provide assurance that, in all significant respects, the conditions of the relevant Grant Determination has been complied with.

2.6 **Key Findings**

- i. The Department for Environment, Food and Rural Affairs (DEFRA) have awarded the Council a grant allocation under section 31 of the Local Government Act 2003 for 2022-23 totalling £26,807.

- ii. The grant determination letter states that assistance is available for preparation, adjustment of existing processes in the transitional period up to November 2023. From this point forward the 10% Biodiversity gain is a minimum and mandatory for developments.
- iii. The Biodiversity project costs incurred in 2022-23, are limited to staff employment costs.
- iv. In 2022-23, the Biodiversity team have contributed to various environmental stakeholder groups in the County, seeking to prepare, plan and identify how developments can incorporate Biodiversity in schemes.
- v. In addition, officer hours were associated with the Council's (Environmental) Local Plan and planning applications, including Biodiversity Net Gains.
- vi. The project report provided by the Strategic Lead, Nature Recovery and Biodiversity, was reviewed for its accuracy, and then corroborated with financial records.
- vii. The audit review concluded that the 2022-23 project expenditure totalling £25,080, was fairly stated. Using DEFRA guidance, the unspent grant allocation of £1,727 can be carried forward into 2023-24 if the funding is paid to the Council prior to 31st March 2023.
- viii. The grant submission and declaration signed by the Chief Executive and Chief Internal Auditor, successfully met the earlier, revised DEFRA deadline.
- ix. Subsequent audit testing confirmed that DEFRA paid the 2022-23 grant of £26,807 on 30th March 2023.

2.7 Activity Name: Voids Follow Up (Service Area: Communities)

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

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

2.8 Scope - An audit of Voids Management was undertaken by Internal Audit during 2020-21. As part of the 2022-23 Internal Audit Plan, a follow-up audit was undertaken to review the progress on implementing the recommendations which were agreed with management in the aforementioned report.

2.9 Key Findings:

- i. This follow up review was carried out in May 2023.

- ii. A total of 20 recommendations were made in the final report following the 2020-21 review. Of these, 18 recommendations have been fully implemented. One, relating to the risk register, has been partially implemented. For the one that has not been implemented it was established for this matter, there is no longer a control weakness to address.
- iii. The new Head of Assets and Investment (Council Housing) has identified that the service risk register needs a full refresh and updating. Whilst the register was updated for mould risks in January 2023, review of the risk register shows some outdated risks still live, and high risks related to covid. There is also one risk that relates to the Housing Revenue Account which is not a service risk.

Risk: Inherent risks are not fully identified, managed, and monitored in line with the Council's Risk Management Policy Statement and Strategy.

Recommendation: It is recommended that the planned review and updating of the service risk register is completed by the end of Quarter 2 of 2023-24. Entries should be made within the Council's Performance and Risk Management System. Target date: 30th September 2023.

- iv. With regards to key handling, the matter raised was addressed through key handling being set out in the voids process map. However, there is scope to improve service efficiency with regards to key handling. Particularly in terms of freeing the Operations Manager from routine key handling so this management post can focus more time on delivering further reductions in void periods.

Risk: Inefficiencies in the key handling process. Human resource is not being used to its optimum.

Recommendation: The key handling processes and use of key safe should be formally reviewed in Quarter 2 of 2023-24. The review should consider changes needed to deliver improvements in performance and remove management staff input into routine administrative processes. Target date: 30th September 2023.

2.10 Covid-19 Business Grants Post-Payment Assurance (PPA) Tranche 2 Review

- i. Assurance Level for this report: Substantial; and
- ii. Internal Audit has not made any recommendations for retrospective action to be taken on these grants.

2.11 **Scope** - this audit reviewed the Council's response to queries raised under the "tranche one" Covid-19 Business Grants PPA audit in November 2022. It gives an overarching audit opinion covering SDC's administration of three discrete grants: the Restart Grant, Additional Restrictions Grant and Omicron Grant.

A data analytics-led approach enabled Internal Audit to review and raise queries on the whole grant datasets. Internal Audit evaluated queries by open source investigation and counter fraud tooling such as GBG Investigate, a secure system which aggregates (and allows subscribers to search) UK citizen and customer data. All unresolved queries were then referred to the Revenue and Benefits Manager for internal review and response.

No further grant payments have been made since the November 2022 report was issued.

2.12 Key Findings

- i. The Revenue and Benefits Team which administered these grants should be commended for the controls it devised and applied to them. These included processing guidance, 'Spotlight' banking checks and National Fraud Initiative data matching checks designed to identify risk; and 'manual payment' checks intended to resolve incorrect, incomplete, or suspicious applications.
- ii. The Revenue and Benefits Manager has assessed those queries referred by Internal Audit against internal systems, correspondence and documentation. All but two queries were satisfactorily resolved:
 - **Major query** (probable non-compliance or fraud). This grant award was confirmed to be non-compliant with grant criteria: paid while the recipient was subject to strike-off action at Companies House. However, the action was later discontinued, and the company remains trading to date. There is no ongoing risk around this payment, no fraud, no loss to the Council or to HM Treasury and no action is required.
 - **Minor query** (possible non-compliance or fraud). This query was not able to be resolved within the timeframe of this report. It relates to a grant award paid to an individual who did not reside in Gloucestershire before, during or since the pandemic. This query is not high value and is not assessed by Internal Audit to be a high likelihood of fraud. Internal Audit will continue to await a response and the outcomes will be reported to ASC if found to be fraudulent.

2.13 Activity Name: Planning Enforcement Consultancy – Final Report (Service Area: Place)

2.14 An assurance level was not provided for this activity as it was consultancy.

2.15 **Scope** – Within the 2022-23 Internal Audit plan, there is provision for Internal Audit consultancy to provide input during the development stage of the Enterprise system.

2.16 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 referral monitoring. This is an update report to the one circulated at the Audit and Standards Committee meeting on 29th November 2022.

2.17 This is an update report to the one circulated at the Audit and Standards Committee meeting on 29th November 2022.

2.18 Key Findings

- i. The Planning Support Team Leader had been assigned with the responsibility for introduction of the Enterprise software for operational use.

- ii. The new Planning Enforcement Operational Protocol was introduced from 1st January 2023.
- iii. The staff guidance procedures to operate the functionality of the Enterprise system were reviewed with the objective of assessing their clarity and completeness. Suggested amendments to the staff guidance identified by Internal Audit were correctly updated.
- iv. An Enterprise task parameter in the workflow has been included which will recognise any cases which have had no inspection or action for two months. This parameter will be a useful monitoring control to reduce the risk of cases being overlooked.
- v. Testing of the workflow task "Update to the Referrer" was completed, the results confirmed:
 - a. The procedure parameter alert was correctly set at 30 days, which is compliant with section seven of the Operational Protocol; and
 - b. Details of an Enforcement Officer's assessment of what needs to be communicated to the Referrer (within notepad screen) was successfully downloaded into the draft letter ready to be sent.
- vi. Internal Audit suggested that if a retrospective planning application is required, an Enterprise task should be included which evidences this assessment. Action taken:
 - a. A letter addressed to the landowner clearly setting out the reasons why the application is required was added; and
 - b. The procedure note for staff was successfully created.
- vii. As a result of completing an investigation, the Enforcement staff's judgement as to the level of action to be taken, has been correctly formulated into six workflow decision types. The decision type classifications correctly aid the subsequent monitoring and sign-off controls.
- viii. In the Enterprise control parameters, workflow alerts being created will facilitate assisting Planning Enforcement staff at all responsibility levels to manage their workload in line with the Operational Protocol.
- ix. The Enterprise IT system for Planning Enforcement Officers was activated live in March 2023. As a result of live implementation, the Planning Support Team Leader has created a useful issues log. Inspection of the issues log records that only minor problems for three cases were identified, and IT control parameters have been updated and strengthened to prevent the error happening again.
- x. Internal Audit have gained appropriate assurance that the Enterprise system control environment has been correctly established.
- xi. Goal three of the Planning Enforcement improvement plan breaks down the roll out of Enterprise IT into three phases:
 - i. Booking in and triage;
 - ii. Enforcement investigations and casework; and
 - iii. Formal enforcement action.

- xii. Phase one and two have been successfully implemented, with phase three forecast to be implemented in Autumn 2023.

2.19 Activity Name: Decarbonisation Wave One Grant (Service Area: Place)

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

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

- 2.20 **Scope** – The aim of the audit was to provide assurance that, in all significant respects, the conditions of the relevant Grant Determination has been complied with.

2.21 Key Findings

- i. Stroud District Council are the lead authority in a Gloucestershire wide scheme which seeks to improve the energy performance of social housing properties. Grant funding totalling £3.4m was provided by the Department for Energy Security and Net Zero (DESNZ). The Council's grant is £1.8m to be used on improvement measures such as cavity wall, loft, and external wall insulation.
- ii. The Council entered into Consortium agreement with Cheltenham Borough Council, Two Rivers Housing and Gloucester City Homes on 23rd February 2023. The Consortium agreement details the arrangements for administering the grant award.
- iii. The service risk "Failure to deliver the Wave One programme" has been correctly recognised, assessed, with a comprehensive set of mitigating controls are evidenced in the Pentana risk register. Testing of the mitigating controls in place confirmed they are operating correctly as illustrated below.
- iv. The reporting requirements to DESNZ were reviewed with the objective of assessing compliance with the requirements as set out in the Memorandum of Understanding (MOU). Reporting was made in line with date deadlines and the report content correctly met DESNZ's expectations.
- v. The Council's budgetary control procedures for the project was inspected with the objective of assessing the management arrangements in place. The MOU with DESNZ requires the Council to provide one third funding to supplement the £1.8m grant. The evidence reviewed as at March 2023 year end, verified that:
 - a. Actual Wave One project expenditure was correctly "ring fenced" to a designated cost centre and subjective expenditure code; and
 - b. The £2.4m budget carry forward into 2023/24 had been correctly calculated.
- vi. Paragraph 18 of the MOU requires administration and ancillary costs to be less than 15% of the total budget. The March 2023 report to DESNZ, confirmed that the Consortium cumulative actual administration and ancillary costs were below the 15% threshold.

- vii. The management arrangements in place to inform senior Housing and Communities staff of the project's progress was considered. The findings established that "high level" project reporting was provided in April 2023, and the frequency for updates is quarterly. The reporting procedure in place provides oversight for the second line of defence monitoring controls expected for this key project.
- viii. DESNZ appointed a monitoring officer from Sula Innovation Ltd for the Consortium project. The monitoring officer's role is to oversee the Wave One project progress and identify any actions which are required of the Consortium members. It was confirmed that the monthly monitoring meetings are correctly taking place, with actions identified so that project milestones can be completed.
- ix. A walkthrough test for one Council property using the procedures and controls in place for the end-to-end installation process was completed. The evidence reviewed confirmed that:
 - a. The actual process used was compliant with the guidance contained in the MOU issued by DESNZ; and
 - b. The inspection and assessment of the installation was successfully found to be compliant with Regulation 20 of the Building Regulations 2010.
- x. Enquiries were made with DESNZ to understand if there are any Consortium post programme evaluation procedures to be completed. DESNZ confirmed that post programme evaluation is likely to be limited to a survey sent to tenants who have agreed to take part. In preparation for providing DESNZ with Consortium tenant contact details for those willing to take part in the survey, a monitoring control record should be created and regularly updated.

Risk: No guidance issued from DESNZ for the reporting requirements for the post programme evaluation.

Recommendation: Implement a procedure to create a first line of defence monitoring control record, which will detail Consortium social housing tenants whose residential homes have benefitted from Wave One measures installed. The record should highlight those tenants who have agreed to participate in a post project evaluation survey to be devised by DESNZ. Target date: 31st August 2023.

- xi. Sample testing to assess, validate, monitor, and authorise the contractor applications for payment provided Substantial Assurance that embedded controls are in place which are operating correctly. The sampled works completed totalling £312k was confirmed, all for eligible expenditure as designated in the MOU with DESNZ.

2.22 Activity Name: Home Upgrade Grant two (Service Area: Place)

- i. Assurance Level for this report: Substantial; and
- ii. There were no recommendations arising from this review.

2.23 **Scope** – The aim of the audit was to provide assurance that, in all significant respects, the conditions of the relevant Grant Determination has been complied with.

2.24 Key Findings

- i. The Council are acting as lead local authority partnering with other second tier authorities in Gloucestershire, for the Home Upgrade Grant two (HUG 2).
- ii. The grant is provided by the Department for Energy Security and Net Zero (DESNZ). HUG 2 is an opportunity for local authorities to apply for grant funding to provide energy efficiency and low carbon heating upgrades to private sector low-income households with off gas grid homes.
- iii. DESNZ have awarded the Council a mobilisation payment grant allocation of £30,000. The mobilisation grant allocation can be used for administration and ancillary costs that are necessary ahead of retrofitting homes with energy efficiency measures. Severn Wye Energy Agency (SWEA) are project managing the utilisation of the mobilisation grant.
- iv. SWEA provided details of the mobilisation payment actual cumulative expenditure incurred up to 31st May 2023, which totalled £25,332.
- v. DESNZ issued guidance in September 2022 to indicate the categories of expenditure for which the mobilisation payment would be eligible for.
- vi. The categories of eligible expenditure include:
 - a. Administration;
 - b. Ancillary that are necessary ahead of retrofitting homes with energy efficiency measures and low carbon heating upgrades;
 - c. Specialist advice; and
 - d. Marketing activity for the Home Upgrade Grant two.
- vii. The review of the sampled SWEA expenditure totalling £21,963 confirmed that:
 - a. The actual expenditure incurred correctly complied with the guidance issued by DESNZ; and
 - b. The analysis statement provided by SWEA was suitably documented.
- viii. The Council received the mobilisation payment grant for £30,000 from DESNZ on 27th February 2023, which was subsequently paid to SWEA in March.
- ix. Based on a review of records maintained by the Council and SWEA, Internal Audit has gained assurance that the conditions of the grant determination have been met.
- x. Internal Audit can confirm the unused £4,668 funding, can be carried forward to be spent on eligible expenditure from June 2023 onwards.

2.25 Activity Name- Fit for the Future (Council Wide)

- i. Assurance Level for this report: Substantial Assurance; and
- ii. There is one medium priority recommendation arising from this review.

2.26 Scope – The aim of the audit was to provide an independent appraisal of the Council's governance arrangements for the programme.

2.27 Key Findings

- i. There is a substantial level of assurance and good programme governance operating over all elements of the Fit for the Future programme.
- ii. A clear organisational structure, milestone plans, decision making processes, benefits analysis, and a management reporting structure were noted to be in place and operating effectively throughout the review.
- iii. A clear set of investment options and financial decisions have been documented and reviewed as evidence. The subsequent recording of financial expenditure and communication of this to the correct leadership teams also exists.
- iv. Throughout the audit, a thorough knowledge and understanding of the programme was demonstrated including:
 - a. Clear workstreams and objectives;
 - b. The alignment of programmes (and projects) with the Council's strategy and plans; and
 - c. Reporting structures and detail.
- v. There were also several good examples of additional layers of assurance operated by the programme team. These included:
 - a. Clearly documented "discussion provoking sessions";
 - b. Clear choices laid out for senior management on structural or organisation change options; and
 - c. "Blue sky thinking" outside of normal management assurance practices.
- vi. Benefits analysis, both in terms of operational transformations and cost savings are identified and tracked through the stages of the programmes. Reporting of these benefits is regular and frequent. There is a gap between the initial savings target for the programme and the current forecasted savings. This gap is well documented and clearly the subject of a number of Senior Management (including the Section 151 Officer) reviews. The original target dates back over two years and pre-dates the current programme team. Since the original target was set, the programme has been re-baselined and much of the governance, key controls and management oversight that now exists put in place. Some of these key controls give a better level of assurance over the current forecast savings. And monitoring of the achievement of those savings, presenting clear evidence of the range of measures put in place with the potential to generate further savings.
- vii. The programme team presented a significant amount of evidence covering the oversight, day to day monitoring, project and programme management, and reporting. The evidence seen confirms that these elements are robust and being delivered.
- viii. A continuation of the current focus and also the prevailing assurance arrangements operating over these forecasts should ensure the programme maximises its potential benefits delivery. And provide clear evidence to support the actual value of future benefits delivered.

Risk: Maximisation of benefits from the programme will not be achieved.

Recommendation: The Council should review existing agreed benefits to confirm they remain appropriate and review potential future benefits to confirm they align with the council's strategic objectives. Target date: To be confirmed.

3. 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 ongoing 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. It should be noted that 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:
 - Counter Fraud Strategy, Statement and Policy;
 - Review of the Fraud Risk Register; and
 - Maintaining the Council's counter fraud intranet and webpages.

3.2 Previous years' referrals closed case

- i. The CFT continued to work on one Covid-19 grant related case. This has now been closed. This was a small value grant of £1,500. The recipient failed to engage with the CFT or SDC staff and the debt has been returned to the Department for Business and Trade for recovery.

3.3 National Fraud Initiative (NFI)

- i. Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. SDC data for the 2022-23 NFI exercise has been uploaded successfully and is considered compliant. No penalties have been incurred.
- ii. Data matches have been released by NFI and are now available for SDC teams to review.

- iii. The full NFI timetable can be found using the link available on GOV.UK – <https://www.gov.uk/government/publications/national-fraud-initiative-timetables>.
- iv. Examples of data sets includes housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader or operator, taxi drivers and personal licences to supply alcohol.
- v. 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.

3.4 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 and currently hosted by Tameside MBC.
- ii. Membership is open to any organisation which has responsibility for managing public funds or assets. Use of our services is voluntary, which ensures we deliver 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 the credible national communications including those from the NAFN being swiftly cascaded to teams where more national targeted frauds are shared for the purpose of prevention.