

Internal Audit Activity Progress Report

2020-2021



(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 auditing standards or guidance”. The Internal Audit Service is provided by Audit Risk Assurance under a Shared Service agreement between Stroud District Council, Gloucester City Council and Gloucestershire County Council and carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

The guidance accompanying the Regulations recognises the Public Sector Internal Audit Standards 2017 (PSIAS) as representing “proper internal audit practices”. The standards define the way in which the Internal Audit Service should be established and undertake its functions.

The Shared Service Internal Audit function is conducted in conformance with 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 advising the organisation that these 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 its Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the standards is that the Chief Internal Auditor should provide progress reports on internal audit activity to those charged with governance. This report summarises:

- The progress against the 2020/21 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period July 2020 to September 2020; and
- Special investigations/counter fraud activity.

(4) Progress against the 2020/21 Internal Audit Plan, including the assurance opinions on risk and control

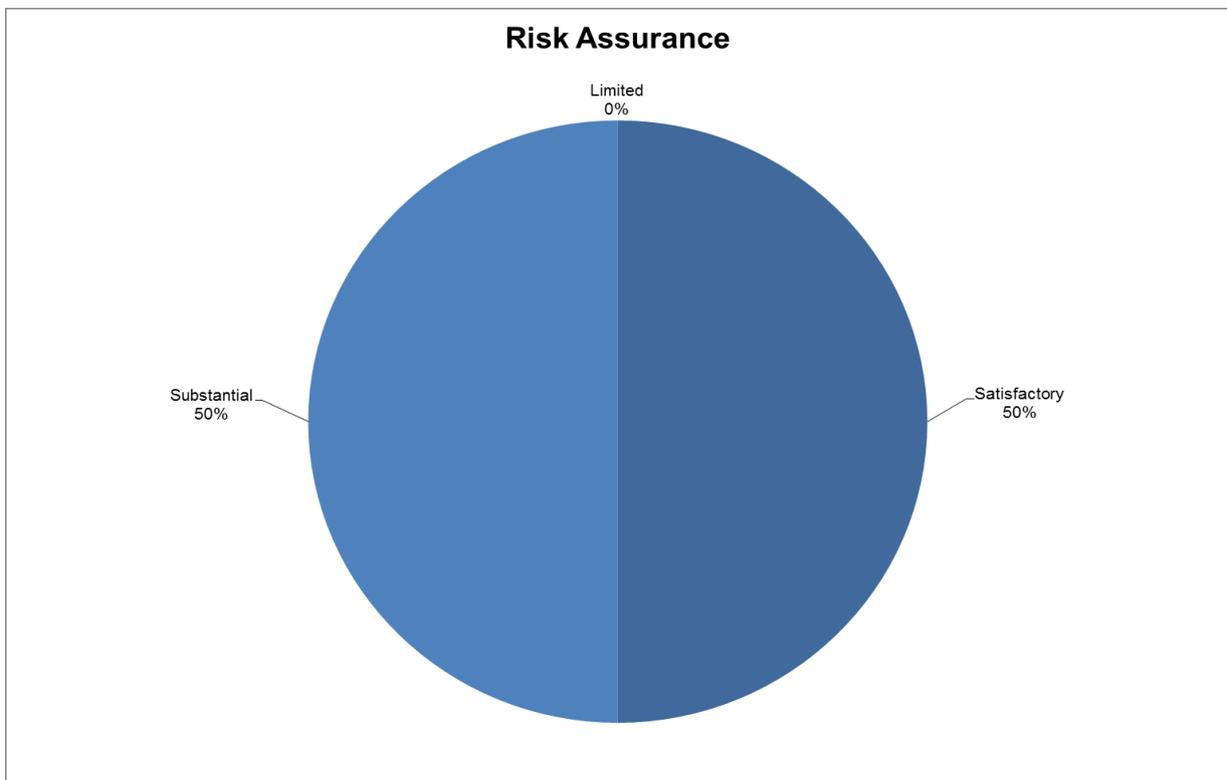
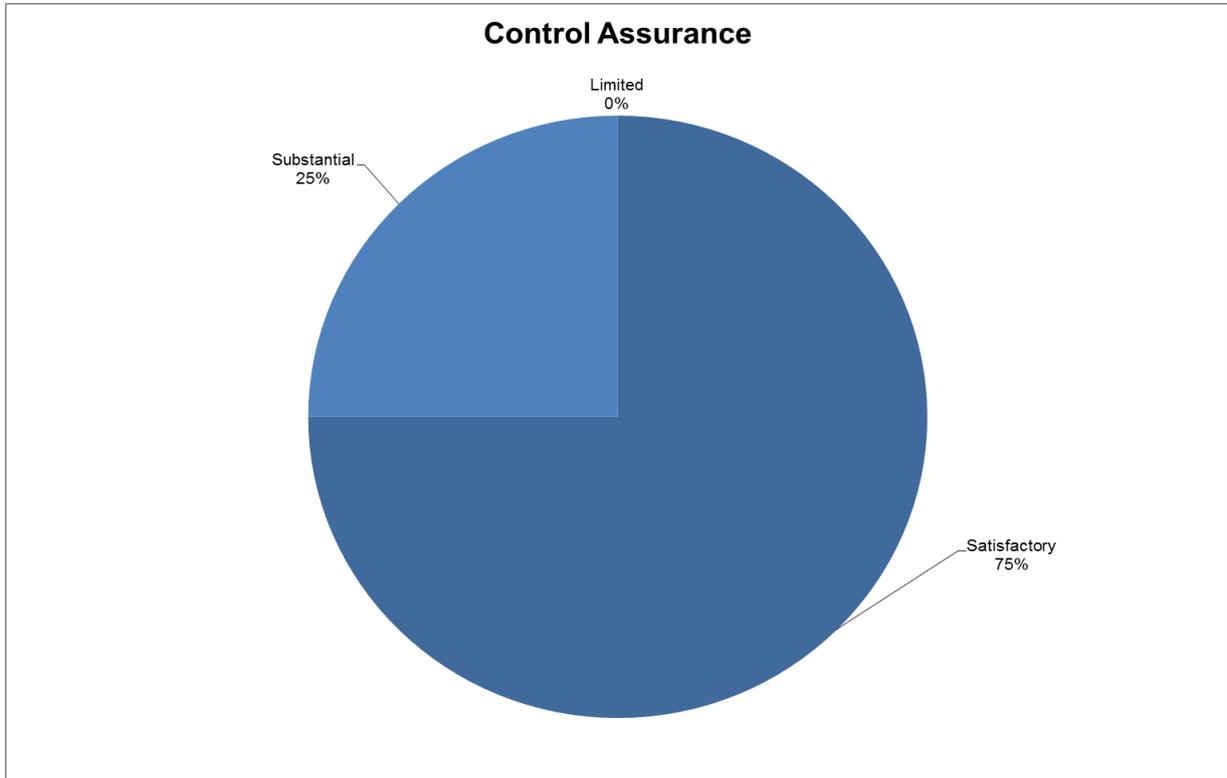
The schedule provided at **Attachment 1** provides the summary of 2020/21 audits which have not previously been reported to the Audit and Standards Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2020/21 Internal Audit Plan activity undertaken during the financial year to date, 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 Standards Committee. Explanations of the meaning of these opinions are shown in the below table.

Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	<p>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 service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Policy.</p>	<ul style="list-style-type: none"> • 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	<p>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 service areas, 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 Council's Risk Management Policy.</p>	<ul style="list-style-type: none"> • 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	<p>Risk Naïve Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council's Risk Management Policy, the service area has not demonstrated a satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.</p>	<ul style="list-style-type: none"> • 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

(4a) Summary of Internal Audit Assurance Opinions on Risk and Control

The pie charts below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the 2020/21 audit activity undertaken up to September 2020.



(4b) Limited Control Assurance Opinions

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

(4c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During the period July to September 2020, no limited assurance opinions on control have been provided on completed audits from the 2020/21 Internal Audit Plan.

(4d) Satisfactory Control Assurance Opinions

Where audit activities record that a satisfactory assurance opinion on control has been provided, where recommendations have been made to reflect some improvements in control, the Committee can take assurance that improvement actions have been agreed with management to address these.

(4e) Internal Audit Recommendations

During the period July to September 2020 Internal Audit made a total of **14** recommendations to improve the control environment, all of which were medium priority recommendations (**100%** of these being accepted by management).

The Committee 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.

(4f) Risk Assurance Opinions

During the period July to September 2020, no limited assurance opinions on risk have been provided on completed audits from the 2020/21 Internal Audit Plan.

Monitoring of the implementation of recommendations to manage the risks identified is owned by the relevant manager(s) and helps to further embed risk management in to the day to day management, risk monitoring and reporting process.

(4g) Internal Audit Plan 2020/21 Refresh – Covid-19

Covid-19 has placed significant pressures on Council services and has impacted (and continues to impact) the Council's priorities, objectives and risk environment.

Appendix A

Due to this changing position and to ensure that the Risk Based Internal Audit Plan meets the assurance needs of the Council, the Internal Audit Plan 2020/21 has been reviewed and refreshed in consultation with Officers (Strategic Leadership Team, Heads of Service and Service Managers). This included consideration of newly identified activities, current activities that should be prioritised within 2020/21 and activity deferrals/cancellations (due to risk).

The revised Internal Audit Plan 2020/21 will be presented to Audit and Standards Committee for review and approval on 6th October 2020.

The revised document will include reflection of the new activities completed by ARA since the outcome of the pandemic. For example and as reflected within the Internal Audit Progress Report, to date within 2020/21 ARA has provided consultancy support (from both our internal audit and counter fraud teams) to the Revenues and Benefits service and Finance regards Business Grants and Supplier Relief.

Completed Internal Audit Activity during the period July 2020 to September 2020

Summary of Satisfactory Assurance Opinions on Control

Service Area: Resources

Audit Activity: ICT Action Plan

Background

Foresight Consulting (UK) Ltd was commissioned to undertake an overarching review of information and communications technology (ICT) at Stroud District Council with the report being delivered in August 2019.

The report arising from the review identified 13 strategic recommendations relating to ICT Strategy and ICT Staffing and Costs and 26 technical recommendations relating to the ICT infrastructure. The report also included a high level, costed and phased Infrastructure Plan.

The Stroud District Council Strategic Leadership Team (SLT) discussed the Foresight report at their 27th August 2019 meeting, agreeing to the proposals contained within the report and authorising the engagement of Foresight as consultants to support the in-house ICT Team during the Infrastructure Project.

Foresight Consulting delivered a briefing to Members in December 2019, outlining the background to the report and the requirement for the capital investment.

The Infrastructure refresh programme commenced in October 2019 and included an initial temporary restructure of ICT resources to enable a projects team to be set up to deliver the Infrastructure refresh programme. A more permanent ICT restructure was included within the programme.

The refresh programme targeted business critical areas first including storage and servers, desktops, connectivity, telephony and disaster recovery capability with the project being broken down into a number of work streams.

Scope

The scope for this review was to determine the progress made towards implementing the recommendations arising from the overarching ICT Review and to determine progress made in implementing the agreed Infrastructure Plan including determining the impact of the current Covid-19 pandemic where relevant.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

The review identified that considerable progress had been made in implementing the Infrastructure Project although the project had been subjected to some delays due to ICT resources being taken from the project to support the Council's Covid-19 response and due to delays in procurement due to Covid-19 disruption.

Regular monthly Infrastructure Project Summary and Cost Reports are produced by the Foresight consultant supporting the ICT Team to deliver the project detailing the progress and costs relating to each work stream although it was not able to identify from these reports the expected project completion date.

It was identified that no reporting of the progress towards implementing the 39 recommendations raised within the Foresight report was being made although it is noted that many of these recommendations are directly linked to elements of the Infrastructure Project. When progress towards implementing these recommendations was updated during this review, it was identified that 18 of the recommendations had been fully implemented, the implementation of a further six recommendations was underway with the implementation of 15 of the recommendations yet to commence.

It was further identified that the monthly Programme Plan RAG (red/amber/green) summary report produced by the Foresight consultant had not been feeding into reviews of Strategic Risks (e.g. CCR 4: Unable to secure continuity of services during normal business hours and CCR 16: Inadequate telephony, IT and Infrastructure to meet the Council's business needs) and to the reviews of the ICT Service Area risks.

Conclusion

Significant progress has been made in implementing the Infrastructure Project which when fully completed will address the Council's significant disaster recovery and ICT risks. Three medium priority audit recommendations have been made to address the items identified in the Key Findings section – including identification of project completion date(s) within the Monthly Infrastructure Project – Costs and Summary Report; regular reporting of Foresight Consulting recommendations progress to ensure that all recommendations are fully implemented; and consideration of the Foresight Programme Plan RAG Summary when strategic risks and ICT service area risks are updated.

Management Actions

Management have responded positively to the recommendations made.

Service Area: Communities

Audit Activity: Complaints Handling

Background

It is important that complaints are taken seriously, promptly investigated, and if justified, to put the matter right as soon as possible. A revised Corporate Complaints Policy and Procedure was introduced in quarter three of 2019/20. The Council's complaints register confirms that 92 complaints were received over a six month period between October 2019 and March 2020.

Scope

The objective of this audit was to determine whether there are adequate internal control arrangements in place to ensure that the Complaints Policy is complied with. Audit review and testing was completed in quarter one 2020/21.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- Audit review and sample testing of the process established obtained adequate assurance to confirm that the stage one and two procedures were complied with in accordance with the Complaints Policy.
- The complaints register currently used provides basic individual case details. The register needs to be further developed so that transparency and completeness of the complaint process, is enhanced and fully documented, including nominated officers handling the complaint.
- Visual review of the existing complaints register confirmed that records for closed complaints greater than 24 months are currently held on file, which is not compliant with policy.
- It is important to ensure that reporting actual performance of complaint handling is regularly reported to the Strategic Leadership Team. Assurance was provided by the Customer Services Manager that actual performance reporting will commence in quarter two 2020/21.

(Subsequent to this internal audit, complaints performance reporting to SLT has been completed on 18th August 2020).

- It was established that during the period October 2019 to March 2020 5% of stage one complaint records had not been updated, which would assist with subsequent performance monitoring.
- Enquiries have confirmed that staff training in complaint handling is to be provided by the Local Government and Social Care Ombudsman with the date to be arranged for later in 2020/21.
- Reflection on complaint resolution can result in identifying any lessons learnt. Enquiries with the Head of Contract Services and evidence provided confirmed that for house condition complaints, they are monitored until they are resolved and lessons learnt are clearly documented. A sample of five tenant services complaints relating to house condition were reviewed and were confirmed dealt with in a timely manner in line with the Complaints Policy. In addition, housing repair classification and trend analysis is undertaken, with the objective of putting repair or replacement procedures in place to counter act against the risk of property deterioration.
- It was confirmed that later in the 2020/21 year, there is a plan in place to hold staff forums with the intended objective of sharing complaint lessons learnt.
- Evidence reviewed on the strategic and service risk registers found that the risk of complaints had been correctly recognised, evaluated and recently updated.

Conclusion

A structured process is in place for the handling of service user complaints to ensure that there is compliance with the policy.

Five recommendations were made with the objective of further enhancing the existing control environment.

Internal Audit is duly aware that the impact of Covid-19 upon services and staff has resulted in leaving some of the procedures in abeyance, actions required to address these are included in the recommendations raised. Recommendation themes include: complaints register content requirements update; removal of specific closed complaints from the contracts register in line with policy requirements; timeliness of complaints register update for complaints requiring an extension of time to fully investigate and resolve the items.

Management Actions

Management has responded positively to the recommendations made.

Service Area: Place

Audit Activity: Brimscombe Port

Background

Brimscombe Port is a former inland port dating back to the 1780s. The Port was acquired in 2009 as part of the Cotswold Canal Regeneration project, from British Waterways by the South West Regional Development Agency (SWRDA), the expectation at that time was that it would deliver both a redeveloped Port and provide funding for other sections of canal.

Stroud Valleys Canal Company (SVCC) was set up by four key partners, including the Council, to hold this and other property and in December 2014, the Council took on the management of the site on behalf of SVCC.

The Council is the accountable body for the loan agreement and potentially liable for repayment of the total investment of £9.6m in the site. The Council became the owner of the freehold interest in the site on the 1st April 2020.

Over time there has been a necessary shift from seeing Brimscombe Port as delivering the canal infrastructure to a standalone project. The Council is promoting development of the site as it has the potential to deliver £30-35m of regeneration, and if redeveloped could support a minimum of 150 new homes, business premises, restored canal and a community centre.

Scope

To review the effectiveness of the Council's project management arrangements for progressing redevelopment of the Brimscombe Port site.

Risk Assurance – Substantial

Control Assurance – Satisfactory

Key Findings

Corporate standards for project management and monitoring

- It would be beneficial for the Council to define its corporate standards for project management, in order for projects to be managed consistently, in the context of the whole Council, and the short, medium and long term corporate aims and objectives.
- The Council's intranet (HUB) does provide a suite of project management documentation and guidance, and this can be accessed by staff however; it is noted that this was published in October 2015 and would now benefit from being reviewed and refreshed to ensure that it meets the future requirements of the Council's project management arrangements.

Governance Arrangements

- There is a hierarchical governance structure in place for the project comprising of the Project Manager/s, Project Sponsor, Senior Responsible Officer, Project Team, Project Board, Investment and Development Panel and Strategy and Resources Committee.
- The governance arrangements have enabled members to be involved from the outset via the Project Board, and management have advised Internal Audit that the Investment and Development Panel has been a useful platform, enabling early discussions on key aspects of the project prior to items being formally presented to the Strategy and Resources Committee.
- The Project Board Terms of Reference (TOR) has been subject to periodic review and some further changes are due as part of the next refresh, to be presented in the first instance to the July meeting of the Project Board.
- Evidence could not be presented to clearly establish/ verify the TOR for the Investment and Development Panel. In the absence of a formal TOR for this panel, it may be opportune to review and consider whether the panel provides for the current and future governance arrangements for the Council's key projects.

Resources

- Resource currently allocated to the project via appointed consultants and internal resource equates to approximately five working days each week. The Project Managers (two Project Managers are in place) advised Internal Audit that this seemed sufficient at present. Management have also given consideration to the need for additional project support for a 12 month period, should this be required, as the project progresses.

Performance and Risk

- The project is clearly stated as one of the Council's key priorities within the Council's Corporate Delivery Plan (CDP) 2018-2022, for the financial year 2018/19 and for the refreshed 2019/20 iteration. The respective entry is: CDP1.3 'Progress and deliver the redevelopment of Brimscombe Port by securing planning permission and being ready to seek a development partner'.
- CDP actions are recorded within the Council's performance and risk system (Excelsis). The project is stated as being overall on target with the project action plan being recently reset to 31st March 2021. It is evident from the annotations that there has been some slippage to milestones, in particular in relation to action 1.3.3, sign-off to engineering design / flood modelling by the Environment Agency, and 1.3.9, planning approval for infrastructure across all phases.
- A detailed Project Risk Register is maintained by the Project Managers and key risks to the achievement of CDP 1.3 have also been linked within the Excelsis system to two service area risks (PROP2 and PROP3). These were last reviewed and updated in June 2020.

Reviews/Options/Lessons Learned

- There is evidence to support that the project has been reviewed at key stages. The reviews have included the options for the marketing of the site, i.e. the Delivery Strategy, and soft market testing and financial appraisals to assess the ongoing marketability and financial viability of the project.

Project Documentation

- The project documentation in place was found to be fairly comprehensive overall. It would be beneficial for the Communications Strategy to be reviewed and refreshed.
- In addition, going forward consideration could be given to using a project management software application to further assist in the management/monitoring of the project. Such applications are designed to aid the scheduling of project tasks, assigning resources to tasks, analysing workloads, tracking progress/slippage, budget management and reporting. Should this option be taken forward training requirements may also need to be considered.

Reporting

- A review of available minutes/notes of meetings of the Project Team (January 2019-January 2020) and Project Board (January 2019-January 2020) evidence that these feature regular reports on the budget, risks, consultation/communications, milestones, and other key documentation in relation to progressing the project.
- Minutes/notes of meetings of the Investment and Development Panel for the financial year 2018/19 and 2019/20 were also reviewed, these evidence that updates on the project have been presented at the meetings held.
- In January 2019 a workshop was held, with a wider invitation to all members of the Strategy and Resources Committee to consider the evaluation process, and agree the award criteria for the selection of a developer partner for the redevelopment of the site.
- Strategic Leadership Team notes for the period June 2019-February 2020 evidence that quarterly reports are presented to SLT on the Council's Performance and Corporate Delivery Plan progress. The notes also reference the Performance Monitoring Reports to be presented to Strategy and Resources Committee that include items in relation to Brimscombe Port.

A review of the Council's website confirmed that:

- The Council has created a separate page on its website to enable interested parties to obtain information about the Council's plans for redevelopment;
 - A series of Information Sheets have been produced relating to Brimscombe Port in order to provide updates on the project over the period June 2017-January 2020; and
 - For the period April 2018-January 2020 reports relating to budget approval and spend, aligned to the committee reporting cycle, and various other reports where approvals for key decisions are required have been presented to the Strategy and Resources Committee.
- Minutes of the Tenant Liaison meetings held during 2019/20 (meetings held June, November and February) evidence that progress updates on the project are provided at these meetings.
 - Verbal assurance was also gained from the Head of Property Services that:

- Officers have regularly attended the Brimscombe and Thrupp Parish Council meetings to update members on the progress of the site and to seek their approval to the infrastructure design; as well as meetings with the Chair, Vice Chair of the Parish and the secretary to the Brimscombe and Thrupp Social Centre to discuss the community facilities for the site; and
- Stroud Valleys Canal Company representatives have attended key meetings with the appointed consultant regarding the design of the infrastructure and officers have attended their Board meetings. Their continuing involvement with the project has also recently been agreed.
- The Homes and Community Agency (now Homes England (HE)) Funding Agreement includes some specific reporting requirements. The Head of Property Services advised Internal Audit that the Council has been proactive in ensuring engagement has taken place to comply with the requirements of the agreement, and commented that, as long as the Council was progressing matters HE appear to have been comfortable.
- The milestones within the funding agreement are currently being revised. Alongside these revisions, it would be opportune to review and consider whether the current reporting requirements should remain as stated within the funding agreement or be refreshed, to ensure conformance to the requirements of the agreement.

Implementation of 2016/17 audit recommendations

- All of the agreed actions to address the recommendations emanating from the 2016/17 review have been considered and the majority taken forward and implemented. Outstanding relevant items have been considered and reflected within the recommendations raised within the audit report.

Conclusion

There is a defined framework in place that empowers good governance for this project. The project management arrangements are considered to be adequate and are operating effectively overall.

The findings emanating from the review have resulted in six medium priority recommendations being proposed to ensure that the Council's corporate standards for project management are clearly defined; further enhancements are made to the governance, management and monitoring arrangements for the project, and to ensure that these requirements align to the Council's future wider governance arrangements for key projects.

Management Actions

Management have responded positively to the recommendations made.

Summary of Substantial Assurance Opinions on Control

Service Area: Resources

Audit Activity: Payroll staff starters

Background

The Council's payroll system (ResourceLink) is run in-house. The key objective of the payroll system is to pay employees correctly, on time and to account for personal data and payments completely and accurately. As at May 2020 the monthly net pay for staff after deductions totals £655k.

Scope

The objective of this audit was to review the effectiveness of the system for processing new starters.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- The payroll system starter procedure notes were reviewed with the objective of checking for clarity and completeness. The conclusion is that the payroll starter procedure notes are of a good standard and no obvious improvements were identified.
- A report from the payroll system confirmed that a total of 25 staff started employment between March and April 2020. A representative sample of four starters was chosen for testing the relevant input, processing and output controls.
- The results from testing of input controls, confirmed that all expected controls were operating correctly.
- The test results from reviewing processing controls, verified that the expected controls were smoothly working as documented.

Appendix A - Attachment 1

- For expected output controls tested, this included verifying that the starter's relevant pay and deductions data was included in the HMRC Real Time Information (RTI) monthly return. Evidence reviewed for output controls, provided assurance that the starters were correctly included in the timely reporting of payroll HMRC RTI data.
- The risk recognised in Excelsis (the Council's Risk and Performance system) for incorrect or late payment of the payroll to staff and the timely data return to Her Majesty's Revenues and Customs does not require change in assessment due to mitigating controls, which are operating effectively. It was noted that the date entry within Excelsis for the next review (31st March 2020) had elapsed. Internal Audit verified that the payroll risk on the Excelsis register has been recently reviewed and updated for authorisation as deemed appropriate.

Conclusion

The conclusion for this payroll review is that there is an appropriate embedded effective process in place, which successfully combines the personnel details of the staff starter as held per the Human Resources records with the ResourceLink payroll system.

Management Actions

Not applicable. No Internal Audit recommendations have been raised.

Summary of Special Investigations/Counter Fraud Activities

Current Status

As at 4th September 2020 only one new irregularity has been referred to Internal Audit in 2020/21.

In this case, Company A, having submitted a genuine claim for small business grant funding, subsequently submitted a second application, also for £10,000, in the name of Company B but using Company A bank account details. Company A was contacted and advised that the second payment of £10,000 should be returned immediately. The full £10,000 has since been repaid to Stroud District Council.

In the latter part of 2019/20 and following the Covid-19 pandemic ARA has provided support and guidance to the Council in respect of the government initiative Coronavirus: Small Business Grant Fund (SBGF). Small businesses meeting the government's set criteria were able to apply for a grant of £10,000. Due to the short timeframes together with the number of businesses involved, ARA were asked to provide support in checking the information provided by the businesses pre and post payment (approximately 700 records). ARA is continuing to provide support in this area as requested.

Any fraud alerts received by Internal Audit from the National Anti-Fraud Network (NAFN) are passed onto the relevant service area within the Council, to alert staff to the potential fraud.

Since the start of the Covid-19 pandemic ARA has provided the Council with regular updates on local and national scams which sought to take advantage of the unprecedented circumstances, including a rise in bank mandate frauds, inflated claims, duplicate payments and the submission of fraudulent SBGF applications.

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The next data matching exercise will begin with data up loads in October 2020, with matches released for review from January 2021 onwards. Examples of data sets includes housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by Internal Audit, the Counter Fraud Unit (CFU) or the appropriate service area.

Appendix A - Attachment 1

In addition, there is an annual data matching exercise undertaken relating to matching the electoral register data to the single person discount data held within the Council. Once all relevant data has been uploaded onto the NFI portal, a data match report is instantly produced and available for analysis.

The CFU have been commissioned by the Strategic Director of Resources to review NFI data matches and the outcomes/findings from CFU NFI review will be separately reported to the Audit and Standards Committee once completed.