Annual report on
Internal Audit Activity
2016-2017

ARA
AuditRiskAssurance

Gloucestershire
COUNTY COUNCIL

(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 Audit Standards (PSIAS) 2017 or guidance'.

The standards define the way in which the Internal Audit Service should be established and undertakes its functions. The Council's Internal Audit Service is provided by Audit Risk Assurance under a shared service agreement between Gloucestershire County Council (host authority), Gloucester City Council and Stroud District Council and carries out the work to satisfy this legislative requirement and reports its findings and conclusions to management and the Audit and Governance Committee. The standards also require that an independent and objective opinion is given on the overall adequacy and effectiveness of the control environment, comprising risk management, control and governance, from the work undertaken by the Internal Audit Service.

Gloucestershire County Council's Internal Audit function conforms to the International Standards for the Professional Practice of Internal Auditing.

(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 challenge, advising the organisation that satisfactory 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 the Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the PSIAS is that the Chief Internal Auditor should provide an annual report to those charged with governance, to support the Annual Governance Statement. The content of the report is prescribed by the PSIAS which specifically requires Internal Audit to:

- Provide an opinion on the overall adequacy and effectiveness of the organisation's internal control environment and disclose any qualifications to that opinion, together with the reasons for the qualification;

- Compare the actual work undertaken with the planned work, and present a summary of the audit activity undertaken from which the opinion was derived, drawing attention to any issues of particular relevance;

- Summarise the performance of the Internal Audit function against its performance measures and targets; and

- Comment on compliance with the PSIAS.

When considering this report, the Committee may also wish to have regard to the quarterly interim Internal Audit progress reports presented to the Committee during 2016/2017 and the Annual Report on Risk Management Activity for 2016/2017.

(4) Chief Internal Auditor's Opinion on the Council's Internal Control Environment

In providing the internal audit opinion it should be noted that assurance can never be absolute. The most that Internal Audit can provide is a reasonable assurance that there are no major weaknesses in risk management arrangements, control processes and governance. The matters raised in this report, and our quarterly monitoring reports, are only those that were identified during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that may exist or represent all of the improvements required.

Chief Internal Auditor's Opinion

During the year the Council's services for children in need of help and protection, children looked after and children leaving care were inspected by Ofsted. There was also a separate inspection of the Local Safeguarding Children Board.

Whilst there are examples of some good work that should be acknowledged, e.g. the adoption service that has been graded as 'good' and inspectors found an improving picture for children in care and care leavers, there are substantial challenges in safeguarding and child protection practice and leadership and management and these areas were graded 'inadequate' – this means that the overall judgement is inadequate.

The Council is required to produce an action plan for Ofsted within 70 days of the report's publication and the DfE will be overseeing improvement. A DfE Advisor has already been appointed and will chair an Improvement Board that includes the Leader, Lead Cabinet Member and senior officers.

In addition to the above, some significant improvement areas have been identified from Internal Audit activity, however, I am satisfied that, based on this activity and management's actions taken in response to that activity, enhanced by the work of other external review agencies, sufficient evidence is available to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's overall internal control environment.

On this basis, with the exception of the matters relating to Children's Services outlined above, my opinion is that the Council's control environment provides **satisfactory** assurance that the significant risks facing the Council are addressed. My opinion will feed into the Annual Governance Statement which will be published alongside the Annual Statement of Accounts.

(4a) Scope of the Internal Audit Opinion

In arriving at my opinion, I have taken into account:

- The results of all internal audit activity undertaken during the year ended 31st March 2017 and whether our high and medium priority recommendations have been accepted by management and, if not, the consequent risk;
- The effects of any material changes in the organisation's risk profile, objectives or activities;
- Matters arising from internal audit quarterly progress reports or other assurance providers to the Audit and Governance Committee;
- Whether or not any limitations have been placed on the scope of internal audit activity; and
- Whether there have been any resource constraints imposed on internal audit which may have impacted on our ability to meet the full internal audit needs of the organisation.

(4b) Limitations to the scope of our activity

There have been no limitations to the scope of our activity or resource constraints imposed on internal audit which have impacted on our ability to meet the full internal audit needs of the Council. Whilst the core Internal Audit service is provided in-house, during 2016/2017, the Chief Internal Auditor has:

- Commissioned external specialist ICT audit via Warwickshire County Council's Internal Audit Framework Agreement;
- Set up joint working arrangements in relation to Internal Audit, Risk Management and Insurance Services, with the Chief Internal Auditor at Warwickshire and Worcestershire County Councils and Stratford District Council;
- Been a member of Counties Chief Internal Auditors' Network (CCAN) and the District Council's Chief Auditors Network to enable networking and the sharing of good practice;
- Entered into a Service Level Agreement with Gloucestershire NHS Counter Fraud Service to provide support with investigations and the National Fraud Initiative analysis; and
- Worked with Gloucestershire's Counter Fraud Hub to review the options available to the Shared Service in respect of Counter Fraud support.

(5) Summary of Internal Audit Activity undertaken compared to that planned

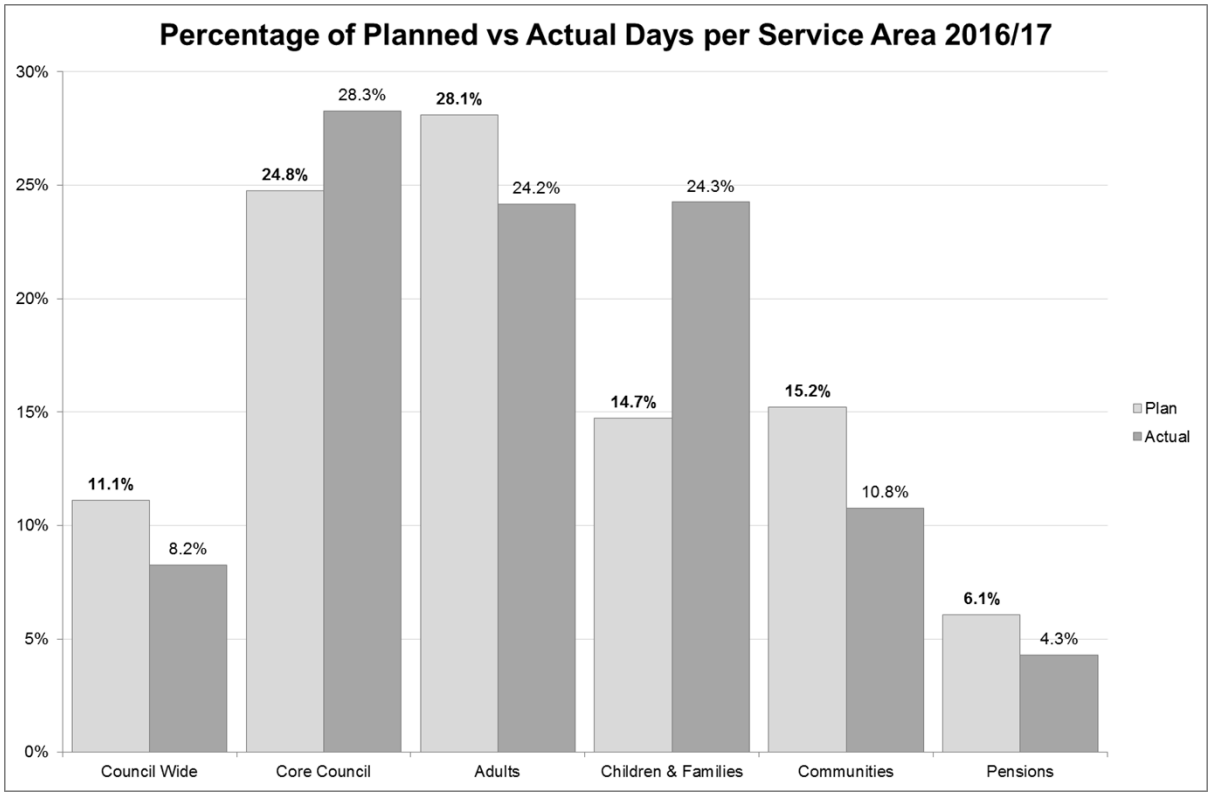
The underlying principle to the 2016/2017 plan is risk and as such, audit resources were directed to areas which represented 'in year risk'. Variations to the plan are required if the plan is to adequately reflect the ongoing changing risk profile of the Council.

Since the original risk based plan was approved in April 2016 by the Audit and Governance Committee, a number of additional audit activities have proved necessary and some of the planned audits were no longer required. Plan changes are detailed in **Appendix 2** (the Summary Activity Progress Report 2016/17).

Resources also required redirecting as a result of special investigations and irregularity work, i.e. 16 new referrals during 2016/17 and continuing work on 10 referrals brought forward from 2015/16.

The net effect is that although the work undertaken was slightly different to that originally planned we are able to report that we achieved **86%** of the overall revised plan 2016/17, against a target of 85%.

The bar charts below summarise the percentages of planned audits per service area (i.e. Adults, Core Council, etc.) and category of activity (i.e. fundamental financial systems, corporate governance, etc.) compared with the percentage of actual audits completed.

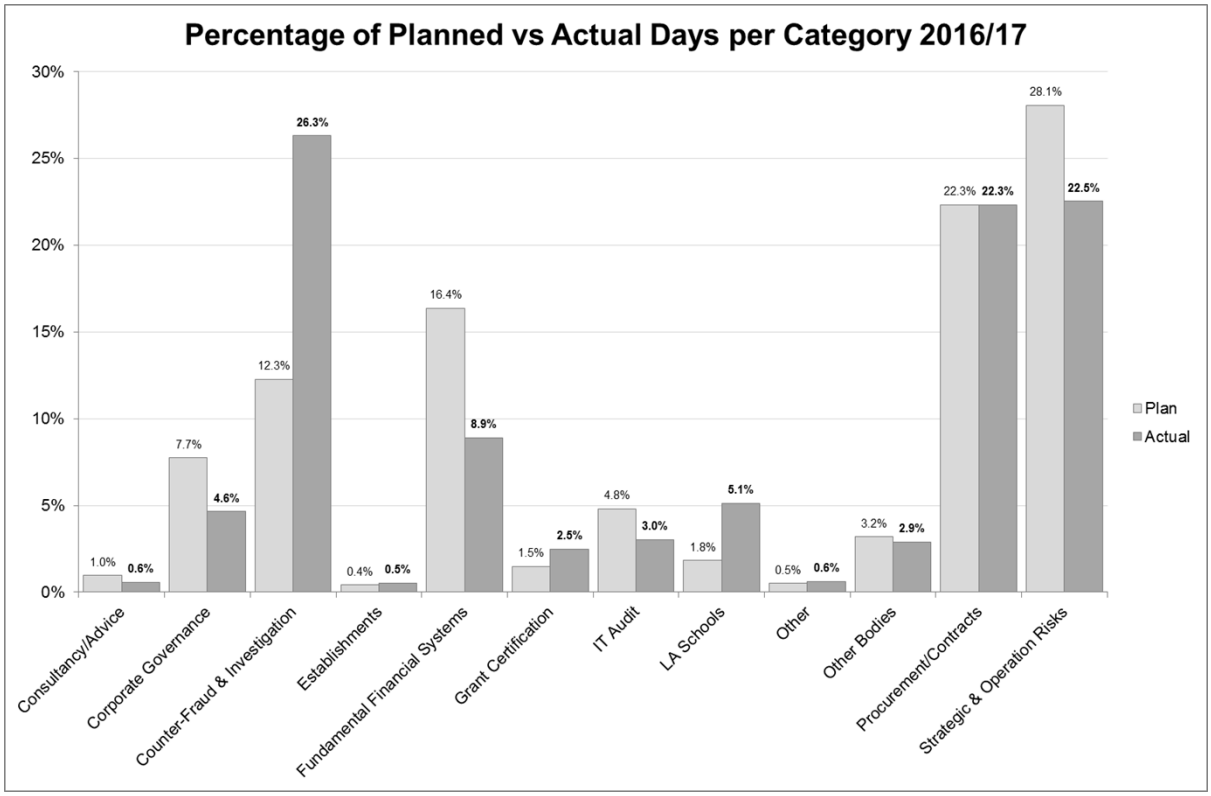


Example rationale for the variance between 2016/17 planned and actual days per service area include (but are not exclusive to):

- New activity requests:
    - Payroll – Late Payment (Core Council).
    - Local Growth Fund 2015/16 certification (Communities).

- Client requested audit deferrals into the 2017/18 Plan or cancellations:
    - SAP access controls (Core Council) – audit deferred to prevent duplication of assurance with external audit and a third party.
    - Fire and Rescue Application and Database Security (Core Council) – audit cancelled to prevent duplication, due to Home Office request for a funded independent ICT health check.
    - Spot Purchase of Day Care (Adults) – audit cancelled due to management confirmed reduced risk profile.

- Audit activity where actual days were in excess of those originally budgeted, due to:
    - The findings and outcomes of the audit work – e.g. Direct Payments and Contact Team (both within Childrens and Families).
    - Management request for audit scope increase – e.g. Deferred Payments (Adults) where audit scope was widened to include review of Property Disregards.



(6) Summary of Internal Audit Activity undertaken which informed our opinion

The schedule provided at **Appendix 1** provides the summary of 2016/17 audits which have not previously been reported to the Audit and Governance Committee, including, very importantly, a limited assurance audit opinion on risk and control.

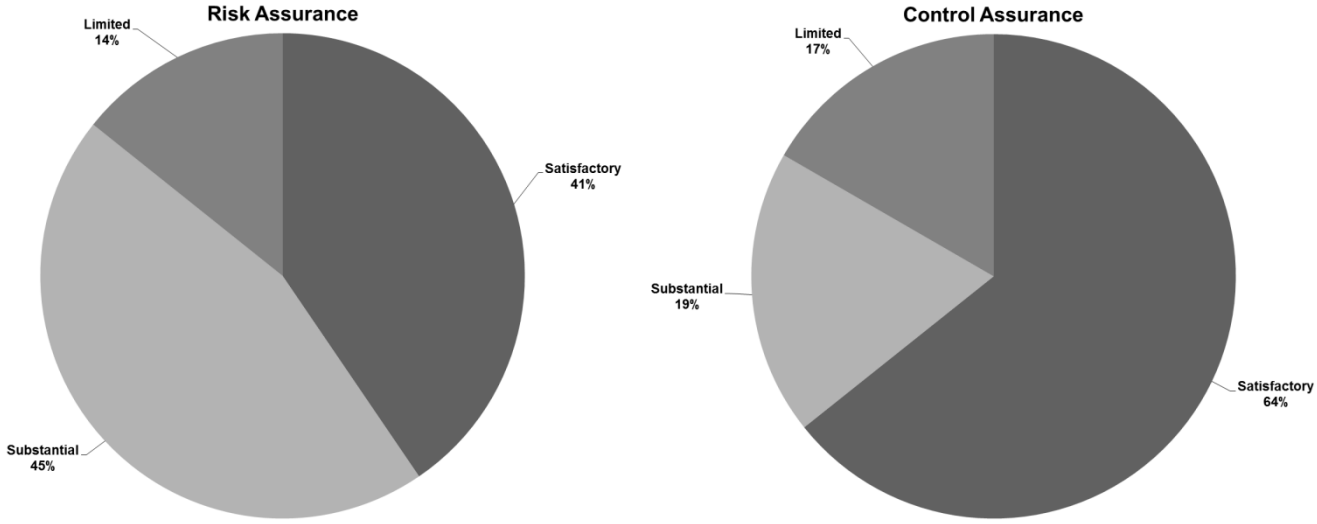
The schedule provided at **Appendix 2** contains a list of all of the audit activity undertaken during 2016/2017, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Governance Committee. Explanations of the meaning of these opinions are shown below.

Assurance levels	Risk Identification Maturity	Control Environment
Substantial	**Risk Managed** Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other services, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Corporate Risk Management Strategy.	• System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved • Control Application – Controls are applied continuously or with minor lapses
Satisfactory	**Risk Aware** 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 services, 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 Corporate Risk Management Strategy.	• System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger • Control Application – Controls are applied but with some lapses
Limited	**Risk Naïve** **Due to an absence of accurately and regularly reporting and monitoring of the key risks in line with the Corporate Risk Management Strategy, the service area has not demonstrated an adequate awareness of the risks relating to the area under review and the impact that these may have on service delivery, other services, finance, reputation, legal, the environment, client/customer/partners and staff.**	• **System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls** • **Control Application – Significant breakdown in the application of control**

(6a) Internal Audit Assurance Opinions on Risk and Control

The below pie charts show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited. It is pleasing to report that the Council is showing that **83%** of the activities reviewed have received a **substantial (19%)** or **satisfactory (64%)** opinion on control. Whilst **17%** of the opinions on control are limited, this maybe related to transformational change, continued focusing of our activity on the key risks of the Council and specific requests from Directors, who are asking for areas to be reviewed where issues have arisen or where independent assurance is required.

Risk and Control Opinions 2016/17



(6b) Limited Control Assurance Opinions

Where audit activity record that a limited assurance opinion on control has been provided, the Audit and Governance 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.

(6c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During 2016/2017, seven limited opinions on control were provided. These related to:

Audited Service Area	Date reported to Audit and Governance Committee
Gloucestershire Fire and Rescue Service – Information Security	16th September 2016
Data Storage – Structures (brought forward)	16th September 2016
Contact Team (brought forward)	16th September 2016

Audited Service Area	Date reported to Audit and Governance Committee
Direct Payments (Children) (brought forward)	16th September 2016
Exempt Limited Assurance Report	20th January 2017
Recruitment – Promotion	7th April 2017
Retrospective Orders	28th July 2017

(6d) Satisfactory Control Assurance Opinions

Where audit activity records that a satisfactory assurance opinion on control has been provided where recommendations have been made to reflect some improvements in control, the Audit and Governance Committee and Corporate Management Team (CoMT) can take assurance that improvement actions have been agreed with management to address these.

(6e) Internal Audit recommendations made to enhance the control environment

Year	Total No. of high priority recs.	% of high priority recs. accepted by management	Total No. of medium priority recs.	% of medium priority recs. accepted by management	Total No. of recs. made
2015/16	89	100	121	100	210
2016/17	**46**	**100**	**86**	**100**	**132**

The Audit and Governance Committee and CoMT 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.

(6f) Risk Assurance Opinions

There were six audits where a limited assurance opinion was given on risk during 2016/2017, these related to:

Audited Service Area	Date reported to Audit and Governance Committee
Data Storage – Structures (brought forward)	16th September 2016
Contact Team (brought forward)	16th September 2016

Audited Service Area	Date reported to Audit and Governance Committee
Direct Payments (Children) (brought forward)	16th September 2016
Exempt Limited Assurance Report	20th January 2017
Recruitment – Promotion	7th April 2017
Retrospective Orders	28th July 2017

Where limited assurance opinions on risk are provided, the relevant reports are given to the Risk Champions to ensure that the risks highlighted by Internal Audit are placed on the relevant risk registers. The monitoring of the implementation of the recommendations is then owned by the relevant manager and helps to further embed risk management into the day to day management, risk monitoring and reporting processes.

In addition, Corporate Risk Management Team is provided with the Internal Audit reports where a limited assurance opinion is provided, to enable their prioritisation of risk management support, if deemed appropriate.

(6g) Internal Audit's Review of Risk Management

During 2016/2017, **86%** of the audited areas rated the effectiveness of risk management arrangements as **substantial (45%) or satisfactory (41%)** with **14%** obtaining a limited assurance opinion. This evidences that risk management continues to be further embedded into the Council's business activities.

Internal Audit also undertake, on a rotational basis, specific reviews purely on the effectiveness of risk management arrangements, operating across all service areas, looking at the Strategic and Operational Performance/Business Plans and associated Risk Registers, to ensure that actions recorded to mitigate risks are in place and operating as intended.

The assurance statements obtained from all Directors and Service Heads across the Council (when formulating the Annual Governance Statement (AGS)), provided reasonable assurance that the majority of management apply the Council's risk management strategy and principles within their service areas. This together with our own assessment, supported by the external assessments and recognition received for numerous risk management initiatives over past years, have led Internal Audit to conclude that the risk management arrangements within the authority are reasonably effective.

(6h) Gloucestershire County Council's Corporate Governance Arrangements

The Council is required by the Accounts and Audit Regulations 2015 to prepare and publish an Annual Governance Statement. The Annual Governance Statement is signed by the Leader, Chief Executive and the Chief Financial Officer and must accompany the Annual Statement of Accounts.

In April 2016, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authorities Chief Executives (SOLACE) published 'Delivering Good Governance in Local Government: Framework 2016' and this applies to annual governance statements prepared for the 2016/17 financial year. Guidance notes were also published to assist Council Leaders and Chief Executives in reviewing and testing their governance arrangements against the revised seven principles for good governance.

The key focus of the framework is on sustainability – economic, social and environmental and the need to focus on the longer term and the impact actions may have on future generations.

The Council therefore:

- Reviewed the existing governance arrangements against the principles set out in the Framework;
- Developed and implemented a refreshed local code of corporate governance, based on the new principles, including an assurance framework for ensuring ongoing effectiveness; and
- Will report publically, via the Annual Governance Statement on compliance with our code on an annual basis, how we have monitored the effectiveness of our governance arrangements in the year and on planned improvement areas.

(7) Summary of additional Internal Audit Activity

(7a) Special Investigations/Counter Fraud Activities

The Counter Fraud Team within Internal Audit received 16 new referrals in 2016/17, and also continued to work on 10 cases from previous years. Six of these brought forward cases were completed within 2016/17, all of which have previously been reported to Audit and Governance Committee. In respect of the four remaining cases further sanctions have been required and are still in progress. In addition Internal Audit has been involved in counter fraud work concerning Children's direct payments (DP). This followed an audit which identified a high level of discrepancies amongst a relatively small sample of DPs. As a result of this counter fraud exercise, some of the cases reviewed have now been classified as irregularities, and are included within the Children and Families numbers quoted below.

The service areas of cases referred to Internal Audit within 2016/17 were categorised as follows: Adults (2); Children and Families (9); Core Council Cluster (4); and Communities (1).

Referrals in 2016/17

Ten of the cases received in 2016/17 have been closed, nine of which have previously been reported to the Audit and Governance Committee. Of the referral now closed this related to a direct payment (DP) where payments were made outside of the scope of the direct payment agreement. The person involved has agreed to repay just under £1,000 for the unauthorised expenses met from the DP bank account.

Many of the cases referred to Internal Audit involve intricate detail and Police referral. This invariably results in a delay before the investigation can be classed as closed and reported to the Audit and Governance Committee.

National Fraud Initiative (NFI)

Internal Audit continues to support the National Fraud Initiative (NFI) which is a biennial data matching exercise administered by the Cabinet Office. The data sets required were submitted through the web portal in October 2016 and data match reports are now available and are currently being reviewed.

To-date, one report has identified an individual who, following a change of circumstances is now in receipt of income from a pension. The Council had been unaware of the income and therefore it had not been taken into account when assessing benefit entitlements. The overpayment of £30,186.09 has been invoiced and the invoice paid.

Monitoring and Review

The Audit and Governance Committee and CoMT can take assurance that the Statutory Officers, comprising the Chief Executive, Monitoring Officer and Chief Financial Officer are regularly fully briefed on all such fraud and irregularity activity, they challenge, monitor management actions and progress to date and approve all police referrals.

Serious and Organised Crime Strategic partnership led by Gloucestershire Police

The Chief Internal Auditor is a member of the Serious and Organised Crime Strategic Partnership (SOCSP) formally known as the joint Policing Panel for Serious and Organised Crime (JPPSOC) to discuss the local multi agency approach to tackling crime/fraud. There is a clear direction from central government that a ‘whole government approach’ is required, with the co-ordination of the Police, statutory partners and the community and voluntary sector. It is the intention that this partnership is to set the context of Serious and Organised Crime within Gloucestershire and then mobilise the network of local partners to work together with a strong emphasis on a preventative, early intervention approach.

(7b) Local Government Transparency Code 2015

Introduction

This Code is issued to meet the Government’s desire to place more power into citizens’ hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services.

Transparency is the foundation of local accountability and the key that gives people the tools and information they need to enable them to play a bigger role in society. The availability of data can also open new markets for local business, the voluntary and community sectors and social enterprises to run services or manage public assets.

Detecting and preventing fraud (taken from Annex B of code)

Tackling fraud is an integral part of ensuring that tax-payers money is used to protect resources for frontline services. The cost of fraud to local government is estimated at £2.1 billion a year. This is money that can be better used to support the delivery of front line services and make savings for local tax payers.

A culture of transparency should strengthen counter-fraud controls. The Code makes it clear that fraud can thrive where decisions are not open to scrutiny and details of spending, contracts and service provision are hidden from view. Greater transparency, and the provisions in this Code, can help combat fraud.

Local authorities must annually publish the following information about their counter fraud work [1] (as detailed for GCC) in the table below:

Council wide fraud and irregularity activity relating to 2016/2017 including Internal Audit (IA) activity

Question	GCC Response
Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.	N/A
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud.	1.425 FTE
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists.	2.45 FTE
Total amount spent by the authority on the investigation and prosecution of fraud.	£65,275
Total number of fraud cases investigated (inc. b/fwd. cases).	14

In addition to the above, it is recommended that local authorities should go further than the minimum publication requirements set out above (as detailed for GCC) in the table below.

[1] *(The definition of fraud is as set out by the Audit Commission in Protecting the Public Purse).*

Question	GCC Response
Total number of cases of irregularity investigated. (Both IA and other service areas inc. b/fwd. cases and NFI pension to death data)	45
Total number of occasions on which a) fraud and b) irregularity was identified.	a) 14 b) 43
Total monetary value of a) the fraud and b) the irregularity that was detected, including pension overpayments identified through NFI where pensions were paid after death and deaths not notified to the Council.	a) £58,320 b) £55,435
Total monetary value of a) the fraud and b) the irregularity that was recovered, including pension overpayments identified through NFI where pensions were paid after death and deaths not notified to the Council.	a) 47,866 b) 28,361

Full details about the code and its requirements can be found at:
https://www.gov.uk/government/publications/local-government-transparency-code-2015

(7c) Gloucestershire County Council's participation in Gloucestershire's Counter Fraud Unit (Fraud Hub)

National Context

In 2011, the Cabinet Office Counter Fraud Taskforce issued a report on 'Illuminating Public Sector Fraud' which outlined four strategic priorities:

- Collaboration;
- Assessment of Risk;
- Prevention; and
- Zero Tolerance.

'The scale of fraud against Local Government is extensive and hard to quantify with precision. Fraud costs UK public services an estimated £21 billion per year, of which £2.1 billion is the estimated cost to Local Government. A further £14 billion is lost to tax fraud and vehicle excise fraud and £1.9 billion to benefit and tax credit fraud. Reducing this is now a major priority across all areas of government.' Cabinet Office 2016.

The National Fraud Authority and the Audit Commission have closed. However fraudsters are becoming increasingly sophisticated. All public service organisations are more vulnerable than ever to criminal activity.

Although resources remain stretched, the reduction of fraud within the public sector is a priority and is reflected by the CIPFA Counter Fraud Centre which was launched in 2014 to

lead and coordinate the fight against fraud and corruption across local and central government.

Local Context

In 2013/2014, the Government announced that Local Authority responsibility for the investigation of benefit fraud was to be transferred, with the counter fraud investigation staff, to the Department for Work and Pensions. In February 2015, Audit Cotswolds successfully bid for £403,000 funding from the Department of Communities and Local Government (DCLG) on behalf of the Local Authorities in Gloucestershire and West Oxfordshire District Council to accelerate the development of a dedicated Counter Fraud Unit (the unit).

The funding was a one off payment to explore the feasibility of a Gloucestershire and West Oxfordshire Counter Fraud Unit that is able to use data matching to gather intelligence and provide skilled investigators to help counter all forms of fraud against the Councils and Social Housing Providers in the region.

The bid set out a phased approach. The unit's first objective was to counter fraud through better intelligence and enhanced proactive partnership working in Gloucestershire and West Oxfordshire District Council with the aspiration to create a 'Gloucestershire Hub'.

It built on the existing three authority partnerships (i.e. Cotswold District Council, West Oxfordshire District Council and Cheltenham Borough Council) and introduced other partners namely: Gloucestershire County Council, Forest of Dean, Gloucester City and Stroud District Councils, Tewkesbury Borough Council, plus Cheltenham Borough Homes Ltd and in time, other registered social landlords.

The second phase of the project links the Gloucestershire Hub to other Hubs (Oxfordshire) through data sharing activity.

The business case associated with the project explores whether the DCLG funded project can be transferred into a permanent service model that is fully self-sufficient whilst continuing to manage and utilise the DCLG fund to set up the unit.

Feasibility studies have been undertaken in financial years 2015/16 and 2016/17 to show that the unit generated revenue and provided risk assurance. In addition, the unit has identified further areas of savings and loss avoidance, thereby adding value for all partners. The work included such legal documentation as data sharing and access agreements that enabled the feasibility studies to be undertaken and investigations to be conducted legally.

The S151 Officers oversee the project in terms of governance, which includes the unit's objectives, rationale and the development of the business case. Given their responsibility regarding counter fraud activity within their own organisations and the need to achieve value for money they will also be reviewing the business case from an individual organisation perspective.

Proposed Project Outcomes

- Produce real and demonstrable savings for partners from intelligence based counter fraud activity;

- Pursue criminals with an effective, self-sufficient and robust fraud investigation team, which can operate locally with partners or with third parties and other public bodies;

- Continue to operate and adapt to any reorganisation, restructure or political change;

- Fight local fraud by matching datasets across all demographics; and

- Fight regional fraud by legally exchanging data.

Feasibility Studies

It was agreed by partners that to evidence the financial aspect of the business case, the unit would need to complete some pilot work to develop an evidence base of the value of investing in the hub. Initial pilot work was undertaken for Cotswold District Council, West Oxfordshire District Council and Cheltenham Borough Council. More recently, work has also been/or due to be carried out for Cheltenham Borough Homes, Gloucestershire County Council, Gloucester City Council and Stroud District Council.

(8) Internal Audit Effectiveness

The Accounts and Audit Regulations 2015 require '*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'.* This process is also part of the wider annual review of the effectiveness of the internal control system, and significantly contributes towards the overall controls assurance gathering processes and ultimately the publication of the Annual Governance Statement.

The Accounts and Audit Regulations 2015 also state that internal audit should conform to the Public Sector Internal Audit Standards (PSIAS).

Public Sector Internal Audit Standards (PSIAS) 2017

These standards have four key objectives:

- Define the nature of internal auditing within the UK public sector;

- Set basic principles for carrying out internal audit in the UK public sector;

- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and

- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The Internal Audit Charter, Code of Ethics and the Audit and Governance Committee's Terms of Reference reflect the requirements of the standards.

External Assessment of the effectiveness of Internal Audit

The last External Quality Assessment (an independent assessment of the effectiveness of an internal audit function which should take place at least every five years) was completed within 2015/16 of the Gloucestershire County Council internal audit service.

The review was undertaken during May 2015 by the Chartered Institute of Internal Auditors and included a review of the team's conformance to the International Professional Practice Framework (IPPF) as reflected in the PSIAS, benchmarking the function's activities against best practice and assessing the impact of internal audit on the organisation. There are 56 fundamental principles to achieve with more than 150 points of recommended practice in the IPPF. The independent assessment identified 100% conformance.

The Chartered Institute of Internal Auditors stated: *'It is our view that (the Council's) internal audit function conforms to all 56 principles. This is excellent performance given the breadth of the IPPF and the challenges facing the function'.*

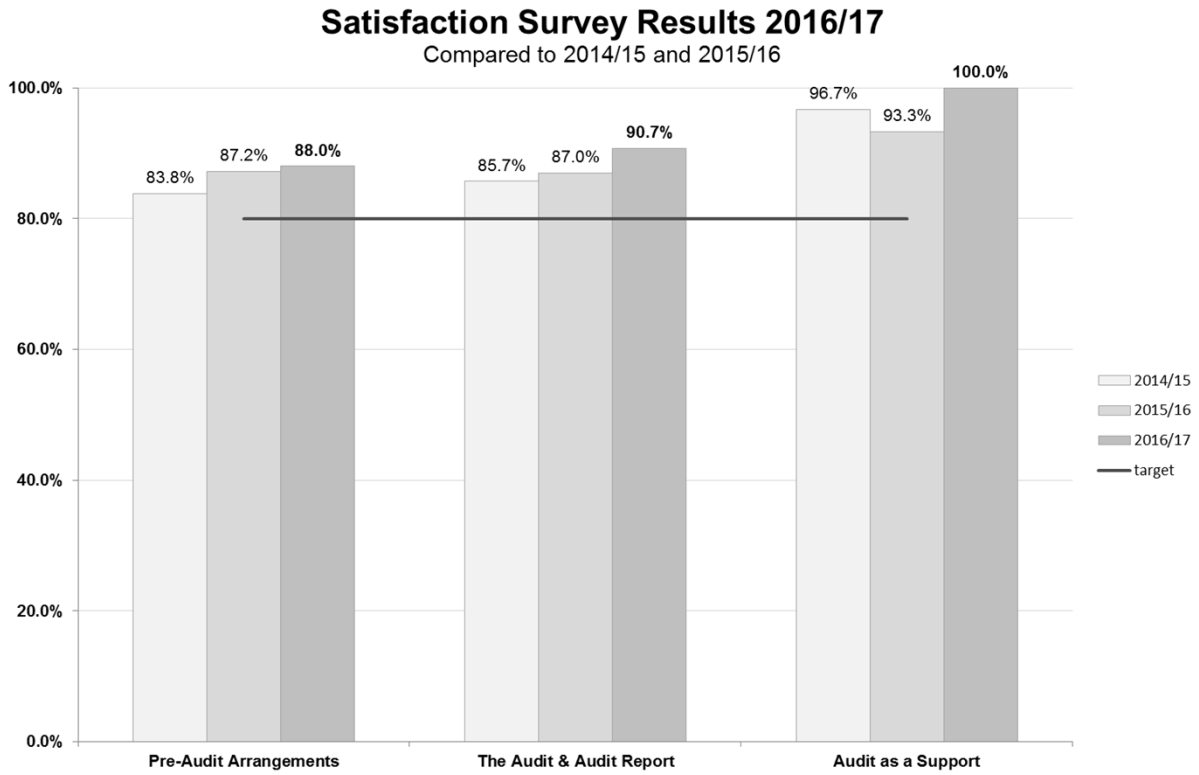
The internal audit shared service applies consistent systems and processes, which supports compliance across the Audit Risk Assurance Shared Service partners.

During 2016/17 the Chief Internal Auditor assessed Internal Audit's performance against the Internal Audit Quality Assurance and Improvement Programme (QAIP) as required by the PSIAS. The QAIP confirmed compliance against the PSIAS and highlighted opportunities for further service improvement.

Internal Assessment - Customer Satisfaction Survey results 2016/17

At the close of each audit review a customer satisfaction questionnaire is sent out to the Director, Service Manager or nominated officer. The aim of the questionnaire is to gauge satisfaction of the service provided such as timeliness, quality and professionalism. Customers are asked to rate the service between excellent, good, fair and poor.

A target of 80% was set where overall, audit was assessed as good or better. The latest results as summarised below, shows that the target has been exceeded, with the score of **100%** reflecting Internal Audit as being a positive support to their service.



In addition, the following positive comments have been received from our customers:

- *'The auditor's helpful, supportive attitude.'*
- *'The meetings were always positive and open.'*
- *'It was useful to check that we were on track. It was also reassuring to know that I could discuss risks and issues with the auditor.'*
- *'Early notification and sensitive forward planning, allowing for existing work commitments.'*
- *'Thank you for a thorough audit of the process.'*
- *'It was planned to minimise any disruption.'*
- *'Many thanks for the report and the work you have done. I know the team has appreciated the changes that they needed to put in place.'*
- *'We appreciated that all the ground work and evidence that had been put together prior to the visit were fully utilised enabling minimal disruption.'*
- *'The time taken to ensure I fully understood the process and what was required of me.'*
- *'The auditor has a very good understanding of the area of work as she undertook a previous audit of the welfare scheme. This was really helpful.'*

- *'The open way in which it was conducted.'*
- *'The auditor was extremely courteous and discreet throughout the process.'*
- *'The fact that the auditor has really taken the time to fully understand the role and the difficulties experienced by the staff.'*
- *'It made me get my files in order! It was useful to be able to provide information in a variety of ways – electronically as well as paper.'*

Lessons Learned from customer feedback and actions taken by Internal Audit

The Chief Internal Auditor reviews all client feedback survey forms and where a less than good rating has been provided by the client, a discussion is held with the both the relevant auditor and the manager to establish the rationale behind the rating and where appropriate actions are taken to address any issues highlighted.

The following specific feedback for improvement of audit approach has been received within 2016/17:

- *'More discussion in advance would have been useful to discuss the scope'*

The development comment will be taken on board for future internal audits within 2017/18 and beyond.

Over the years, improvement areas include, shorter, more focused internal audit reports, enhanced opening meetings i.e. to provide more information on the role of internal audit, the audit process and approach, ensure we fully consider the risk and the subsequent proportionality of the recommended controls to manage them, provide where possible more indication of when audit reviews will take place and a timelier turnaround of these reviews.

Appendix 1

Completed Internal Audit Activity during the period April – June 2017

Summary of Limited Assurance Opinions on Control

Service Area: Core Council

Audit Activity: Retrospective Orders

Background

Retrospective purchase orders are orders that are produced within SAP (the Council's Financial Management System) after the delivery of goods or services to which they relate. They were introduced to allow SAP procurement processes to be demonstrated for those activities where advance notification of supply and cost was not possible, such as emergency repairs.

The Council's Financial Regulations and Accounting Instruction 1 require that all orders should be placed in advance of receipt of the relevant good/service, unless the expenditure type is stated within the agreed exception list or the expenditure is part of a recurring contract or purchased through petty cash or via a purchase card.

Scope

The objectives of the audit were to:

- Determine which service areas are using retrospective orders and establish the reasons for this; and
- Ensure that retrospective orders are only being used for items that require them and to make recommendations for change where non-compliance is identified.

Risk Assurance – Limited

Control Assurance – Limited

Key findings

From the SAP download provided by Strategic Finance, Internal Audit identified:

- During the period 1st April 2016 to 31st October 2016, 5,316 retrospective orders were raised by Gloucestershire County Council (GCC) with a total value of £21,808,840;
- Children and Families (2,297), Support Services (1,048), Adults (748) and Communities and Infrastructure (727) created the highest amount of retrospective orders across GCC within the audited period, having a total value of £13,905,191 and accounting for 63.76% of completed retrospective order value; and

- Retrospective commitments, Goods Received and Invoice Received, both Capital and Revenue, accounted for £2,499,262, £952,542 and £45,468 respectively from 1st April 2016 to 31st October 2016. These included orders placed before the 1st April 2016 that are still active. Adults, Children and Families, Communities and Infrastructure, and Support Services were the highest services areas creating these.

Internal Audit randomly selected 100 retrospective orders from 10 Budget Holders across Children and Families, Support Services, Adults and Communities and Infrastructure for audit testing. The results found that 8 out of 100 (8%) sampled retrospective orders were compliant with the Council's Financial Regulations and accounting guidance.

92% of the audit sample was found to be non compliant.

The main reasons given by Budget Holders (during audit testing) for creating retrospective orders were:

- Budget Holders were unsure of the exact quantities and prices of goods and services, and therefore used retrospective orders instead of limit carts (21 cases);
- Perceived budget management issues with limit carts (20 cases); and
- Budget Holders being unsure of the correct business practices concerning procurement (17 cases).

Audit testing found that Budget Holders were not always aware of the non-compliance of a retrospective order and therefore saw them as a suitable procurement method. Discussion with both Strategic Finance and Commercial Service identified:

- The expectation is that Budget Holders are responsible for complying with Financial Regulations and Accounting Instructions; and
- Centralised regular monitoring of retrospective orders (including appropriate actions) does not take place.

Conclusions

Due to the level of non-compliance identified through Internal Audit retrospective order sample testing (92% non compliance) the audit has resulted in limited assurance for both risk identification maturity and control environment. It is vital that Budget Holders are re-engaged to ensure awareness of the Council requirements and understanding of the risks associated with using retrospective orders, which impact not only at service level but the Council as a whole. Further controls should also be considered to ensure that proper business practices are enforced and encouraged.

Management Actions

Management have responded positively to the two high priority recommendations made in respect of the above issues identified.

Whilst Internal Audit will monitor the implementation of the recommendations, it is recommended that senior management attend the next meeting of the Audit and Governance Committee and is requested to provide an update on the action taken in relation to each recommendation made.

Summary of Satisfactory Assurance Opinions on Control

Service Area: Core Council

Audit Activity: SAP Interfaces

Background

As part of the 2016/17 internal audit plan approved by the GCC Audit and Governance Committee, a review of SAP Interfaces was undertaken. The SAP application provides GCC's key financial systems including the Payroll, Accounts Payable, Accounts Receivable and General Ledger systems. Various applications throughout GCC create files that interface with SAP and generate payments to third parties.

Scope

This audit specifically reviewed the following key interfaces with SAP to ensure they are robustly controlled, properly checked and reconciled with an adequate level of early warning reporting for any exceptions or errors: Electric Call Monitoring (ECM) system, Nursery Education Funding (NEF) and Library payments via the GCC website.

The scope of this review encompassed:

- Complete and accurate transfer of payment data to SAP;
- Restrictions on ECM and NEF administration rights;
- Secure and encrypted SAP system interfaces;
- Restrictions on user access to SAP payments files; and
- Monitoring and exception reporting.

Audit review and testing was completed within quarter 3 2016/17.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key findings

The internal audit review identified a number of areas of good practice applied by the Council, including:

- Extensive technical support provided by the Application and Database support team;
- ECM payment files are uploaded direct to SAP without manual intervention; and
- Scheduled tasks implemented to automatically capture and process SAP payment files.

The audit also identified a number of weaknesses where improvement in SAP interface controls is required:

- Lack of documentation to support key interfaces to SAP for processing of client payments;
- Existence of an unsupported Windows 2003 server to capture and process SAP payment files;
- No review of user access to administrative rights on the GCC payment file server; and
- SAP payment files processed in clear text and without password, file or encryption protection.

Conclusions

The findings from this audit have identified a number of improvement observations for management consideration, which has resulted in the opinion of satisfactory for both risk and control. The audit has raised five medium priority recommendations in relation to the issues identified above.

Management Actions

Management have responded positively to the Internal Audit recommendation made.

Service Area: Adults

Audit Activity: Gloucestershire Care Partnership

Background

The Gloucestershire Care Partnership (GCP) is a special purpose vehicle, the shareholders of which are the Orders of St John Care Trust (OSJCT) and the Bedfordshire Pilgrims Housing Association (BPHA). The role of OSJCT is to operate the existing care homes along with the four new care homes, funded by BPHA, which are leased to GCP under an operating lease. The Council has also contracted the refurbishment / development / rationalisation of these properties under an agreed Estates Strategy.

The arrangement is made up of two coterminous interdependent elements in the form of a commercial agreement and a service contract for the day-to-day provision of care.

These relationships are covered by a 35-year contract, signed in 2005.

An Internal Audit review in 2012/13 resulted in a limited assurance opinion being given in respect of the control environment. The review highlighted that:

- The Estates Strategy, as agreed by Cabinet in 2007, needed to be revised to ensure that it reflected the future delivery requirements for adult care provision within Gloucestershire.

- The governance arrangements for the future delivery/management of the programme of work would need to be further developed and aligned to the Council's new operating model; and

- Roles and responsibilities of key individuals needed to be clearly defined, ensuring that all relevant disciplines are included and for the programme of work to be formally documented in line with the Council's corporate policies for programme/project and risk management arrangements.

A follow-up review undertaken in 2014, again resulted in a limited assurance opinion in respect of the control environment and evidenced that the management and monitoring of these contractual agreements needed to be significantly strengthened to ensure that there were effective arrangements in place for the future.

Since then, there have been ongoing discussions with the OSJCT to renegotiate the terms of the contractual agreements in order for these to better reflect the current/future demands for permanent care.

Scope

The objective of this review was to ascertain whether there are now adequate agreements in place for the management and monitoring of these contractual agreements that these are in compliance with the Council's Contract Management Framework and are operating effectively.

Risk Assurance - Satisfactory

Control Assurance - Satisfactory

Key findings

Following a number of meetings with key staff within Adult Care Services, Strategic Finance and the Commissioning team, alongside reviewing source documentation Internal Audit established the following:

- There has been significant improvement made in respect of the management and monitoring of the contractual agreements of the OSJCT since the previous audits were undertaken;

- There is now a designated Contract Senior Responsible Officer and a Contract Manager.

In addition, other officers have been nominated to undertake key roles, resulting in improved contact monitoring arrangements and better, joined-up communication;

- Throughout this review there have been several staff changes resulting in a transfer of responsibilities for some of the contract management tasks. It is essential that any changes in roles/responsibilities are clearly communicated to allow a seamless transition and prevent any parts of the contract management and monitoring arrangements being overlooked;

- Increased scrutiny of the OSJCT invoices received has given the Council a better understanding of the contract related costs and this has enabled an improvement in the accuracy of the financial reporting;

- Having identified that the invoice scrutiny process was labour intensive, the Contract Manager and Interim Category Manager have introduced a new process that should be less resource intensive, but still enable the same level of scrutiny and challenge to be applied to the charges/invoices received. Ongoing, this will need to be monitored and assessed to see if this is the case;

- Management have acknowledged that the process for the receipt/notification of documentation for Continuing Health Care and Further Nursing Care residents needs to be improved and have taken steps to address this issue through initiating a working group, comprising of representatives from the Clinical Commissioning Group and the Council, to map out the full end-to-end process to try to identify how and why the problems occur and what can be done to prevent them happening in the future; and

- Whilst it is evident that management are aware of the key risks associated with these contractual agreements, the risk management arrangements need to be formalised in compliance with the Council's Risk Management Strategy.

Conclusions

Internal Audit conclude that, since the previous audits, significant work has been undertaken to improve and strengthen the control framework for the management and monitoring of these contractual agreements, bringing them in alignment with the Council's corporate Contract Management Framework. Going forward, given the significance, complexity and potential volatility of these contractual agreements, it is imperative that the ongoing focus of work in respect of the contract negotiations and resolutions to the financial aspects continue to be progressed to achieve a satisfactory resolution and that there are no significant lapses in the operating effectiveness of the control framework.

Internal Audit made one medium priority recommendation that is aimed at strengthening the control framework through the introduction of effective risk management arrangements in line with the Council's Risk Management Strategy. Once introduced, this should ensure that the associated inherent risks are identified and captured; controls are put in place to proportionately manage the known inherent risks and for these to be monitored on an ongoing basis.

Management Actions

Management has responded positively to the recommendation raised in the report.

Service Area: Adults

Audit Activity: Deferred Payments and Property Disregards

Background

GCC's Adult Social Care relies on people who use services to make a financial contribution to the cost of providing them (if they are able to afford to do so).

The Financial Assessments and Benefits (FAB) Team ensure that any financial contributions required from service users for residential and non-residential Social Care services are calculated in accordance with GCC policies and Government guidelines. The financial assessment takes into consideration all of a person's assets i.e. capital, such as buildings and land as well as income.

Property Disregards

The Care Act 2014 stipulates that in certain circumstances capital, i.e. the value of a person's main or only home must be disregarded, either indefinitely or for a specified period. In addition a local authority may also apply a discretionary disregard.

Deferred Payments

By taking out a Deferred Payment Agreement a person can "defer" or delay paying the costs of their care home until a later date, the intention being that no-one is forced to sell their home in a lifetime to pay for their care costs.

Prior to the Care Act 2014, the power of local authorities to offer deferred payments was a discretionary one, therefore the agreement to defer an amount was a consensual agreement.

The introduction of the Care Act 2014 now places a duty on all local authorities to operate a deferred payment scheme and to offer deferred payments to people meeting the acceptance criteria for the scheme.

The scheme offers a loan from the Council using the service user's home as security. The deferred payment builds up as a debt which is subsequently cleared when the money from the sale of the property is released.

It is paramount therefore that the Council has adequate arrangements in place for administering deferred payment agreements so that the deferred costs are adequately secured during the lifetime of the agreement in order that they can be repaid in the future and to effectively monitor property disregards should there be a change in circumstance.

Scope

To review the governance, management and monitoring arrangements in place for property disregards and the deferred payment scheme to seek assurance that these are operating effectively and are in compliance with the requirements of the Care Act 2014.

Risk Assurance - Satisfactory

Control Assurance - Satisfactory

Key findings

Deferred Payments Agreement Policy and the Employee Guidance

There is an approved Deferred Payments Agreement Policy in place and additional Employee Guidance has been developed, however these documents could be further enhanced and some of the content should be refreshed in order that:

- The Deferred Payments Agreement Policy (including the Agreement at Appendix 1) meets the requirements of the Care and Support Statutory Guidance and HM Revenue and Customs (HMRC);
- There is clarity and unity of information within these documents for the period of application of compound interest;
- Administrative charges accurately reflect the costs incurred and going forward these are subject to annual review as part of the annual refresh of the Deferred Payments Agreement Policy;
- The process and respective roles and responsibilities for monitoring Notional Income are formalised and documented within the Employee Guidance; and
- Document management principles are applied to the Employee Guidance in order for it to be subject to an annual review/refresh alongside in-year revisions as appropriate.

Management and Monitoring of Deferred Payments

Systems and processes have been developed to aid the management and monitoring of deferred payments however, these could also be enhanced through:

- Further development of the current financial spreadsheets (templates) that are used for calculating the initial and ongoing amount of available equity and those used for the provision of financial statements to ensure, going forward, that these take full account of all associated accrued costs;
- The introduction of a more robust process for obtaining ongoing assurance that properties are adequately insured and maintained throughout the lifetime of the Deferred Payment Agreement;

- Reviewing the current systems and processes/roles and responsibilities for raising debtor invoices/receipt of redemption payments, to ensure that going forward there are adequate segregation of duties;

- Taking prompt action to raise a debtor invoice upon receipt of notification of the death of a service user where a Deferred Payment Agreement has not been finalised;

The introduction of:

  - An authorisation statement upon the File Checklist Form that documents the verification checks undertaken for completeness of key processes and retention of appropriate copy documents by the approver;

  - A standardised file index and filing format for hard copy case files; and

  - The prompt annotation of new activity information within the respective monitoring spreadsheets.

Redemption

Internal Audit reviewed five deferred payment cases that were completed during the period 2015/16-2016/17 to verify that an invoice had been raised for the costs incurred and payment had been received and banked.

The review identified that whilst invoices had been raised and monies received had been banked, Internal Audit was unable to verify that the associated accrued costs had been correctly applied; and some minor discrepancies were identified between the service periods (as recorded within ERIC (the Council's electronic social care record)) to that used for the redemption calculation.

Property Disregards

Discretionary disregards

The process for approving and recording discretionary disregards within ERIC needs to be formalised, documented and communicated to all appropriate staff within the Adult Social Care teams.

Monitoring

Following the collection of base data from ERIC, monitoring of disregarded properties commenced in May 2016. As at the date of the review of the records, it was evident that four waves of monitoring has taken place and that the status of the occupancy of some disregarded properties has changed; this supports that action is being taken, where appropriate, to monitor whether previously disregarded properties should now be regarded.

Conclusions

Overall there is a sound control framework in place. Focus now needs to be given to further strengthening the systems and processes for the management and monitoring of deferred payments to safeguard the Council against any potential financial losses alongside formalising the decision making process for discretionary property disregards.

In light of the findings emanating from the review, Internal Audit has made two high and eleven medium priority recommendations; these are aimed at further strengthening the control environment for the future management and monitoring of deferred payments and property disregards.

Management Actions

Management have accepted all of the recommendations made.

Service Area: Children and Families

Audit Activity: Communication and Interaction Centres

Background

Communication and Interaction (C and I) Centres offer support to children with severe to profound difficulties in the areas of language and communication and/or autism spectrum.

Pupils may access the places for a full or partial year, depending on when they are admitted or move back into mainstream education. Funds are paid to the school irrespective of whether all places are taken and this money is solely to provide support to children with these specific difficulties. This funding methodology allows flexible access to places and assists the school in being able to budget for specialist staff. The centres can therefore provide a flexible, specialised and structured teaching environment for children with communication and interaction difficulties.

Gloucestershire has six centres, five in primary schools and one in a secondary school and all are attached to mainstream schools across the county, with the Governors at the schools also having responsibility for the centres. As such, the schools' financial policies and regulations also apply to the centres.

Scope

Two centres were selected to visit. The objectives of the audits were to:

- Provide assurance that the funds were being spent appropriately on the pupils and for the purposes intended; and
- To review the processes in place to ensure that the pupils are regularly monitored so that the placement remains appropriate.

Risk Assurance – Satisfactory for both centres

Control Assurance – Satisfactory for both centres

Key findings

The centres have capacity for a specific number of pupils. These places are commissioned by the Local Authority (LA) for which the centre receives a base funding per place. A top-up payment is also received for each place that is taken by a pupil.

The Governors meet on a termly basis and financial reports showing all income and expenditure are produced for the meetings. The centres have their own cost centre codes and expenditure is easily identifiable and included in the report and associated commentary.

All Governors should complete a declaration of interest form on an annual basis. Recommendations were made in respect of incomplete forms at both centres.

At one centre, purchase orders are not completed when orders are placed online. By not raising a purchase order, a commitment is not raised on the financial system and therefore any reports produced from the system will not show an up to date position of the budget.

All sampled invoices identified as being charged to the centres' cost centre codes were confirmed as appropriate expenditure for the centres and were actioned in accordance with the respective finance policies, as evidenced by the Governors' minutes.

Once invoices have been submitted for payment, a Batch Processing Report is produced which summarises the number of invoices submitted, together with the total values. The Batch Processing Reports in the sample checked at one centre had not been signed by the Headteacher to evidence that the details in the Report reconciled to the invoices submitted.

Evidence was found that supported those staff members that were identified as being C and I centre staff as working at the centres. At one of the centres a sample of claim forms for additional hours was reviewed and it was found that they had not been authorised by the Headteacher. Although the claims are authorised electronically by the Headteacher through the e-forms system, the forms should also be signed.

All pupils at the centres are required to attend in a similar manner to their peers in mainstream education, however due to the specific needs of the pupils attending the centres, a flexible approach is required. Some pupils who are referred to a centre from other mainstream settings may remain on roll at their original school and spend an introductory time at the centre until they have settled enough to make the transition permanent. Pupil files will then be sent across to the centre and the pupil will appear on the new school roll, but the pupil will not appear on roll at the centre until the transition has been completed. Evidence from the SIMS database (the school financial management system) recorded that the attendance of the pupils at the centres in 2015/16 was in line with their peers in mainstream education. The censuses for October 2014 and January 2015 were examined and it was confirmed that the pupils identified as being on roll at the C and I centres were in attendance on the census date.

The Advisory Teaching Service or SEN panel had either referred the pupils who were attending the centres or had input into their education at the centres. All C and I centre pupils have education plans in place, which are monitored on a timely basis and include milestones, targets, objective and outcomes. It was noted, however, that signed copies of the plans are not retained at the centres.

Conclusion

The centres' budgets are being monitored on a regular basis and financial reports are provided to the Governors. The centres have their own cost centre codes and any areas of concern are reported to Governors. A commentary accompanies the financial report to Governors which provides more depth of analysis into areas relating to the centres as well as the schools as a whole. Governor approval of any expenditure in accordance with the finance policies is also sought.

Recommendations were made to strengthen controls at the centres in relation to completing declaration of interest forms, raising purchase orders, authorising payment reports and staff claim forms and ensuring that signed copies of pupils' education plans are retained at the centres. The recommendations will also ensure that the correct processes and procedures are followed.

Management Actions

Management have responded positively to the recommendations made.

Service Area: Children and Families

Audit Activity: Social Care Welfare Spend (Auriga)

Background

From April 2013, the Welfare Reform Act abolished Community Care Grants and Crisis Loans. All Authorities received funding from the Department for Work and Pensions (DWP) with the expectation that they would make arrangements to make an offer of support to those in crisis from April 2013 (there is no statutory duty to provide this particular support and the DWP funding was incorporated into the Council's financial settlement in 2015). GCC's offer provided one-off practical support or other forms of assistance for people who were eligible, where the emphasis was on the use of a non-cash scheme, recycled goods and food deliveries. A contract was awarded to Auriga Services Limited (hereafter referred to as Auriga) for the delivery of this service.

In December 2015 Cabinet approved the process for tendering the management of the Welfare Reform Scheme which, in addition to the above support for those eligible applicants in crisis, also included spending for social care welfare where appropriate. The contract was awarded to Auriga Services Ltd for one year from April 2016 with the option to extend for a further two years.

Scope

This audit reviewed the effectiveness of the new contractual arrangements with Auriga but focused specifically on any spending in relation to social care welfare. Six Localities have been using the Auriga scheme to process requests for social care welfare with varying start dates from December 2015 to June 2016. Three of the Localities are Children and Families teams in Gloucester, Cheltenham and the Forest and three are Youth Support teams in Gloucester and Cheltenham.

The objectives of the audit were to provide assurance that:

- Approved requests for social care welfare spend are being submitted to Auriga for delivery where appropriate and that spending decisions through Auriga are being consistently applied across participating Localities; and

- Spending with Auriga is being properly recorded, monitored and reconciled by the Council.

Risk Assurance - Substantial

Control Assurance - Satisfactory

Key findings

Operational procedures for the use of Auriga

The Commissioning Officers have developed detailed written guidance for social care welfare spend with Auriga. However, this has not been effectively communicated to all appropriate staff in the Localities with training provided as necessary. There are many benefits to be gained by using Auriga and this should also be emphasised when any future communications strategy is developed and rolled out to the Localities.

The Service User Assistance Form (SUAF) is the only document that has been modified for use with the Auriga contract. The Children and Families teams use the form to approve all requests for welfare support, some of which are then processed through Auriga and additional fields have been added to the form to accommodate this. The Youth Support Teams only use the SUAF if requests for social care welfare are going to be processed through Auriga and a number of the fields on the SUAF are therefore redundant. Consideration could be given to either redesigning the SUAF so that it will be fully compatible for use with Auriga or to develop a new form that will be used solely for the purposes of processing requests for social care welfare through Auriga.

All six Localities were selected for audit testing purposes. Social care welfare requests for food, fuel (gas and electric), clothing and furniture (white goods and other furniture) should be processed through Auriga. The aim of the testing was to establish whether any eligible requests for social care welfare had not been processed through Auriga and whether there were any further opportunities for maximising the use of the contract with Auriga.

A total of £35k was spent by the Localities on food, fuel, clothing and furniture from the date they started using the Auriga contract to the date of the audit, but where Auriga was not used to process the social care welfare requests. From discussions with staff in the Localities it would appear that they were not fully aware of the benefits and availability of the contract with Auriga.

It should be noted that there could be exceptions within the Youth Support Teams where, despite the social care welfare requests being eligible to be processed through Auriga, the decision is made not to use Auriga but rather to encourage the young people to make their own choices and purchases as part of their plan to achieve greater independence.

Reconciliation of spend with Auriga

Evidence was seen where Team Managers are asked to approve the information that is received from Auriga on a monthly basis before the costs are charged to their budgets. This is to ensure that Auriga has not allocated costs to incorrect cost centres, that the amounts detailed are correct and that expenditure has not been included that isn't attributable to GCC.

In addition to the checks that are undertaken by the Localities, the total spend with Auriga is also monitored by the Commissioning Officers on an ongoing monthly basis. Advance monthly payments are made to Auriga and this is for both welfare and social care payments. As at October 2016 (2016/17 budget to date), there was a total underspend by Auriga of £68,083.57. As at the end of 2015/16, there was a total underspend by Auriga of £70,000 and an invoice was raised by GCC in order to claim the refund.

Conclusion

There is scope for the Localities to make more use of the contract with Auriga and to maximise the identified benefits. A communications strategy should be put in place with ongoing training and monitoring provided as necessary.

The spend with Auriga for both welfare and social care welfare requests is being well monitored centrally so that corrective action on any underspend by Auriga can be taken if necessary.

Management Actions

Management has responded positively to the recommendations that were made in relation to the communications strategy and the re-design of the SUAF.

Summary of Substantial Assurance Opinions on Control

Service Area: Core Council

Audit Activity: ContrOCC (ICT)

Background

As part of the 2016/17 internal audit plan approved by the GCC Audit and Governance Committee, a review of logical security settings on the ContrOCC application has been undertaken.

The ContrOCC system was developed by Oxford Computer Consultants (OCC) for managing service contracts and supplier payments for both Adult and Children's Social Services. ContrOCC is designed to integrate with both the Liquidlogic case management application and the SAP financial system.

Scope

The scope of this review encompassed:

- Validity of ContrOCC user access rights;
- Password security settings;
- ContrOCC application auditing;
- Segregation of ContrOCC access rights;
- Security and integrity of key system interfaces; and
- File security of ContrOCC financial records.

Risk Assurance - Substantial

Control Assurance - Substantial

Key findings

Audit testing confirmed that access to the system was protected by Active Directory authentication. Password and Account Lockout policies had been invoked and ContrOCC access rights were restricted to valid and uniquely identifiable user accounts.

Access profiles have been created to segregate application user access rights. Payment files generated by ContrOCC are encrypted and securely uploaded to SAP. Furthermore, ongoing technical support for the application is provided by the Application Support team.

Audit testing only identified one area where further control improvement could be actioned and an audit recommendation has been raised. This was in relation to the lack of a minimum password age.

Without a minimum age, a user can cycle through passwords and repeatedly use, and re-use old favourite(s).

The ICT Operations Manager has produced a new GCC Password Policy for review and approval by both the Information Board and ICT Governance Board. Once published, GCC Active Directory password settings will be amended to include a minimum password age.

Conclusions

The findings from this review confirmed that all key risks surrounding user access rights and authentication on the ContrOCC system were being properly managed at the point of audit. Technical support was in place from Application Support and the software vendor. Access rights were restricted to valid users and Active Directory was configured to manage user authentication. This results in only one medium priority matter to report on, and a substantial assurance opinion for both risk awareness and control application.

Management Actions

Management have responded positively to the recommendation made.

Service Area: Core Council

Audit Activity: VAT

Background

GCC processes significant amounts of VAT each year (approximately £38m). It is essential that the Council's VAT accounting procedures are sound in order to achieve an appropriate level of Council VAT liability and minimise the risk of failure to comply with HM Revenues and Customs (HMRC) requirements which could result in fines and/or penalties.

Scope

The objective of the VAT internal audit was to provide the Council with assurance on the adequacy and effectiveness of VAT internal controls, processes and records in place to mitigate risks in the following areas:

- Documented policies and procedures are in place to direct the process, and are subject to regular review;
- System access is restricted to relevant, authorised personnel, and is controlled by adequate password requirements and user permissions;
- There is adequate separation of duties within the process;
- Output VAT on income is properly charged and accounted, with amounts coded to the relevant cost centre and account code;

- Input VAT on purchase invoices is correctly recorded; and
- Monthly VAT returns are prepared, authorised and submitted in an appropriate and timely manner (and include monitoring of the Council's partial exemption limit).

In line with the agreed audit scope, the audit reviewed the GCC VAT processes and controls only. Audit testing was completed on a sample of 2016/17 VAT input and output transactions. This captured periods one to eight.

Risk Assurance - Substantial

Control Assurance - Substantial

Key findings

Audit review of the control environment (including process review and sample testing) for the payment/recovery of VAT confirmed that the process was operating as required at the point of audit.

VAT returns were confirmed as appropriately prepared from reports obtained from SAP and submitted to HMRC on a timely basis.

SAP balance sheet VAT accounts were appropriately reconciled to VAT returns on a regular basis within 2016/17 to the point of audit.

Testing of output and input VAT proved satisfactory. It is noted that documentary support took time to obtain due to the original supporting documentation residing in a number of locations within the Council and there is no electronic document management system utilised on SAP.

Conclusions

Audit review and sample testing found VAT procedures and controls at GCC to be operating effectively at the point of audit. Minor audit debrief points only have been raised with officers. This has resulted in substantial assurance levels being provided for the audit.

Management Actions

Not applicable. No audit recommendations (other than debrief points) were raised within the audit report.

Summary of Consulting Activity and/or support provided where no opinions are provided

Service Area: Core Council

Audit Activity: Staff Mileage Claims

During 2016/17 Internal Audit provided consultancy support to the lead officer for the Meeting the Challenge 2: Staff Business Travel Work-stream which aims to promote the use of alternative modes of transport other than personal vehicles. This involved Internal Audit undertaking detailed analysis on the claims submitted by service areas where the total value of the claims had not reduced when compared to the previous year. The analysis highlighted where alternative and less expensive means of travel could have been considered by the individual with the conclusions drawn then being discussed with the Service Manager thus encouraging increased challenge and promoting a change of culture going forward.

Service Area: Grant Certification - Children and Families

Audit Activity: Troubled Families Grant – Claim 2

Background

The Families First (payment-by-result) programme was introduced in a renewed drive to help improve the outcomes for troubled families. The Department for Communities and Local Government (DCLG) has produced a Financial Framework for local authorities. This document makes clear that payment- by-result (PBR) is the subject of self-declaration, and therefore the purpose of this audit was to provide assurance that the Families First grant conditions and criteria had been met by the families to support the PBR grant claim.

Scope

To provide assurance that those families forming the PBR claims made to the date of the audit met the criteria and that there was sufficient evidence to support the outcomes recorded.

Key findings

As at 22nd March 2017 there were 180 PBR claims prepared for submission on 24th March 2017. The claims related to the period October 2016 to March 2017.

Internal Audit testing was completed on 21 claims (11.67% of the population) to ensure appropriate coverage of the eligibility criteria and the six localities. Internal Audit testing confirmed:

- The PBR claims in the sample met the criteria outlined by the Troubled Families Grant; and

- There were effective systems and processes for how families and their eligibility markers i.e. education/crime/anti-social behaviour; progress to work; and continuous employment (and off out-of-work benefits) were being collated and verified.

One recommendation was raised within the audit report, to strengthen controls (regards audit trail) and ensure practitioners evidence review dates within family plans.

Conclusion

The review identified that effective systems and processes are in place for how families, their eligibility markers and related outcomes are being collated and verified. Audit testing confirmed the validity of the claims for the sampled cases.

Management Actions

Management have agreed that in the future all plans and reviews will be dated to allow for clear evidence that specific time-dependent criteria have been satisfied to support claims.

Service Area: Children and Families

Audit Activity: Intensive Response and Intervention Service (IRIS) (Consultancy)

Background

The IRIS Project is planning to re-model the over-11's services to include a 'Hub' approach that contains and delivers a multi-disciplinary approach as well as emergency/short term residential interventions.

Scope

Internal Audit was requested to provide independent assurance that the project management and monitoring processes were robust and will enable informed decision-making over the future of IRIS.

The key findings below cover the period April 2016 to December 2016.

Key findings

The following documentation was reviewed in relation to IRIS: Papers that were presented to the Vulnerable Children's Board, Vision statement, Terms of Reference for the Project Team, IRIS governance structure and reporting cycle, Principles of the IRIS model, Pictorial document as to how young people with high level needs will be supported in their communities, IRIS Project Plan, Risk Register, all papers associated with the Project Board/Team meetings including minutes and Workstream timelines and Workstream status reports.

In addition Internal Audit observed a number of meetings in relation to IRIS during June 2016 to November 2016.

The following good practice has been identified:

- A Project Board has been established with well-written terms of reference, which has representation from a wide range of partner organisations (representation from the Police was the last to be confirmed);

- Workstreams have been identified which in turn will have smaller Task and Finish groups and sub-groups in order to focus on bespoke pieces of work. However, due to the delegated nature of this work, it is important that all of the Workstreams report to every meeting of the Project Board; and

- Young people are being involved and engaged in the development of the project, e.g. ambassadors have been identified to ensure that the project will meet their needs and the Vision and Scope document has been shared with the ambassadors.

On-going observations were made in the following areas:

- **Project Board**: The Project Board comprises a wide range of partner organisations. As a result, different members are in attendance at each meeting due to the lack of their continuous availability. This can impact on the effectiveness of business continuity and the input that the Project Board members can bring to each meeting. It would be good practice if the Chair of the Project Board could remain constant to ensure effective management of the meetings, the agreement of priorities and actions and decision-making for future progress of the project;

- **Risk Management:** This needs to be prioritised so that all risks are fully understood and mitigating actions can be put in place. A reporting system has been agreed as follows: weekly reporting to the Steering Group; monthly reporting to the Project Board; and escalation to the Vulnerable Children Programme Board and/or to the Joint Commissioning Partnership Executive. Escalation procedures for identified risks need to be utilised to ensure that the project delivers the required outputs in a timely manner. An acceptable risk register format has been used to compile an initial risk register which is being kept under review and will be amended as necessary. The risk register should be presented to all Project Board meetings and reviewed / updated to capture any new / emerging risks identified and associated mitigating actions;

- **The Workstream status reports**: The Workstreams provide updates and assurances about project progress. It is therefore important that any emerging risks/issues are assigned to and included as a focus in the appropriate Workstreams. The Workstream status reports did not include milestones and this need was emphasised;

- **Project costs:** Ensuring that the overall set-up costs had been included in any costings and forecasts, e.g. staff training; full staffing costs; ICT; property refurbishment; and capital allocation for the properties;

- **Placements:** The service requires sufficient access to dedicated quality local placements for young people with complex needs. A dedicated range of local placement options is therefore central to the success of the service.

Dedicated local residential placements are needed to address sufficiency problems and provide flexibility for emergency and short-break placements. There is a need to increase in-house foster placements and increase availability of intensive support. It is important to ensure that the correct oversight and controls are in place in relation to the residential elements of the project as the regulatory mechanisms for these elements are very high. The risks associated with these placement requirements need to be effectively managed, e.g. poor mobilisation, not securing quality partners and delays in developing registered residential homes;

- **Foster care:** IRIS requires highly skilled foster carers but the availability of this service has been limited in the past and this poses a risk to the success of the project; and

- **Project go-live:** Timelines for the project and the go-live date for the service were appropriately challenged through audit review.

Conclusion
The results of this review have been used to prepare quarterly reports for senior management on the effectiveness of the project management processes.

It is understood that as at February 2017, Cabinet approved the proposal to develop the Intensive Intervention Services for Young People. At the point of annual report, project delivery is underway.

Management Actions
Management have responded positively to the observations made in respect of any issues identified.