

# 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 Revised Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during October 2020; and
- Special investigations/counter fraud activity.

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

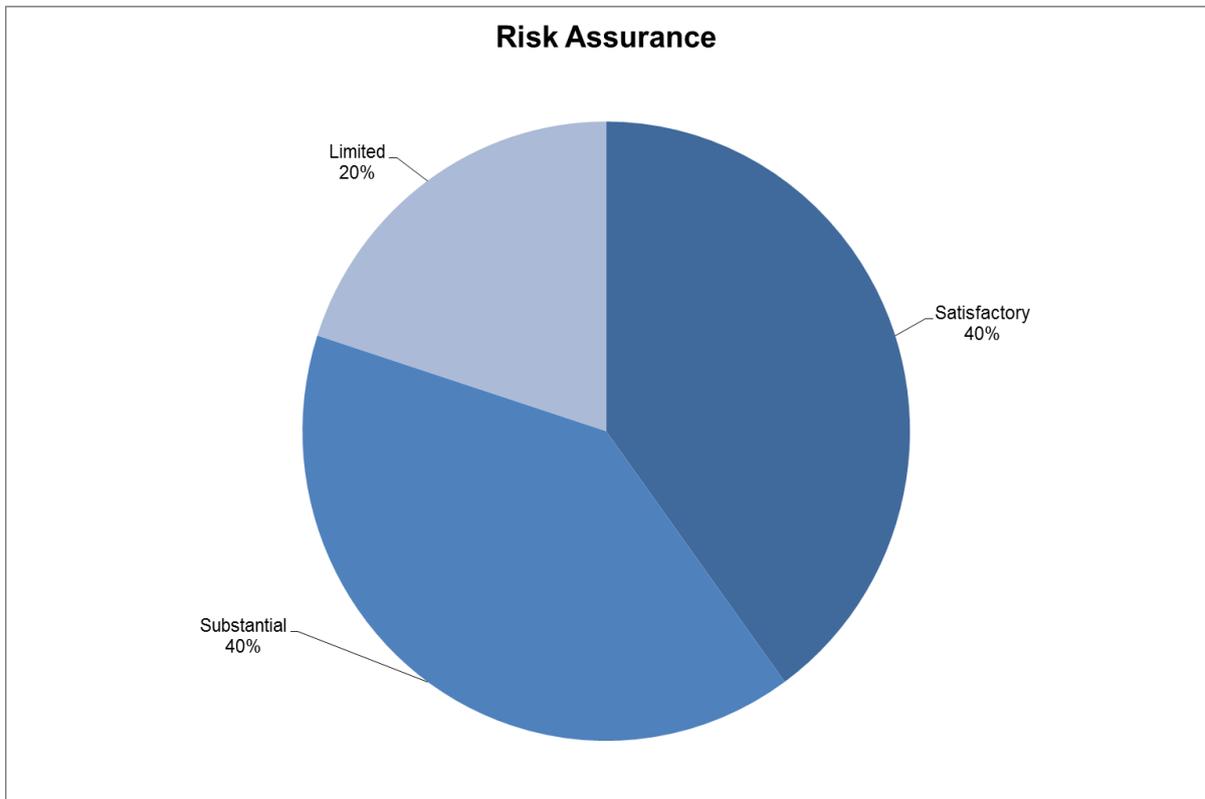
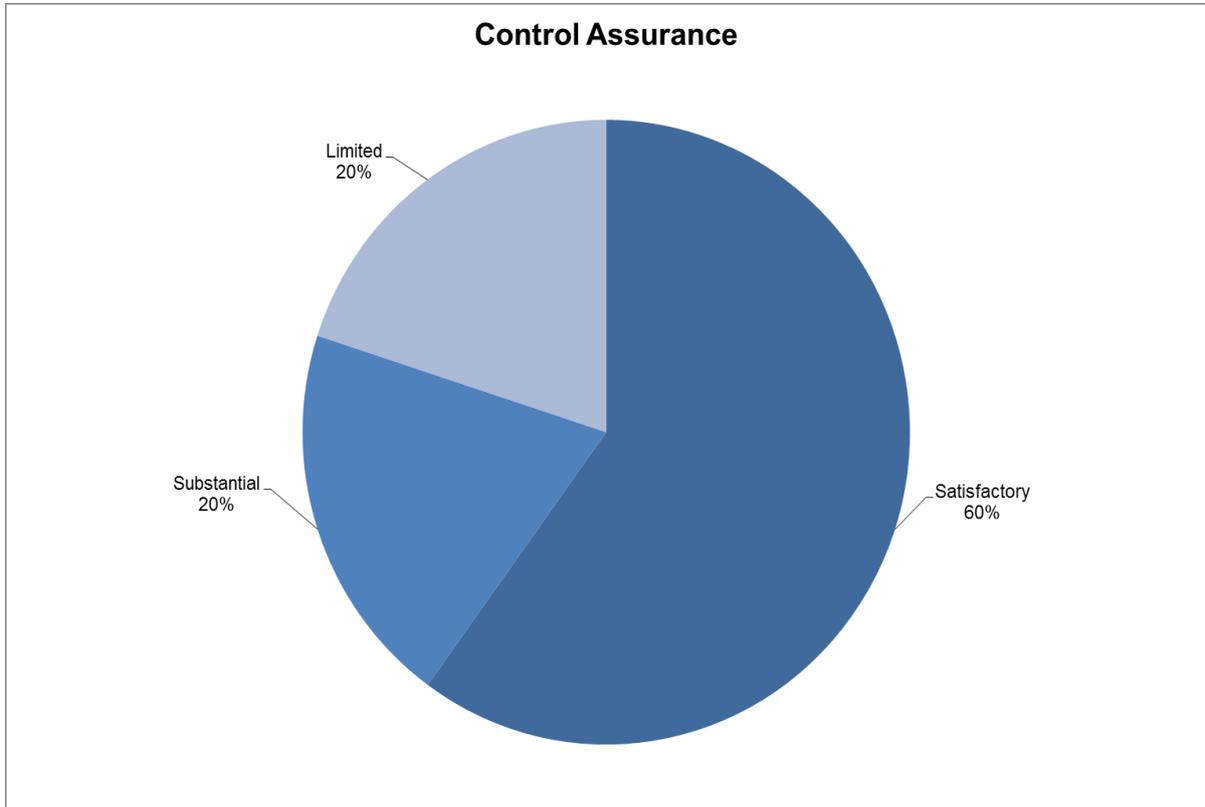
The schedule provided at **Attachment 1** provides the summary of 2020/21 audits which have not previously been reported to the Audit and Standards Committee.

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
<b>Substantial</b>	<p><b>Risk Managed</b> 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"> <li>• System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved</li> <li>• Control Application – Controls are applied continuously or with minor lapses</li> </ul>
<b>Satisfactory</b>	<p><b>Risk Aware</b> 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"> <li>• System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger</li> <li>• Control Application – Controls are applied but with some lapses</li> </ul>
<b>Limited</b>	<p><b>Risk Naïve</b> 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"> <li>• System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls</li> <li>• Control Application – Significant breakdown in the application of control</li> </ul>

**(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 October 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 October 2020, one limited assurance opinion on control has been provided on the Electrical Works Contract audit from the 2020/21 Revised 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 October 2020, Internal Audit made a total of **10** recommendations to improve the control environment, **8** of which were high priority and **2** 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 October 2020, one limited assurance opinion on risk has been provided on the Electrical Works Contract audit from the 2020/21 Revised 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 - Attachment 1**

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 was 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 was presented to Audit and Standards Committee on 6<sup>th</sup> October 2020 and approved. This included 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 October 2020

### Summary of Limited Assurance Opinions on Control

**Service Area:** Communities

**Audit Activity:** Electrical Works Contract

#### Background

Stroud District Council (the Council) has a contract in place for the electrical rewire and remedial works for the Council's residential properties. The works comprise of electrical rewires, electrical testing, portable appliance testing (PAT), estate lighting, planned maintenance of lighting protection and electrical heating replacements.

The contract was let in 2016 to NKS Contracts (Central) Ltd for an initial term of four years with the option for two extension periods, for up to 72 months. The contract was extended in March 2020 for a 12 month period commencing 1<sup>st</sup> April 2020. The annual contract value is circa £265k.

Since the commencement of the contract there has been a number of Council Contract Managers / Administrators that have been responsible for the management of the contract. A new Council Contract Manager has recently (May 2020) taken over responsibility for the contract.

#### Scope

This audit review sought to determine the effectiveness of the systems and processes in place for managing the contract. The specific objectives of the audit were to provide assurance on the following areas:

- Effective governance and risk management arrangements have been set-up and are successfully operating;
- Regular and independent pre and post inspections of work required / work completed are undertaken to ensure quality and appropriateness of work;
- Performance measures have been determined, results regularly reported and effectively monitored and managed;
- The service provision is being effectively managed in accordance with the contract and any variations are subject to formal evaluation, review and approval;
- Costs are effectively managed and controlled to ensure that they are in accordance with the contract terms and within budgets; and

- Extension of the contract has been correctly approved and the decision based on proven and agreed measures.

### **Risk Assurance – Limited**

### **Control Assurance – Limited**

### **Key Findings**

The Council's Governance Assurance Framework is a structure within which Members and Senior Management identify the principal risks to the Council meeting key priorities, and through which they map out the key controls to manage and monitor these using the three lines of defence model. The service (Tenant Services Contract Manager and senior management) are providing the first line of defence with support from the Strategic Director, however at the point of audit there is no second line of defence operating to provide the oversight assurance. For information the third line of defence represents independent objective assurance, i.e. via Internal Audit, External Audit, etc.

A review by Internal Audit of the first line of defence contract management arrangements established the following:

- There is a lack of documentary evidence to confirm that the previous Contract Managers had fully identified the contract terms and conditions and ensured the adequate provision of effective management and monitoring of the contractor's compliance and performance;
- The current systems and processes for contract management and monitoring need to be strengthened in order to be able to obtain sufficient assurance that the contract is being managed effectively during the contract term; and
- The Council's Contract Procurement and Procedure Rules (CPPRs) state that the relevant Strategic Director 'must ensure that the contract is properly managed' on: i) performance, ii) compliance specification and contractual terms, iii) prices or costs charged, and iv) anticipation of completion dates to plan for subsequent service requirements. Whilst this level of responsibility is defined, the Council does not have a corporate framework for contract management and monitoring to support management and officers in achieving these requirements and applying a consistent and effective process / methodology.

The Council's performance and risk management system Excelsis relating to contract management information is restrictive in providing high level and limited assurance to senior management and Strategic Directors that contracts are being managed effectively.

The current Strategic Director (employed since March 2020) advised Internal Audit that due to the current health crisis and his work commitments he has not yet been in a position to fully determine compliance and achievement of the CPPR requirements.

The National Inspection Council for Electrical Installation Contracting (NICEIC), which is one of several organisations which regulates training and work of electrical enterprises in the United Kingdom, recommends that an electrical installation should be regularly tested no more than every five years. The Council's electrical inspection interval for its residential tenanted properties is set at 10 year intervals. Going forward Internal Audit would advise management to consider whether the scheduling intervals should be aligned to the NICEIC guidance / best practice or to formally define / or document its risk appetite for the current 10 year scheduling interval.

### **Conclusion**

Contract management is a holistic process that combines a mix of strategic and operational tasks depending on the type of contract and the goods or services being supplied. Going forward, development / implementation of a contract management framework by the Council should support a consistent approach to contract management across the Council. This could also aid compliance to internal / external regulations, with the aim of further limiting the Council's exposure to contractual and reputational risk, to within the Council's predetermined risk appetite, through better contract management.

In addition the function and role of the second line of defence (corporate oversight and challenge responsibilities) should be established.

It is acknowledged that the current contract extension runs until March 2021 (as approved by the Head of Contract Services), but has the provision to be extended a further time for up to three years. Therefore it is important that the contract is effectively managed to the end of its current term and beyond, should a further extension be enacted / approved.

### **Management Actions**

The current Contract Manager, who took over responsibility for this contract during May 2020, has, during the audit, been pro-active and receptive to Internal Audit's comments and recommendations for the improvement in the management of the contract.

Internal Audit has raised eight high and two medium priority recommendations in order to strengthen the control environment and risk management and monitoring arrangements.

## Appendix A - Attachment 1

The audit recommendations are relevant to the following specific themes:

- Review of the second line of defence role and responsibilities for contract management oversight;
- Development of a corporate framework and guidance for contract management;
- Identification of key contract terms and conditions to enable effective contract and performance monitoring;
- Review of the follow up process to gain site access to tenanted property to manage the level of overdue inspections and rectification works;
- Maintenance of documentary evidence to ensure accurate and approved uplift of the schedule of rates;
- Quality assurance checks on key processes (e.g. completed electrical rewires and electrical testing);
- Determining the risk appetite for electrical inspection intervals to ensure compliance with NICEIC guidance; and
- Ensuring future contract extensions meet the requirements of CPPR 32 (e.g. advice and guidance must be sought from the Council's Procurement Officer in consultation with the Head of Legal Services before any negotiations are entered into with suppliers or contractors over an extended term), including the retention of relevant audit trail.

Management have responded positively to the audit recommendations raised.

## **Summary of Special Investigations/Counter Fraud Activities**

### **Current Status**

The ARA Counter Fraud Team (CFT) within Internal Audit has received two actionable referrals in 2020/21 to date. The first case (relevant to a small business grant payment) has been closed and previously reported to the Audit and Standards Committee. The other (within the Place Directorate) is being progressed by the CFT and will be reported to Audit and Standards Committee once concluded.

In addition to the referrals that require further investigation, the CFT has continued to provide support and guidance to the Council in respect of the government initiative Coronavirus: Small Business Grant Fund (SBGF) 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 uploading of data in respect of the next data matching exercise has begun and the new matches will be 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 (hosted by Cotswold District Council) or the appropriate service area.

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.

Outcomes from the review of the matches will be reported to the Audit and Standards Committee once completed. The CFU will report on their NFI findings separately.