

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**AGENDA  
ITEM NO**

**20 NOVEMBER 2018**

**8**

<b>Report Title</b>	<b>INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2018/19</b>
<b>Purpose of Report</b>	To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2018/19.
<b>Decision(s)</b>	The Committee <b>RESOLVES</b> to: <ul style="list-style-type: none"> <li>• Accept the progress against the Internal Audit Plan 2018/19; and</li> <li>• Accept the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date.</li> </ul>
<b>Consultation and Feedback</b>	Internal Audit findings are discussed with Service Heads/Managers. Management responses to recommendations are included in each assignment report.
<b>Financial Implications and Risk Assessment</b>	There are no financial implications arising directly from this report.  Andrew Cummings – Head of Finance & S151 Officer Tel: 01453 754115 Email: <a href="mailto:andrew.cummings@stroud.gov.uk">andrew.cummings@stroud.gov.uk</a>  Risk Assessment: Failure to deliver an effective Internal Audit service will prevent an independent, objective assurance opinion from being provided to those charged with governance that the key risks associated with the achievement of the Council's objectives are being adequately controlled.
<b>Legal Implications</b>	The legal framework concerning the requirements regarding internal audit are set out in the opening section of the report. The Committee should ensure it is satisfied that the steps proposed are sufficient to alleviate the risks identified; it is open to the Committee to request further information to ensure that an informed decision can then be made.  Nicola Swan, Interim Head of Legal Services & Monitoring Officer Tel: 01453 754369 Email: <a href="mailto:nicola.swan@stroud.gov.uk">nicola.swan@stroud.gov.uk</a>

<b>Report Author</b>	Theresa Mortimer, Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754111 Email: <a href="mailto:theresa.mortimer@stroud.gov.uk">theresa.mortimer@stroud.gov.uk</a>
<b>Options</b>	There are no alternative options that are relevant to this matter.
<b>Performance Management Follow Up</b>	In accordance with the Public Sector Internal Audit Standards 2017 (PSIAS) and reflected within the Audit and Standards Committee work programme, Internal Audit reports on progress against the approved Internal Audit Plan 2018/19. These are scheduled to be presented to Audit and Standards Committee at the January, May and July 2019 meetings.
<b>Background Papers/ Appendices</b>	<b>Appendix A</b> – Internal Audit activity progress report 2018/19.  <b>Background papers:</b> <ul style="list-style-type: none"> <li>➤ Internal Audit Plan 2018/19;</li> <li>➤ PSIAS; and the</li> <li>➤ CIPFA Local Government Application Note for the UK PSIAS.</li> </ul>

## 1.0 Background

- 1.1 Members approved the Internal Audit Plan 2018/19 at 10<sup>th</sup> April 2018 Audit and Standards Committee meeting. In accordance with the PSIAS, this report (through **Appendix A**) details the outcomes of Internal Audit work carried out in accordance with the approved Plan.
- 1.2 The Internal Audit activity progress report 2018/19 at **Appendix A** summarises:
- The progress against the Internal Audit Plan 2018/19, including the assurance opinions on the effectiveness of risk management and control processes;
  - The outcomes of the Internal Audit activity during the period October 2018 to November 2018; and
  - Special investigations/counter fraud activity.
- 1.3 The report is the second progress report in relation to the Internal Audit Plan 2018/19.

# Internal Audit Activity Progress Report

2018-2019



## **(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.

## **(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 2018/19 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 October 2018 to November 2018; and
- Special investigations/counter fraud activity.

**(4) Progress against the 2018/19 Internal Audit Plan, including the assurance opinions on risk and control**

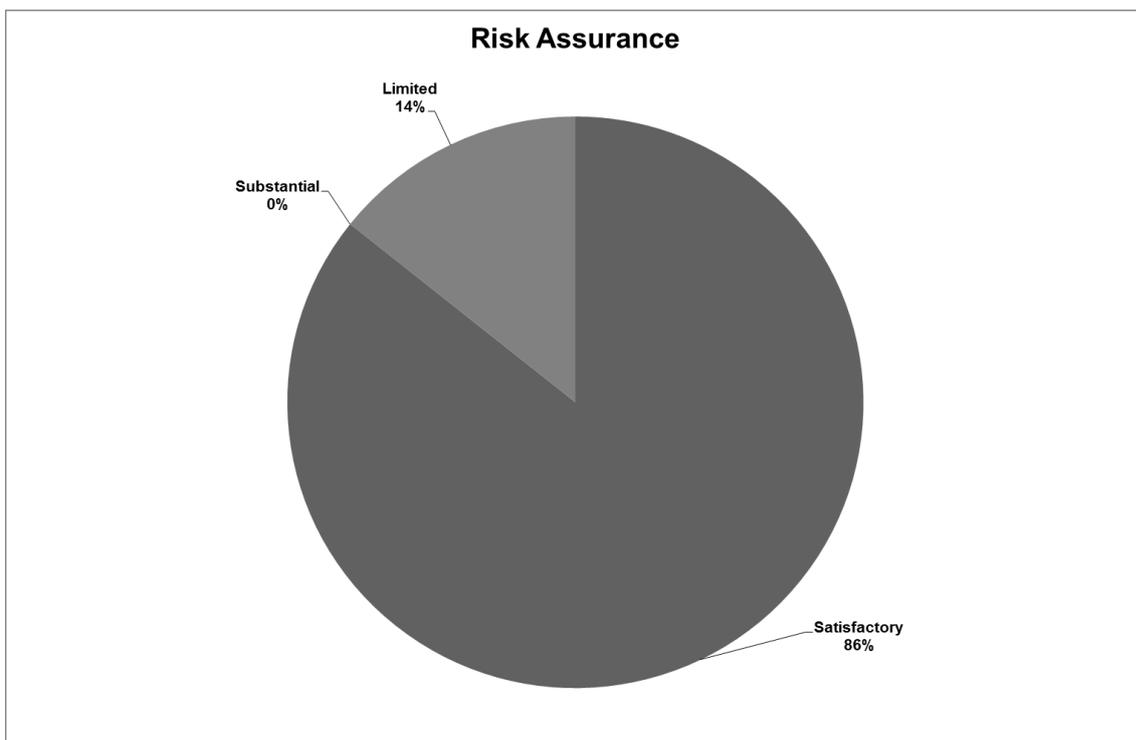
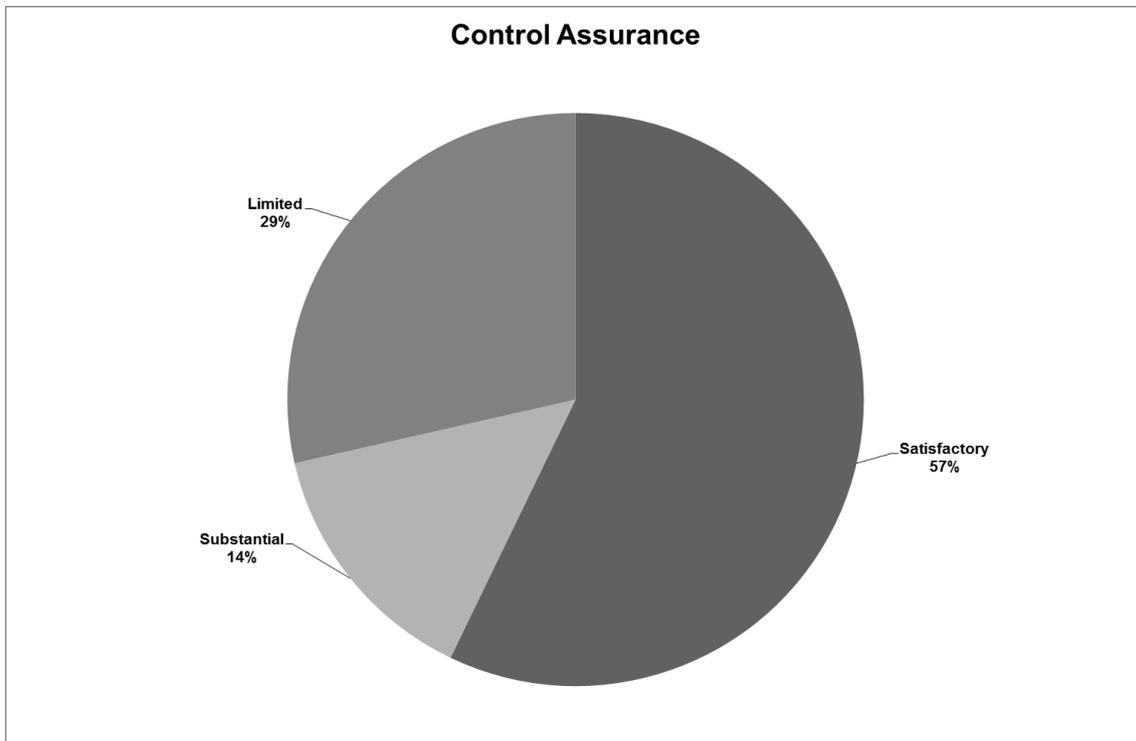
The schedule provided at **Attachment 1** provides the summary of 2018/19 audits which have not previously been reported to the Audit and Standards Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2018/19 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 audit activity undertaken during the period April 2018 to November 2018.



#### **(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 October 2018 to November 2018, no limited assurance opinions on control have been provided on completed audits from the 2018/19 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 October 2018 to November 2018 Internal Audit made, in total, **2** recommendations to improve the control environment, **0** of these being high priority recommendations (**100%** of these being accepted by management) and **2** being medium priority recommendations (**100%** 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 October 2018 to November 2018, please note that no limited assurance opinions on risk have been provided on completed audits from the 2018/19 Internal Audit Plan.

## Completed Internal Audit Activity during the period October 2018 to November 2018

### Summary of Satisfactory Assurance Opinions on Control

**Service Area:** Finance

**Audit Activity:** Treasury Management

#### Background

Treasury management is defined as the management of an organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It is a high risk area due to the high value of transactions, which can be made on a daily basis. As at 31st March 2018, the Stroud District Council (SDC) statement of accounts 2017/18 confirmed the Council held £30.55m of investments (including long and short term investments and cash and cash equivalents) and £105.7m of borrowings (long and short term).

SDC has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice as part of the Financial Regulations set out in the Constitution.

#### Scope

The objectives of the audit were to review:

- The Council treasury management strategy, policy and procedure to confirm compliance with the CIPFA Code of Practice; and
- The processes and internal controls in operation for the:
  - Day to day operation and management of the function (including transaction decision making, authorisation and audit trail);
  - Use of brokers and specialist advisers;
  - Reconciliation of control accounts; and
  - Performance reporting to relevant stakeholders.

The audit scope considered Council compliance with the recently released CIPFA Treasury Management in the Public Services: Code of Practice (2017 Edition).

The 2017 Code replaced the previous 2011 Edition.

**Risk Assurance – Satisfactory**

**Control Assurance – Satisfactory**

**Key Findings**

The Member approved SDC Treasury Management Strategy, Treasury Management Policy Statement and Treasury Management Practices (TMPs) for 2018/19 were confirmed as in accordance with the CIPFA Code of Practice 2017, satisfying all requirements of sections 4-7 of the Code.

Treasury management reporting arrangements (to Members) for 2017/18 were also confirmed as in accordance with the CIPFA Code of Practice. Audit sample testing of prudential indicators reported in 2017/18 found those tested were in line with supporting audit trail and accurately calculated.

Internal Audit completed a process review of both investments and borrowings and identified that there is opportunity to improve segregation of duty controls between the deal function (Front Office) and the Treasury Administration function (Back Office). Internal Audit observations included:

- The treasury management dealer receives the confirmation note from the counterparty prior to approval, allowing an opportunity for adaptation of key documents;
- The treasury management dealer despatches the approved dealing mandate and Standard Settlement Instructions (SSIs) to counterparties on behalf of SDC where required, which includes the bank details to be paid to. This is already signed by the Section 151 Officer and therefore allows the dealer to set up accounts with new brokers and potentially change the information within the instructions; and
- The dealer receives and stores the counterparty Standard Settlement Instructions that includes the counterparty's bank settlement details that are used to check bank details of investments.

As a result of the above findings there is a risk that unauthorised transactions could be performed without early detection.

Internal Audit sample tested 15 2018/19 investment transactions to ensure they were within the necessary counterparty limits, correct to the cash flow, matched to supporting documents (deal confirmations and deal tickets), had been authorised correctly and matched to bank transactions.

Internal Audit found that all sampled cases had been completed as intended and were supported by the necessary documentation and information within the banking system.

No borrowing transactions had occurred within 2018/19 to the point of audit and therefore no sample testing could be completed.

Internal Audit review did find two discrepancies between the listed TMPs and the current operational treasury management practices:

- The TMPs list that £25,000 is used as a minimum bank cash reserve, however in operation £15,000 is being used. Internal Audit was informed by the Senior Accountancy Officer and Principal Accountant that £15,000 is an appropriate minimum bank cash reserve to mitigate potential risks; and
- The TMPs state that SSIs are sent by SDC to the counterparties for all deals. Internal Audit found this not to be the case and SSIs are only issued for new counterparties or if SDC needs to change its details contained within the SSIs.

The above points have been debriefed with the Principal Accountant, for consideration and risk assessment as to whether TMP update is required or if the operational processes require change.

Treasury management control account reconciliations between Logotech (the treasury management system) and the Agresso general ledger for investments were confirmed as complete, accurate and up to date for 2018/19 at the point of audit. The borrowing reconciliations however, had not been completed for 2018/19 as at August 2018 no new borrowing transactions had been completed. Bank reconciliations are completed monthly and were up-to-date at the point of the audit.

Internal Audit identified that the treasury management spreadsheet, which is the preferred service method of monitoring treasury management activity, is not reconciled to Logotech or the general ledger. As heavy reliance is placed upon the treasury management spreadsheet, it is important to ensure that the spreadsheet is an accurate representation of the true treasury position and therefore suitable checks should be in place.

SDC have a suitable fidelity guarantee insurance policy in place at the point of audit.

## **Conclusion**

Internal Audit review found that the SDC treasury management activity is compliant with the CIPFA Treasury Management in the Public Services: Code of Practice (2017 Edition), including having an appropriate strategy, policies and practices.

Sample testing concluded that the process as intended had been completed for sampled 2018/19 investments, with no borrowings completed in 2018/19 to date.

Audit walkthrough and testing has identified opportunities where treasury management controls could be further strengthened (segregation of duty for deal confirmations and standard settlement instructions and reconciliation breadth). Two recommendations have been raised within the audit report.

### **Management Actions**

Management have responded positively to the recommendations made.

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

<b>Service Area:</b>	<b>Finance</b>
<b>Consultancy Activity:</b>	<b>Insurance Tender Outcomes 2018</b>

### **Background**

Stroud District Council's (SDC) insurance contracts were due to expire 30<sup>th</sup> September, 2018. In the previous year's renewal (2017/18), their incumbent insurers had increased their property premiums rate by 68% representing an additional annual premium cost of £253,705. The reason they gave was adverse property claims experience. This premium was unaffordable for SDC so the only option for the last year of the insurance contract was to increase the excess on the property policy from £5,000 to £50,000 in order to secure a more affordable premium (£311,913.73).

Carrying such a high excess on their Property policy was financially unsustainable for SDC as reserves would be needed to cover this high excess level, therefore they commissioned an insurance tender consultancy service via the Audit Risk Assurance (ARA) shared service to oversee, provide the technical challenge and manage the tender process.

### **Project Objective**

To achieve best value premiums for the whole insurance programme and in particular to revert back to the £5,000 property excess at an affordable premium rate.

### **Procurement Process**

The tender was undertaken via the Crown Commercial Service Insurance framework and advertised on the Supplying the South West Procurement portal.

## **Insurance Broker**

SDC use the services of a broker, Marsh UK. The ARA Insurance Consultant worked together with the broker to compile the invitation to tender (ITT) and scoring mechanism to reflect the cover and to score in areas that are important to SDC e.g. guaranteed rates.

## **Actions taken by the ARA Insurance Consultant**

- Identification of the key insurable risks and then meetings with relevant staff to obtain and collate all documentation that would demonstrate to the potential bidders that SDC was a good risk. The main focus was the property and in particular the social housing. Following conversations with the property staff it was clear that they had good systems and processes in place and were committed to managing the property risks well. Where the consultant highlighted areas that could be improved and this would be looked on favourably by the insurers e.g. a rolling programme of property reinstatement valuations, the staff were receptive to implementation.
- Review of the existing insurance cover, i.e. levels of excess cover and aggregates to ensure that the programme was still fit for purpose.
- Arrangements for an Insurers Day and devising an Insurer Briefing Document to complement the day. Insurer days have proved to be very beneficial to both parties. It provides an opportunity for key stakeholders in the Council to meet the insurers and for both parties to ask questions. The Insurer day worked particularly well for Stroud. Five insurers attended which was very encouraging. The feedback from the insurers was that they could see that the staff who attended knew their areas of business well and demonstrated good risk management in their individual services.
- Worked with the staff at SDC to compile the data required for the ITT for the whole of their insurance programme.
- Worked with the staff at SDC and Marsh to ensure that the ITT reflected the cover required by SDC.
- Worked with Marsh to evaluate the bids.

## **Outcome of the Tender**

SDC received bids from six insurers: Zurich Municipal, Risk Management Partners, Travelers, Protector Forsikring, Aspen and Maven. It was pleasing to see that a number of insurers were interested in the business.

The outcome was a great success achieving 42% savings across the whole insurance programme on the previous year's premium cost but 56.6% savings if the comparison is made on a like for like basis with the premium quoted for the 2017/18 renewal for the £5,000 property excess.

The most pleasing result was the reduction of the annual property premium by £297,728.09 whilst reverting back to the original level of £5,000 property excess.

## **Summary**

The overall like for like annual savings for the 2018/19 renewal compared with previous year's renewal are £344,715.98 ( excludes Insurance Premium Tax (IPT)) which over the term of the first 3 years of the contract ( awarded on a 3 + 2 basis ) is £1,034,147.94.

The successful outcome of this tender was due to SDC being able to give assurance to insurers that they were managing insurable risk well. This resulted in reducing the insurers risk so they were then able to reflect that in their premium quotes.

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

### **Current Status**

During 2018/19 to date 13 potential irregularities have been referred to Internal Audit, 12 of which have previously been reported to the Audit and Standards Committee. All but two of these cases relate to tenancy issues. The details of the non-tenancy cases have been closed and were reported to Audit and Standards Committee at the last update.

In respect of the tenancy cases ARA has liaised with Gloucestershire Counter Fraud Unit (CFU) to investigate the potential irregularities. Of these cases referred in 2018/19 five have now closed with varying outcomes, details of which were reported previously.

In addition ARA continued to work on four cases brought forward from 2017/18. Two of these cases have now closed, and have previously been reported.

ARA previously reported a commissioned piece of work, through the CFU, on Right to Buy which identified an additional six cases requiring further review. The outcomes will be reported to the Audit and Standards Committee once finalised.

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.

### **National Fraud Initiative (NFI)**

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office.

## **Attachment 1**

The 2018/19 data collections have been successfully uploaded to the Cabinet Office during October 2018 and data matching reports will be provided for investigation from January 2019 onwards. 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 either Internal Audit 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.

Progress Report including Assurance Opinions

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Standards Committee	Comments
Council Wide	Workforce - Programme Management	High	Audit in Progress				Position statement to Audit and Standards
Council Wide	Workforce Plan - Transitional Arrangements	High	Audit in Progress				Consultancy
Council Wide	Capital Programme Limited Assurance Follow Up	High	Planned				
Council Wide	Procurement	High	Final Report Issued	Satisfactory	Satisfactory	09/10/2018	Brought Forward from 17/18 plan
Council Wide	Legacy Software	High	Final Report Issued	Satisfactory	Limited	09/10/2018	Brought Forward from 17/18 plan
Development Services	Food Hygiene Inspections	High	Audit in Progress				
Customer Services	Business Continuity	High	Planned				
Customer Services	Business Rates Evaluation List	High	Planned				
Customer Services	Multi Services Contract Follow Up	High	Final Report Issued	Limited	Limited	09/10/2018	
Customer Services	Subscription Rooms - Risk Management	High	Planned				
Customer Services	Homelessness	High	Audit in Progress				Brought Forward from 17/18 plan
Customer Services	The Pulse Dursley Limited Assurance Follow Up	High	Audit in Progress				
Finance	Banks Automated Clearing System (BACS)	High	Final Report Issued	Satisfactory	Satisfactory	26/07/2018	
Finance	Budget Savings	High	Audit in Progress				
Finance	Communications (Publication of Financial Information)	High	Audit in Progress				
Finance	Debt Collection and Recovery	High	Planned				Terms of Reference issued
Finance	Insurance	High	Cancelled				Refer to insurance tender consultancy review
Finance	Local Government Pension Scheme (LGPS) Limited Assurance Follow Up	High	Draft Report Issued				
Tenant & Corporate Services	Competency Framework	High	Planned				
Tenant & Corporate Services	Contract Management (Mechanical and Electrical Payment Mechanisms)	High	Final Report Issued	Satisfactory	Substantial	09/10/2018	
Tenant & Corporate Services	Depooling of Rents	High	Audit in Progress				Consultancy
Tenant & Corporate Services	General Data Protection Regulations (GDPR)	High	Planned				
Tenant & Corporate Services	HRA Delivery Plan - Budget Savings	High	Planned				
Tenant & Corporate Services	IR35s - Off Payroll Working Through An Intermediary	High	Audit in Progress				
Tenant & Corporate Services	Property Maintenance	Medium	Planned				
Tenant & Corporate Services	Risk Management (Contracts)	High	Planned				
Tenant & Corporate Services	Settlements	High	Final Report Issued	Satisfactory	Satisfactory	09/10/2018	
Finance	Treasury Management	High	Final Report Issued	Satisfactory	Satisfactory	20/11/2018	
Tenant & Corporate Services	ICT Action Plan	High	Planned				