

# 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 November and December 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.

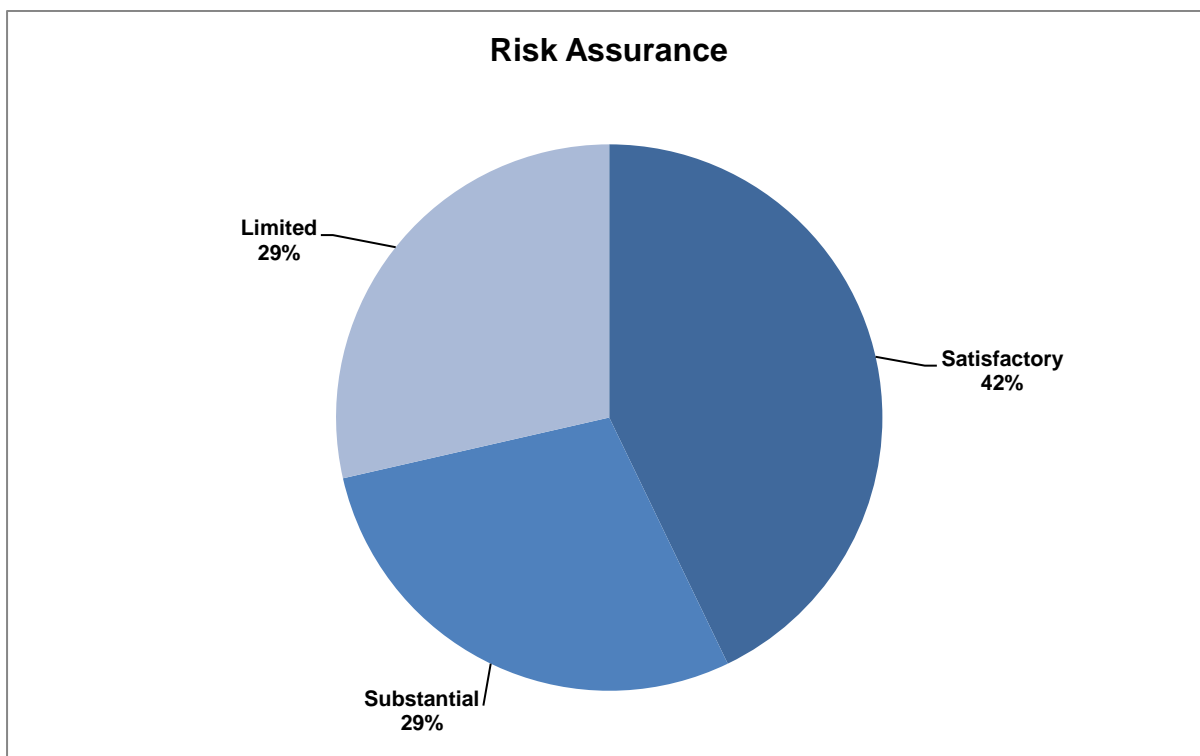
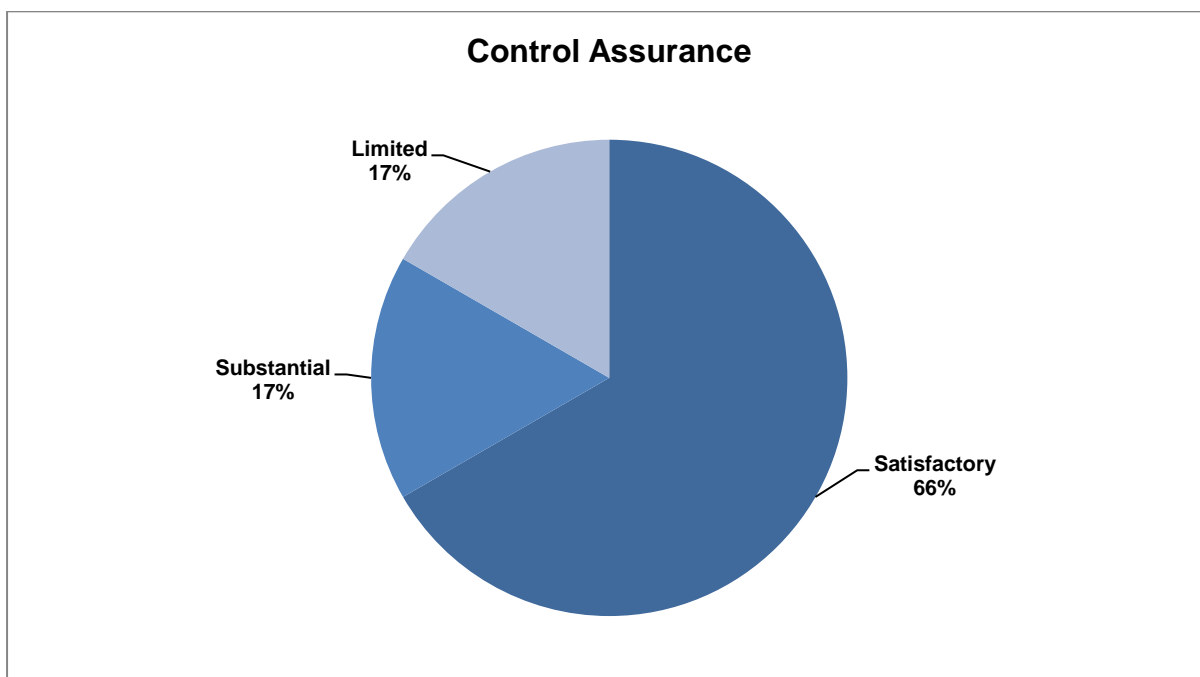
The schedule provided at **Attachment 2** contains a list of all of the 2020/21 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage 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>	<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.	<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>	<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.	<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>	<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.	<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 December 2020.

It is noted that the split assurance risk opinion (Limited/Satisfactory) on Tenancy Lettings reported to Committee in January 2021 has been reflected in both relevant assurance levels (limited/satisfactory) within the risk assurance pie chart.



**(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 November and December 2020, no limited assurance opinions on control have been provided.

**(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 November and December 2020, Internal Audit made a total of **5** recommendations to improve the control environment, **2** of which were high priority and **3** 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 November and December 2020, one partial limited assurance opinion was provided on some areas of risk within the Tenancy Lettings internal audit. Where limited assurance opinions on risk are provided, the relevant risk management lead officers within the Council are made aware, to ensure that the risks highlighted by Internal Audit are placed on the relevant risk registers.

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.

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.
- Progressed Internal Audit review of the Lost Sales, Fees and Charges Grant (Covid 19) claim 1; and
- Completed review of the financial close information required to support stage 2 of the Council's Ofgem Application: Non-Domestic Renewable Heat Incentive.

## Completed Internal Audit Activity during November and December 2020

### Summary of Satisfactory Assurance Opinions on Control

#### Service Area: Communities

#### Audit Activity: Tenancy Lettings

#### Background

The Council is responsible for approximately 4,990 tenanted housing properties.

The Regulator for Social Housing has set a regulatory framework with three groupings comprising:

- Regulatory requirements;
- Codes of practice to assist registered providers in understanding how compliance might be achieved; and
- Regulatory guidance, that provides further explanatory information.

There are four consumer standards which are:

- Home Standard;
- Tenancy Standard;
- Neighbourhood and Community Standard; and
- Tenant Involvement and Empowerment Standard.

#### Scope

The objective of this audit was to consider whether the current systems and processes in place for tenancy lettings were robust, and operating effectively in line with regulatory standards.

#### Audit Opinions

This audit's scope was across the services provided by; i) Tenant Services; ii) Housing Services; and iii) Housing Advice. As a result of the audit findings (as detailed within the Key Findings section), a split opinion on risk identification maturity has been given as follows:

- Satisfactory assurance for Tenant and Housing Services; and

- Limited assurance for Housing Advice – specific to tenancy lettings/allocations risk management and Business Continuity Plan arrangements.

### **Risk Assurance – Satisfactory/Limited split opinion as defined above**

### **Control Assurance – Satisfactory**

#### **Key Findings**

- A review of the Tenant and Estates Management Policy updated in June 2018, was completed and compared to the Tenancy Standard, issued by the Regulator for Social Housing. The audit review confirms that the Council's policy is substantially compliant with the Tenancy Standard.
- Where necessary, the Tenant and Estates Management Policy could be further enhanced as an overarching strategic approach, so as to fully explain some of the particular activities within it.
- The activities that require inclusion in the above policy are as follows; i) advice and assistance for introductory tenants, where the Council decide not to grant another tenancy; ii) succession rights for secured tenancies; iii) property repairs; iv) roles and responsibilities of the neighbourhood ambassadors; and v) the reporting cycle of the annual report to tenants.
- The development of services to tenants was reviewed, and found that there are well embedded processes in place to meet the development of services to tenants.
- It was verified that the reporting of Tenant Services annual performance on key measures such as completing property repairs on time, is included in the KeyNotes publication. Housing tenants are key stakeholders of the Council and need to be aware of all communication relating to their tenancy. Audit inspection of the Council's website page for tenant news and publications, found that the KeyNotes publication was not available to view, therefore arrangements to periodically update the website should be completed.
- Tenants often wish to exchange tenancies due to housing and social needs. The results from audit testing of a tenant exchange which took place in February 2020 provided assurance that the actual controls are operating appropriately, and meet the specific guidance issued by the Regulator for Social Housing.
- The application by prospective tenants leading to the allocation process for social housing is a framework based upon fairness, transparency and a priority banding scheme placed upon applicants' household needs.



Audit testing, confirmed that a compliant application and allocation process is operating appropriately in line with:

- i) The Equalities Act 2010;
  - ii) The Tenancy Standard per the Regulator for Social Housing; and
  - iii) The Homeseeker Plus partnered process with other local authorities.
- The risk identification and management arrangements to support tenancy lettings were inspected and reviewed, with the objective of considering their completeness. The findings found that; i) the risks associated with the Locata system are not recognised; and ii) the Housing Services update review of the health, safety and inspection risks are due for completion.
- Representations from the Housing Advice Manager, confirmed that there is also no Business Continuity Plan in place for the Homeseeker Plus Policy to support the tenancy allocation process.

### **Conclusion**

A thorough review of tenancy lettings has been completed, which concludes that the current management arrangements are operating using embedded processes in line with regulatory standards set by the Regulator of Social Housing and legislation as it impacts upon housing tenants.

Improvements in the form of audit recommendations to the contents of; i) the Tenants and Estates Management Policy; ii) the Council's website; iii) risk management arrangements; and iv) the creation of a Business Continuity Plan for the Homeseeker Plus Policy have been identified, to align with the actual day to day procedures and controls.

### **Management Actions**

Internal Audit made five recommendations, with the intention of improving the internal control environment and risk management arrangements. Management have responded positively to all five recommendations and it is anticipated that these will be fully implemented by March 2021.

**Summary of Consulting Activity, Grant Certification and/or Support Delivered where no Opinions are provided**

**Service Area: Resources**

**Audit Activity: Ofgem Application: Non-Domestic Renewable Heat Incentive**

**Background**

Ofgem is the Office of Gas and Electricity Markets, a non-ministerial government department and an independent National Regulatory Authority. One of their priorities is to work with Government, industry and consumer groups to deliver a net zero economy at the lowest cost to consumers.

The Renewable Heat Incentive (RHI) scheme is a Government scheme providing financial incentives to increase the uptake of renewable heat projects. The inherent complexity of renewable heat projects means these are prone to high initial (capital) costs, high ongoing (operational) expenditure and complex revenue models. Much like other subsidy regimes, the Government's aim with the RHI scheme is to promote and increase the viability of financing such projects by providing a source of stable secured revenue throughout the life of a project.

The RHI scheme is comprised of domestic and non-domestic components. The non-domestic RHI (NDRHI) is directed at installations in the industrial, business and public sectors.

A tariff guarantee allows applicants to the NDRHI to secure a tariff rate before their installation is commissioned and fully accredited on the RHI.

Tariff guarantees are available for solid biomass CHP, geothermal and bio-methane applications of all sizes, as well as for biomass over 1MWth, biogas over 600kWth and ground source heat pumps and water source heat pumps over 100kWth.

To secure a tariff for an eligible installation a “properly made” application comprising of three stages, Stage 1: Technical Requirements, Stage 2: Financial Commitments and Stage 3: Commissioning of the installation must be approved by Ofgem.

**Scope**

ARA was commissioned by the council to review the financial close information required to support Stage 2 of the council's Ofgem application and to prepare an independent report detailing our findings.

### Key Findings

- Relevant to the NDRHI application, as approved by full Council in July 2020, Stroud District Council has added the installation of Water Source Heat Pumps to Ebley Mill and Brimscombe Port Mill to the council's approved capital programme. The total committed budget for both schemes is £1.432m.
- This project is allocated to be funded through borrowing, either through external borrowing or through internal borrowing against internal cash resources, at the discretion of the Section 151 Officer (Chief Financial Officer as set out in Section 151 of the Local Government Act 1972), as included in the Financial Implications of the 'Water-source Heat Pumps – Ebley Mill and Brimscombe Port Mill' Committee Report presented to July 2020 Strategy and Resources Committee.
- It is noted within the above report that the capital costs are based on estimates by Renewables First and Withycombe following completion of feasibility studies. The accuracy of the cost estimates will be improved at two key stages: 1) Competitive tender bids for design and build; and 2) Completion of detailed heat demand modelling, to confirm the heat pump capacity required.
- Local Authorities are able to borrow for capital schemes through the Public Works Loan Board (PWLB), operated by the Debt Management Office on behalf of HM Treasury. This lending does not need to be agreed upfront and does not need to be for a specific scheme.
- Going forward whether the borrowing is externalised will be a Treasury Management decision for the council, within the approved Treasury Management Strategy. Currently the cash balances (evident as at 21st December 2020 £8.9m is invested in liquid money market funds) are high enough to support this level of capital spend should this be considered by the Section 151 Officer. Verbal assurance has been provided by the Deputy Section 151 Officer that it is not specific reserves that would be allocated to fund this project in the short term, if internal borrowing is specified, rather the use of cash balances instead of investing those balances.
- As at 31st March 2020 the council's (currently unaudited) Statement of Accounts show usable reserves of £44.893m and cash and cash equivalent balances at £16.494m.
- The council's Budget Strategy (2021/22 - 2024/25), as presented to Strategy and Resources Committee in October 2020, shows revenue reserves at 31st March 2020 to be held at £16.104m. This includes the General Fund balance

(unearmarked reserves) of £2.169m and a General Fund equalisation reserve of £6.72m.

A forecast of the latter in Table 3 of the Committee report shows that the current forecast of this reserve leaves an unallocated balance of £2.738m at the end of the Medium Term Financial Plan (2024/25).

- There are also other unallocated revenue reserves and capital reserves.

### **Conclusion**

ARA was able to confirm the validity of the above financial information required to support the Ofgem application. At the point of the independent assurance report it is evident that Stroud District Council has sufficient funding to support this project and the identified funding for the scheme has been approved by Council. It is also acknowledged that the accuracy of the scheme costs will be improved at future defined key stages.

### **Management Actions**

Not applicable. No recommendations were raised by the review.



## **Appendix A – Attachment 1**

Examples of data sets include 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.

## Progress Report including Assurance Opinions

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Standards Committee	Comments
Council Wide	Local Government Association Peer Review	1	Planned				Brought Forward from 19/20 plan. Interim report confirming 19/20 position issued to Committee in July 20. Audit review to be concluded and reported in 20/21 annual report.
Council Wide	Risk and Performance Reporting	1	Planned				Brought Forward from 19/20 plan.
Council Wide	Supplier Relief	1	Consultancy				<b>New Activity.</b> To be reported in 20/21 annual report.
Change and Transformation	Modernisation Programme	1	Planned				Brought Forward from 19/20 plan.
Place	Brimscombe Port - Project Management	1	Final Report Issued	Substantial	Satisfactory	06/10/2020	
Place	Carbon Neutral - Strategy	1	Planned				
Place	Gloucestershire Building Control Partnership - Limited Assurance Follow Up	1	Draft Report Issued				
Place	Planning Applications	1	Audit in Progress				Brought Forward from 19/20 plan.
Place	Covid 19 Recovery Strategy	1	Audit in Progress				<b>New Activity.</b> Work replaces Corporate Delivery Plan audit.
Resources	Constitution Review	1	Deferred				Deferral (due to work on Business Grants) approved via the Revised Internal Audit Plan 20/21. To be re-considered as part of 21/22 audit planning process.
Resources	Corporate Delivery Plan	1	Deferred				Deferral (replaced by Covid 19 Recovery Strategy audit) approved via the Revised Internal Audit Plan 20/21. To be re-considered as part of 21/22 audit planning process.
Resources	Corporate Induction Process	1	Audit in Progress				
Resources	ICT Action Plan	1	Final Report Issued	Satisfactory	Satisfactory	06/10/2020	Brought Forward from 19/20 plan.
Resources	ICT Service Desk	1	Consultancy				To be reported in 20/21 annual report.
Resources	IT Disaster Recovery	1	Consultancy				To be reported in 20/21 annual report.
Resources	Wider ICT internal audit 20/21	1	Planned				Audit resources can support two further ICT internal audits within 20/21. ICT activity streams (e.g. Cyber Security and IT Infrastructure Strategy) and timing to be confirmed with SLT.
Resources	Information Management (Data Breaches)	1	Planned				
Resources	Littlecombe Scheme - Limited Assurance Follow Up	1	Audit in Progress				
Resources	Payroll - Starters	1	Final Report Issued	Substantial	Substantial	06/10/2020	
Resources	Procurement	1	Draft Report Issued				
Resources	Ofgem Application: Non-Domestic Renewable Heat Incentive	1	Final Report Issued	Not applicable	Not applicable	26/01/2021	<b>New Activity.</b>
Resources	Lost Sales Fees and Charges - claim 1	1	Audit in Progress				<b>New Activity.</b>
Communities	HRA Delivery Plan - Budget Savings	1	Planned				Brought Forward from 19/20 plan.
Communities	Anti-social Behaviour Management	2	Planned				
Communities	Careline Service	2	Deferred				Deferral due to work on the priority 1 Covid-19 relevant new activities (e.g. Business Grants and Lost Sales Fees and Charges). To be re-considered as part of 21/22 audit planning process.
Communities	Complaints Handling	2	Final Report Issued	Satisfactory	Satisfactory	06/10/2020	Brought Forward from 19/20 plan.
Communities	Housing Benefits - Overpayments	2	Deferred				Deferral (due to work on Business Grants) approved via the Revised Internal Audit Plan 20/21. To be re-considered as part of 21/22 audit planning process.
Communities	Tenancy Lettings	2	Final Report Issued	Limited/Satisfactory	Satisfactory	26/01/2021	Split opinion on risk identification maturity - Limited/Satisfactory. Detail provided within Appendix A - Attachment 1.
Communities	Electrical Works Contract	1	Final Report Issued	Limited	Limited	17/11/2020	
Communities	Housing Reactive Repairs & Maintenance	1	Planned				
Communities	Stratford Park Leisure Centre	1	Planned				<b>New Activity.</b>
Communities	Business Grants	1	Consultancy				<b>New Activity.</b> To be reported in 20/21 annual report.
Communities	Youth Service	2	Deferred				Deferral (due to work on Business Grants) approved via the Revised Internal Audit Plan 20/21. To be re-considered as part of 21/22 audit planning process.