

26 June 2015

AUDIT & STANDARDS COMMITTEE

A meeting of the Audit and Standards Committee will be held on **TUESDAY, 07 JULY 2015** in the Council Chamber, Ebley Mill, Ebley Wharf, Stroud at **19:00.**



David Hagg
Chief Executive



Please Note: This meeting will be filmed for live or subsequent broadcast via the Council's internet site (www.stroud.gov.uk). By entering the Council Chamber you are consenting to being filmed. The whole of the meeting will be filmed except where there are confidential or exempt items, which may need to be considered in the absence of the press and public.

AGENDA

- 1 **APOLOGIES**
To receive apologies of absence.
- 2 **DECLARATIONS OF INTEREST**
To receive declarations of interest.
- 3 **MINUTES - 7 APRIL 2015**
To approve and sign as a correct record the minutes of the meeting held on 7 April 2015.
- 4 **PUBLIC QUESTION TIME**
The Chair of the Committee will answer any questions from members of the public, submitted in accordance with the Council's procedures.

DEADLINE FOR RECEIPT OF QUESTIONS
Noon on 2nd July 2015 .

Questions must be submitted in writing to the Chief Executive, Democratic Services, Ebley Mill, Ebley Wharf, Stroud, and sent by post, by fax (01453 754957), or by Email: democratic.services@stroud.gov.uk.

- 5 **WORK PROGRAMME 2015-16**
To establish the committee's work programme for 2015/16 and update accordingly.
- 6 **KPMG - AUDIT FEE LETTER 2015/16**
To note the Audit Fee letter.
- 7 **KPMG - INTERIM AUDIT LETTER**
To note the Interim Audit Letter.
- 8 **ANNUAL GOVERNANCE STATEMENT 2014/15**
To advise Members of the requirement to prepare and approve the Annual Governance Statement.
- 9 **ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2014/15**
To advise Members of the treasury management activities 2014/15 in accordance with the Council's Treasury Policy Statement.
- 10 **INTERNAL AUDIT PLAN MONITORING REPORT**
To present to Members the remaining audits completed as part of the 2014/15 Internal Audit Plan.
- 11 **REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT**
To present a report on the outcome of the review of the effectiveness of internal audit.
- 12 **INTERNAL AUDIT ANNUAL REPORT 2014 15**
To provide Members with a brief overview of Internal Audit work for the financial year ending March 2015.
- 13 **MEMBERS' QUESTIONS**
See Agenda Item 4 for deadline for submission.

Members of Audit & Standards Committee

Councillor Nigel Studdert-Kennedy (Chair)
Councillor Tom Williams (Vice Chair)
Councillor Martin Baxendale
Councillor Karon Cross
Councillor Stephen Davies

Councillor Colin Fryer
Councillor Keith Pearson
Councillor Rhiannon Wigzell
Councillor Penny Wride

AUDIT AND STANDARDS COMMITTEE

7 April 2015

7.00 pm – 8:26 pm

Council Chamber, Ebley Mill, Stroud

Minutes**3**Membership:

Councillor Nigel Studdert-Kennedy (Chair)	P	Councillor Colin Fryer	P
Councillor Tom Williams (Vice Chair)	P	Councillor Keith Pearson	A
Councillor Dorcas Binns	A	Councillor Rhiannon Wigzell	P
Councillor Martin Baxendale	P	Councillor Penny Wride	P
Councillor Karon Cross	P		

A = Absent P = Present

Officers in attendance

Strategic Head (Finance and Business Services)	Internal Audit Manager
Accountancy Manager	Head of Asset Management
Community and Facilities Manager	Senior Community Safety Officer
Head of Housing Contracts (Interim)	

Others in attendance

Darren Gilbert - KPMG

AC.049**APOLOGIES**

Apologies for absence were received from Councillors Keith Pearson and Dorcas Binns.

AC.050**DECLARATIONS OF INTEREST**

There were none.

AC.051**MINUTES**

Members commented on the lack of detail in the minutes and asked that future minutes of meetings contain more information.

RESOLVED

That the Minutes of the meeting of the Audit and Standards Committee held on 3 February 2015 are approved as a correct record and signed by the Chair.

AC.052 **PUBLIC QUESTION TIME**

None received.

AC.053 **AUDIT AND STANDARDS WORK PROGRAMME**

Members added the following items to the Work Programme for 29 September 2015.

- Review of Code of Conduct and Standards Panel
- Review of Homelessness Reviews

RESOLVED **To note the work programme, subject to the inclusion of the above in the 2015/16 work programme.**

AC.054 **INTERNAL AUDIT PLAN MONITORING PLAN**

The Internal Audit Manager provided an update on the Housing Contract audit by advising Members that the Housing Contract team were in the process of agreeing the Final Account with the contractor, but were still awaiting some further information before agreement of the final amount payable can be made.

Concern was expressed about the recommendations of previous audits not being implemented - Cash and Bank and Sundry Debtors Audits – the Accountancy Manager explained that the necessary controls had now been put into place.

RESOLVED **The Committee RESOLVES to accept the report and the assurance given on the adequacy of internal controls operating in the systems audited.**

AC.055 **UPDATE ON CAR PARK AUDIT**

The Head of Asset Management explained that officers were finalising the management agreement and had just reached agreement on the replacement of the pay-on-foot equipment in the Merrywalks multi-storey car park. Procurement of these will take place in the very near future.

The Community and Facilities Manager gave a verbal update. Issues with the car parking machines and the reconciliation process are being looked at by officers. The contingency plan has not been tested and this is to be made a priority.

In answer to a Member question relating to the control of cash, the Senior Community Safety Officer explained that the cash reconciliation issues had been resolved.

Members requested that a further update to be provided in September

RESOLVED **To note the report.**

AC.056 **UPDATE ON BRIMSCOMBE PORT AUDIT**

The Head of Asset Management gave a verbal update. Taking over Brimscombe Port accounts has been difficult, although the understanding of them at the end of the first full financial year is much improved. The necessary information is being reported to the SVCC Board on a quarterly basis and all the recommendations in the audit report have been implemented. No lottery funding is in place for Brimscombe Port.

RESOLVED **To note the report**

AC.057 **KPMG FINANCIAL STATEMENTS 2014/15 AUDIT PLAN**

Darren Gilbert gave a verbal update. The Audit Plan is a familiar format to previous years. Examples of areas of work which will be considered are:

- Decent Homes funding
- Canal Project – the finalising of the financial implications relating to this project is taking place and a report will be presented to Strategy and Resources Committee in June 2015.
- Procurement

RESOLVED **To note the report**

AC.058 **INTERNAL AUDIT PLAN 2015/16**

The Internal Audit Manager provided Members with details of the proposed Internal Audit Plan for 2015/16, this was attached to his report as Appendix A. The Plan detailed the audits to be undertaken during the year. In response to a Member question about the time taken to complete an audit, the Internal Audit Manager stated that the audit days allocated to each audit is based on past experience, and represents the amount of time needed to provide a the level of assurance on the system controls being tested.

RESOLVED **The Committee RESOLVES to approve the Internal Audit Plan 2015/16 as detailed in Appendix A.**

AC.059 **REVIEW OF EFFECTIVENESS OF THE AUDIT AND STANDARDS COMMITTEE**

The Internal Audit Manager presented the report which brings together the results of the review undertaken. Areas of work for Committee to consider are set out in the report.

Members were concerned about training, and having expertise on the Committee. Discussion took place on how to ensure that members of committee were trained, to monitor what training is taking place and who has attended, although it was recognised that the Committee should be for all members, not just Members with expertise in Audit and Standards. One option put forward by Darren Gilbert of

KPMG would be to co-opt an independent member who is familiar Audit and Standards. The function of Committee is to challenge and ask questions and this review will benefit incoming Members in 2016.

The review did not consider the Standards work of the Committee in any detail, one Member commented that Tenancy Reviews take place during the year and it would be useful to have information relating to these in the Guide to Audit and Standards Committee Work, and reference to this work included in the Annual Report shown in Appendix C.

RESOLVED 1. **The Committee RESOLVES to note the outcome of the review of effectiveness of the Audit & Standards Committee.**

RECOMMENDED TO COUNCIL 2. **Subject to any amendments the Committee wishes to make, that the Annual Report of the Audit & Standards Committee, as shown in Appendix C, be approved.**

AC.060 **OUTCOME OF PROCUREMENT REVIEW AND ACTION PLAN**

The Strategic Head (Business and Finance) presented the report. A Procurement Board of officers has been set up to provide more robust governance arrangements around procurement and to ensure all procurement activity is properly managed and resourced.

An action plan is in place and will be monitored by the Procurement Board. The measures put in place following the external review should address the issues relating to letting contracts and contract management that have previously been reported to the Committee.

An update will be given to Committee in September and December 2015.

RESOLVED **To support the actions being taken to address the issues identified by the external review of the Council's procurement processes.**

AC.061 **MEMBERS' QUESTIONS**

There were none.

The Chair thanked Committee for all their work during the Civic Year, also thanking officers for their help and assistance during the year.

The meeting closed at 8.26 pm.

Chair

STROUD DISTRICT COUNCIL
AUDIT & STANDARDS COMMITTEE

**AGENDA
ITEM NO**

7 JULY 2015

5

Report Title	WORK PROGRAMME FOR 2015/16
Purpose of Report	To establish the committee's work programme (see Appendix for 2015/16)
Decision(s)	To RESOLVE to the committee's work programme (subject to updating from time to time during the course of the year)
Consultation and Feedback	In line with the Guide for Committees (June 2015) the members of the committee have had the opportunity to consider items for inclusion informally in advance of the committee.
Report Author	Sandra Cowley, Strategic Head (Finance & Business Services) Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk

Background – Terms of Reference

1. Please see the terms of reference of the committee as set out in the Constitution, page 15 of this link:
https://www.stroud.gov.uk/cmislive_public/Documents/PublicDocuments.aspx
2. The publication of the CIPFA document 'Audit Committees – Practical Guidance for Local Authorities and Police (2013 Edition), provided updated guidance on the role of audit committees and so a review of the 'Guide to the Audit & Standards Committee Work' was carried out in July 2014. A copy of the revised guide can be found at of the Review of Effectiveness of the Audit Committee, agenda item 11, appendix 1 in this link:
https://www.stroud.gov.uk/cmislive_public/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/190/Committee/2/Default.aspx
3. At its first meeting in particular, the committee should discuss and resolve its work programme for the year. Although the programme needs to include matters which have to be considered as a matter of law, the content of the programme should be driven by members of the committee.
4. The items included in the report with an asterisk are matters which the lead officer for the committee has confirmed are statutorily required to consider. Other items which in previous years the committee has routinely considered, but are not statutory and do not require a committee decision, may be relayed to members by information sheets if the committee would find this helpful. Such an approach will also help ensure that the committee is not unduly burdened with formal reports for noting only and may concentrate on more strategic projects and policy development. A list of any information sheets which are sent to members of the committee by officers will be included at the bottom of the committee's approved work plan.

APPENDIX TO WORKPLAN REPORT

2015/16 Work Programme for Audit & Standards Committee

Date of meeting	Matter to be considered (i.e. insert report / project title)	Lead Member and Officer)
7 July 2015	Audit Fee Letter 2015/16	KPMG
	Interim Audit Letter	KPMG
	Annual Governance Statement 2014/15*	Sandra Cowley
	Treasury Management Outturn 2014/15*	Graham Bailey
	Internal Audit Plan Monitoring 2014/15*	Terry Rodway
	Review of Effectiveness of Internal Audit*	Sandra Cowley
	Internal Audit Annual Report 2014/15*	Terry Rodway
29 Sept 2015	Report to those Charged with Governance*	KPMG
	Statement of Accounts 2014/15*	Graham Bailey
	Treasury Management Activity 15/16*	Graham Bailey
	Internal Audit Plan Monitoring report*	Terry Rodway
	Annual Report on Fraud Activity/Counter Fraud*	Terry Rodway
26 Nov 2015	Annual Audit Letter	KPMG
	Treasury Management Half Year Review*	Graham Bailey
	Internal Audit Plan Monitoring 2015/16*	Terry Rodway
	Review of Procurement Action Plan	Sarah Turner
	Review of Anti-Fraud Policies*	Terry Rodway
	Review of Risk Register*	Sandra Cowley
21 Jan 2016	Annual Summary of Certification of Grant Claims and Returns 2014/15	KPMG
	Treasury Management Activity Q3 15/16*	Graham Bailey
	Treasury Management, Annual Investment and MRP Strategies 2016/17*	Graham Bailey
	Internal Audit Charter/Partnership update*	Terry Rodway
5 April 2015	Financial Statements 2015/16 Audit Plan*	KPMG
	Internal Audit Plan Monitoring 2015/16*	Terry Rodway
	Annual Internal Audit Plan 2016/17*	Terry Rodway
	Review of the Procurement Action Plan	Sarah Turner
	Annual Report Of the Audit & Standards Committee*	Cllr Studdert-Kennedy

Information sheets sent to committee members

Date sent (and reference number)	Topic	Notes (e.g. responsible officer)



KPMG LLP
Audit
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX
United Kingdom

Tel +44 (0) 29 2046 8205
Fax +44 (0) 29 2046 8152
DX 742270 Cardiff 37
matthew.arthur@kpmg.co.uk

Sandra Cowley
Strategic Head of Finance & Business Services
Stroud District Council
Ebley Mill
Stroud
Gloucestershire
GL5 4UB

Our ref dg/ma/450

15 April 2015

Dear Sandra

Annual audit fee 2015/16

I am writing to confirm the audit work and fee that we propose for the 2015/16 financial year at Stroud District Council.

Closure of the Audit Commission

Although the Audit Commission formally closed at the end of March 2015, it was responsible for setting audit fees for the audit of the 2015/16 financial year. Our fee proposals are therefore based on the Audit Commission's *Work Programme & Scales of Fees 2015/16*.

Following the closure of the Audit Commission, responsibility for determining audit fees in the future has transferred to Public Sector Audit Appointments Limited (PSAA), an independent company established by the Local Government Association. PSAA will oversee the management of the Audit Commission's audit contracts until they end in 2017, or 2020 if they are extended. The Secretary of State for Communities and Local Government has delegated certain functions formerly exercised by the Audit Commission to PSAA to enable it to deliver these functions.

Also following the Audit Commission's closure, the National Audit Office (NAO) is now responsible for producing and maintaining the Code of Audit Practice (the Code) and providing supporting guidance to auditors. We will follow the requirements of the Code and supporting guidance when delivering our audit work.

Planned audit fee

The planned audit and certification fees for 2015/16 are shown below, along with a comparison to the prior year's fee. All fees are exclusive of VAT.

Audit area	Planned fee 2015/16	Planned fee 2014/15
Code of Audit Practice audit fee	£51,975	£69,300
Certification of grant claims & returns	£9,900	£10,120

In general, the Audit Commission set 2015/16 scale fees based on a reduction of 25 per cent to the fees applicable for 2014/15. This reduction is in addition to the savings of up to 40 per cent in scale audit fees and certification fees in 2012. The planned fee is in line with the scale fee.

As we have not yet completed our audit for 2014/15 the audit planning process for 2015/16, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

Factors affecting audit work for 2015/16

We tailor our work to reflect local circumstances and our assessment of audit risk. We do this by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering changes affecting our audit responsibilities or financial reporting standards.

The Chartered Institute for Public Finance and Accountancy (CIPFA) has confirmed that a change in accounting policy will be introduced for the accounts from 2016/17, in relation to the measurement of transport infrastructure assets for authorities with highways responsibilities. Fees for any additional audit work required in 2015/16, the preparatory year, in relation to disclosures in the financial statements, will be subject to approval under the normal fee variations process. The Audit Commission decided that it was not appropriate to increase scale fees because the amount of work required at individual authorities will vary based on local circumstances, and may not be required for more than one year.

Under the Code, we have a responsibility to consider an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources. The 2015/16 fees have been set on the basis that the NAO's Code maintains the scope of work required by auditors under the Audit Commission's previous Code and supporting guidance. The NAO has not yet published guidance for auditors on the required approach to work on value for money arrangements for 2015/16.

Certification work

As well as our work under the Code, we will certify the 2015/16 claim for housing benefit subsidy to the Department for Work & Pensions.

There are no longer any other claims or returns that we are required to certify under the PSAA audit contract. Assurance arrangements for other schemes are a matter for the relevant grant-

paying body, and may be the subject of separate fees and tri-partite arrangements between the grant-paying body, the audited body, and the auditor. We would be happy to discuss any such certification needs with you.

Assumptions

The indicative fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements and certification work is not significantly different from that identified for the current year's audit. A more detailed audit plan will be issued later this year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with you and then prepare a report for the Audit & Standards Committee, outlining the reasons why the fee needs to change.

We expect to issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 2.

The proposed fee excludes any additional work we may agree to undertake at the request of Stroud District Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

Our team

The key members of our audit team for the 2015/16 audit are:

Name	Role	Contact details
Darren Gilbert	Director	darren.gilbert@kpmg.co.uk 029 2046 8205
Matthew Arthur	Manager	matthew.arthur@kpmg.co.uk 029 2046 8006

Quality of service

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact me and I will try to resolve your complaint. If you are dissatisfied with your response please contact the national contact partner for all of KPMG's work under our contract with PSAA, Trevor Rees (on 0161 246 4063, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to:

Public Sector Audit Appointments Limited
3rd Floor
Local Government House
Smith Square
London
SW1P 3H

Yours sincerely



Darren Gilbert
Director

Appendix 1 – Audit fee assumptions

In setting the fee, we have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2014/15;
- you will inform us of significant developments impacting on our audit work;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2015/16 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by KPMG, PSAA, the NAO or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit & Standards Committee.

Planned output	Indicative date
External audit plan	March 2016
Report to those charged with governance (ISA260 report)	September 2016
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2016
Opinion on Whole of Government Accounts return	September 2016
Annual audit letter	November 2016
Certification of grant claims and returns	January 2017



KPMG LLP
Audit
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX
United Kingdom

Tel +44 (0) 29 2046 8205
Fax +44 (0) 29 2046 8152
DX 742270 Cardiff 37
matthew.arthur@kpmg.co.uk

Sandra Cowley
Strategic Head of Finance & Business Services
Stroud District Council
Ebley Mill
Stroud
Gloucestershire
GL5 4UB

Our ref dg/ma/450

17 April 2015

Dear Sandra

Stroud District Council – Audit progress

We have now completed the majority of our planning and interim audit work in line with the timetable set out in our detailed External Audit Plan, dated 7 April 2015.

In that plan we indicated that we would report to the Council's Audit & Standards Committee to report on the outcome of the planning and control evaluation phases of our audit. This was to ensure that, in line with good practice, any significant matters are reported to those charged with governance in a timely manner.

As our audit work to date has gone smoothly and we have not identified any significant issues from this work, we no longer consider it necessary to report a more detailed Interim Audit Report to the Audit Committee at this stage.

Planning audit work on some areas is still ongoing, notably in relation to the VFM significant risk area highlighted in our External Audit Plan around contract procurement and also in relation to the council's borrowing in advance of need policy. We will report our findings on these areas in the ISA260 report which we will produce at the conclusion of the audit and present to the Audit & Standards Committee in September 2015.

In the absence of the need for an Interim Audit Report, please feel free to table this letter at the next meeting of your Audit & Standards Committee, to provide them with an update on the progress of our audit.

Yours sincerely

Darren Gilbert

Director

STROUD DISTRICT COUNCIL
AUDIT & STANDARDS COMMITTEE

**AGENDA
ITEM NO**

7 JULY 2015

8

Report Title	ANNUAL GOVERNANCE STATEMENT 2014/15
Purpose of Report	To advise Members of the requirement to prepare and approve an Annual Governance Statement.
Decision(s)	The Committee approves the Annual Governance Statement 2014/15 as set out in Appendix A
Consultation and Feedback	The Council's Chief Executive, Monitoring Officer, S151 Officer, Internal Audit Manager and Corporate Team have been consulted on the AGS.
Financial Implications and Risk Assessment	<p>There are no financial implications arising from this report</p> <p>Sandra Cowley Strategic Head (Finance & Business Services) Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk</p> <p>Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It is important to recognise that the purpose of the annual governance statement is not just to be 'compliant', but also to provide an accurate representation of the arrangements in place during the year and to highlight those areas where improvement is required.</p>
Legal Implications	<p>No legal implications beyond those set out in the report</p> <p>Karen Trickey, Legal Services Manager Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk</p>
Report Author	<p>Sandra Cowley Strategic Head (Finance & Business Services) Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk</p>
Options	N/A

Performance Management Follow Up	Ongoing control reviews are conducted throughout the year by management and internal audit.
Background Papers/ Appendices	A file of supporting documents has been placed in the Members' Lounge Appendix A – Annual Governance Statement 2014/15

Background

1. The Accounts and Audit Regulations 2011 require the Council to conduct a review, at least once each year, of the effectiveness of its system of internal control and to publish a statement on internal control each year with its financial statements. The Regulations also require that:
 - a) the findings of the review of the system of internal control be considered by a committee, or by members meeting as a whole; and
 - b) bodies should review the effectiveness of their system of internal audit once a year, and the findings of the review should be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control.
2. In July 2007 CIPFA published two documents on “Delivering Good Governance in Local Government”, which outlined guidance and best practice for developing a local code of governance, and for the production of an “Annual Governance Statement” (AGS) to meet the statutory requirements.

Annual Governance Statement 2014/15

3. The 2014/15 AGS has been prepared based on best practice guidelines issued by the CIPFA Finance Advisory Network, and is based on a review of compliance against the Council's Local Code of Governance, and other review/assurance mechanisms such as the 'Certificate Of Assurance' completed by Heads of Service.
4. A copy of the detailed assessment of compliance with the Local Code of Governance and the Certificates of Assurance are available in the Members lounge and will be placed on the Hub.
5. The AGS must be signed by the Chief Executive and the Leader of the Council and must be reported externally with the published accounts.
6. There are no significant governance issues to report this year. The issue raised last year in relation to the Council's procurement processes has been subject to external review during the year, the outcome of which is referred to in the AGS. Reference has also been made to the outcome of the Corporate Peer Challenge which also took place in 2014/15.

ANNUAL GOVERNANCE STATEMENT 2014/15

1. Scope of responsibility

- 1.1 Stroud District Council is required to ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Stroud District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Stroud District Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 Stroud District Council has approved and adopted a Local Code of Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. This statement explains how Stroud District Council has complied with the code and also meets the requirements of regulation 4(3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

2.0 The purpose of the governance framework

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Stroud District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Stroud District Council for the year ended 31st March 2015, and up to the date of approval of this statement.

3.0 The Governance Framework

- 3.1 Governance is about how the Council ensures it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 3.2 The Council's Local Code of Governance is based around a number of key principles. These principles are identified below, together with a commentary on the current level of organisational compliance.
- 3.3 During 2013/14, a 'Committee' form of governance was adopted. Consequently since May 2013, the Strategy & Resources Committee has maintained the principal role in overseeing governance arrangements as the body responsible for resources and finance across the Council, with assistance from the other committees which have service specific functions and Audit & Standards which promotes service improvement via its audit responsibilities. In brief, the involvement of all committees in this way ensures that governance issues are continuously considered by the Council in its work.

4.0 Focus on the purpose of the authority and on outcomes for the community and creation and implementation of a vision for the local area

- 4.1 In establishing the competing priorities of local people, the Council has highlighted that it has a strong leadership role, hence, the Council's vision, is to be seen as:-

'Leading a community that is making Stroud district a better place to live, work and visit for everyone'

The Council's Corporate Delivery Plan seeks to demonstrate how this vision will be achieved around the Council's key priorities, which are:-

1. Economy – Help local people and businesses grow the local economy and increase employment
2. Affordable Housing – Provide affordable and decent and social housing
3. Climate Change – Help the community minimize its carbon footprint, adapt to climate change, and recycle more
4. Resources - Provide value for money to our taxpayers and high quality services to our customers.
5. Health and Well-Being – Promote the health and well-being of our communities and work with others to deliver the public health agenda.

- 4.2 The Council's Corporate Delivery Plan is based on the outcomes that the residents of Stroud have stated are important. The Plan is published on the Council's website www.stroud.gov.uk

- 4.3 Each year the Council reviews progress in delivering the Plan and a new version is published. A review of the Council's Corporate Delivery

Plan 2014-2018, was noted by the Strategy & Resources Committee in October 2014.

- 4.4 The Corporate Team (with the support of the committees so far as relevant to their particular work as outlined above) monitors progress of the Corporate Delivery Plan (CDP). Each priority has a lead officer responsible for delivery. The Council uses interactive software to update the CDP quarterly. In addition, two members of each service committee meet on a quarterly basis with senior management teams to review performance. These members then report back to their appropriate committees on an exception basis to report highs and lows.

5. Members and officers work together to achieve a common purpose with clearly defined functions and roles

- 5.1 Members are responsible to the electorate and serve as long as their term of office lasts. Officers are responsible to the authority and carry out the Council's work under the direction of the Council and its committees.
- 5.2 The relationship between Councillors and officers is essential to the successful working of the Council. This relationship within the authority is characterised by mutual respect and trust. The Council has had in place for several years a 'Member/Officer Protocol' which promotes an effective and professional working relationship between councillors and officers, providing guidance on their respective roles and expectations and on their relationship with each other.
- 5.3 The Council has a Scheme of Delegation detailing the delegation of responsibilities and functions from Council to the committees and senior officers.
- 5.4 Under the Local Authorities (Members Allowances) (England) Regulations 2003, local authorities are required to have in place a scheme which sets out payments of allowances to councillors. The Members' allowances for 2014/15 adopted are in accordance with the recommendations of the Independent Remuneration Panel's report received in 2014.
- 5.5 Under Section 38 of the Localism Act 2011, the Council must approve and publish a senior pay policy statement before the start of the financial year to which it applies. The Council is expected to keep the statement under review and publish a new version each year. The Senior Pay Policy Statement for 2014/15 was approved by Council in February 2014.

6. Promote values for the authority and demonstrate the values of good governance through the upholding of high standards of conduct and behaviour.

- 6.1 The Council has adopted codes of conduct for Members and Officers. The Code of Conduct for Members is in accordance with the Localism Act 2011. The Code adopted in May 2014 following changes to the standards regime under the 2011 Act, was reviewed by the Audit and

Standards Committee in 2015. The Council has also incorporated into its Constitution, other relevant codes and protocols such as a local code of conduct for planning, a member/officer protocol (to which reference is made above), a member/member relations protocol, and an attendance at other authorities meetings protocol.

- 6.2 Staff are also expected to maintain high standards of behaviour at all times. Their terms and conditions of employment and related matters are set out in the Employee Handbook. The Council's Constitution also includes the Council's Code of Conduct for Employees and its Whistle Blowing Policy for Local Government Employees.

7. Take informed and transparent decisions, which are subject to effective scrutiny and managing risk.

- 7.1 The agendas and minutes of meetings of the Council are published, and meetings are open to the public. Meetings are broadcast and recorded by a webcam so that they can be viewed by a wide audience. The nature of committee form of governance adopted by the Council, as opposed to Executive arrangements, is by its very nature, self scrutinising. The Constitutional Working Group reviewed the effectiveness of the scrutiny arrangements during the year and reported it's finding to Council on 15 May 2015 with recommendations to improve the scrutiny function.

- 7.3 The Monitoring Officer maintains the up to date registration of Members' Interests, which Members are required to update within 28 days of any material change in circumstances. Declarations of Interest are a standard agenda item for each committee meeting. Members also complete registers of gifts and hospitality they receive in connection with their official business as councillors.

The requirement for staff to declare interests is included in the Code of Conduct for Employees (see reference above).

- 7.4 Risk Management is essentially about good management practice and effective decision making. It can be defined as:

'A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating monitoring and communicating risks associated with any activity, function or process in a way that will enable organisations to minimise losses and maximise opportunities'.

- 7.5 The Authority recognises that all aspects of business risk must be managed. The Council has a Risk Management Policy the purpose of which is to provide a framework for the effective management of risks within the authority. The Policy was reviewed in June 2013 by the Audit & Standards Committee to take account of the proposed changes to council's risk management arrangements. Strategy & Resources approved the revised policy in June 2013.

- 7.6 The Council has an Audit & Standards Committee. The core functions of an audit committee are set out in the CIPFA guidance 'Audit

Committees – Practical Guidance for Local Authorities’. These are not detailed in the Constitution but agreed by the committee as guidance within which the committee will operate.

- 7.7 The Council has a Monitoring Officer who, under the Local Government and Housing Act 1989, is responsible for ensuring the legality of Council decisions. The Council has also appointed its Strategic Head (Finance & Business Services) as Section 151 Officer. These statutory officers are required to secure compliance with relevant primary and subordinate legislation for ensuring the lawfulness of both decision making and expenditure respectively. Their functions are recognised in the Constitution and they either report directly to, or have access to, the Chief Executive who as Head of Paid Service is the other statutory officer whom the Council is required to appoint.
- 7.8 The Council has a complaints procedure that enables dissatisfied members of the public to raise concerns with officers at management level, including the Chief Executive. Corporate Team reviews performance on complaints, including the limited number resulting in investigations by the Local Government Ombudsman.
- 7.9 As noted above, the Council’s Constitution also contains a whistle-blowing policy (largely based on a model produced by CIPFA) which enables members of staff to raise concerns on a confidential basis pursuant to the Public Interest Disclosure Act 1998, about the way in which the Council conducts its business. As a result of comments made by staff in a recent staff survey, the whistle-blowing policy was reviewed in April 2015.

8.0 Develop the capacity and capability of members and officers to be effective.

- 8.1 The Council has the Investor in People (IiP) award. Investors in People aims to help organisations improve performance through a planned approach to the setting and communication of business goals and developing people to meet these goals so that they are motivated to do the work which the organisation needs them to do. The Council was the first authority in the region to be awarded the IiP Health and Well Being Award.
- 8.2 Access to Member Development is a key element of the Local Code of Governance. There is an extensive new member induction process in place with a detailed training programme and existing members are also invited to attend the various training events. However, member participation in training events has historically been poor and is an area that needed improvement. Following an informal review of the management responsibilities for this area in 2014, the induction programme in 2014 was redesigned with this in mind; Members’ views sought on useful (and interesting) courses which help improve their effectiveness as a councillor; and Members have been re-engaged in establishing a member development programme for 2014 to 2016.

9.0 Engage with local people and other stakeholders to ensure robust public accountability.

- 9.1 As noted above, the agendas and minutes of meetings of the Council are published, and meetings are open to the public. Meetings are broadcast and recorded by a webcam so that they can be viewed by a wide audience. A large amount of information is available on the Council's website.
- 9.2 The views of the public are sought through surveys, and consultation meetings are held with the business community. There are many other channels of communication with stakeholders and public, examples of which are the Housing Tenants Forum and the Local Strategic Partnership.
- 9.3 The Policy Team has produced a Partnership Governance Framework and Policy which was revised in May 2012. This sets out clear guidance for officers and Members when undertaking any partnership working. A standard template has been devised to ensure that formal partnership agreements are in place and to assist services in carrying out a review of their partnership arrangements.

10.0 Review of effectiveness

- 10.1 Stroud District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior management team within the authority who have responsibility for the development and maintenance of the governance environment, the annual report by the Internal Audit Manager, and also by comments made by the external auditors and other review agencies and inspectorates.
- 10.2 The process that has been applied in maintaining and reviewing the effectiveness of the governance framework are as follows:

11.0 The Council

- 11.1 The Council's governance framework, primarily based on its Constitution, is seen to be dynamic, evolving and regularly reviewable to ensure that it reflects the aspirations both of the Council and the public to whom it is accountable. The basis of the Constitution is reviewed on an annual basis. The roles of various components of the overall governance framework prescribed by statute or set out in the Constitution are interpreted in a pragmatic way to assist in best achieving the Council's principal objectives as contained in its Corporate Delivery Plan.
- 11.2 The Constitution sets out the roles and responsibilities of the Council's committees and all principal arrangements under which it operates its business. The Constitution is reviewed on an ongoing basis, the last major review of the decision making structure being in 2012/2013. Further ongoing reviews are undertaken by the Constitution Working Group, which following the implementation of the committee system,

has resulted in further relatively minor amendments to the Constitution in 2014 and 2015.

12.0 Service Committees

- 12.1 Committees are tasked with undertaking all functions associated with their broad purpose and terms of reference. Their purpose is to deal with strategies, policies and performance monitoring and not the detail of service delivery. The terms of reference of committees need to be balanced with the delegations to officers. The expectation is that officers will be able to take decisions to further the objectives, policies and strategies set by committees.
- 12.2 A Constitutional Review Working Group was set up to review the effectiveness of the committee system following its first year of operation. As mentioned in 11.2 above, some amendments were made to the Constitution as a result.

13.0 Audit & Standards Committee

- 13.1 Good corporate governance requires independent, effective assurance about both the adequacy of corporate, operational and financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives. Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors.
- 13.2 The core functions of an audit committee are set out in the CIPFA guidance 'Audit Committees – Practical Guidance for Local Authorities'. These are not detailed in the constitution but agreed by the committee as guidance within which the committee will operate at their first meeting in the civic year.
- 13.3 During the year, the Audit & Standards Committee carried out a self assessment using the checklists provided in the CIPFA publication 'Audit Committees – Practical Guidance for Local Authorities and Police 2013 Edition'. As a result of the review the following areas of improvement were identified:
- In order to raise the profile of the Audit & Standards Committee, and the work that it undertakes, an annual report on the work of the Committee will be presented to Council. **NB** The first annual report was presented to Council in May 2015.
 - To help ensure that any new members of the Audit & Standards Committee have the appropriate knowledge to perform their role effectively, mandatory training on Risk Management; Treasury Management; Statement of Accounts; and the Role of Internal Audit and External Audit, will be introduced. Although this has been identified as mandatory, it is not a requirement for a new

Member to have attended the training before attending their first meeting of the Committee.

- In accordance with identified good practice, the Audit & Standards Committee will hold separate, periodic 'private' meetings with the Council's External Auditor.
- To support the development and embedding of good practice in risk management, the Audit & Standards Committee recommends that each Service Committee appoint a Member Risk Management Champion to replace the current single Member Risk Management Champion who is a member of the Strategy & Resources Committee.

14.0 Internal Audit

14.1 Internal Audit is a legislative requirement of the Accounts and Audit (England) Regulations 2011. This requires the authority to undertake an adequate and effective internal audit of accounting records and of the system of internal control.

14.2 Stroud District Council and Gloucester City Council have formed the Gloucestershire Audit & Assurance Partnership (**G A A P**) in order to deliver a professional, cost effective, and efficient internal audit function to the partner organisations.

14.3 The Accounts and Audit (England) Regulations 2011 also require the Authority to conduct, at least once a year, a review of the effectiveness of its internal audit, and that the findings of this review should be included in the Annual Governance Statement.

14.4 The review consisted mainly of a self-assessment against the Public Sector Internal Audit Standards (PSIAS), and the results were reviewed by the Council's Strategic Head of Finance and Business Services, and will also be reported to the Council's Audit & Standards Committee in July 2015. The overall conclusion from the review was that internal audit at SDC is effective. Although the self-assessment identified a number of 'gaps' in conformance with the PSIAS, these do not materially affect the reliance the Council can place on the Internal Audit manager's opinion on the adequacy of the control environment.

14.5 Internal Audit work is carried out to the standards outlined in the PSIAS. The PSIAS requires 'the Head of Internal Audit to provide a written report to those charged with governance timed to support the Annual Governance Statement'. The 2014-15 report by the Internal Audit manager concluded:-

'My overall opinion is that an adequate level of assurance can be given that there is a generally sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently. Whilst internal audit work undertaken during the year did result in two audits with an unsatisfactory level of assurance (Car Parks and Cash & Bank) in my view, the weaknesses identified are not deemed to be regarded as significant governance issues'.

15.0 Peer Review Challenge

15.1 In November 2014, the Council invited the Local Government Association (LGA) Peer Challenge Team into the Council to provide an external 'health-check' of the organisation by considering the core components looked at by all corporate peer challenges:

- Understanding of the local context and priority setting: Does the council understand its local context and has it established a clear set of priorities?
- Financial planning and viability: Does the council have a financial plan in place to ensure long term viability and is there evidence that it is being implemented successfully?
- Political and managerial leadership: Does the council have effective political and managerial leadership and is it a constructive partnership?
- Governance and decision-making: Are effective governance and decision making arrangements in place to respond to key challenges and manage change, transformation and disinvestment?

15.2 The Council received a very positive report from the Peer Challenge Team which included some suggestions for improvement. The full details of the report have been published on the Council's website.

16.0 External Review of Procurement Procedures

16.1 In January 2015, the Council commissioned an external review of its internal procurement processes in response to concerns raised and reported in the Annual Governance Statement. This essentially arose from a number of reports considered by the Audit & Standards Committee in which the Internal Audit Manager identified that internal audit work undertaken during the year in relation to the procurement of contracts has continually reported a number of instances of non-compliance with the council's procurement rules.

16.2 The outcome of the review was reported to the Audit & Standards Committee in April along with an action plan detailing a series of actions which, when fully implemented, will improve the Council's overall performance in relation to procurement. The action plan will be reviewed regularly by the newly formed Procurement Board and progressed reported to the Audit & Standards Committee.

17.0 Other review/assurance mechanisms

17.1 **External Audit** - is part of the process of accountability for public money. It makes an important contribution to the stewardship of public resources and the corporate governance of public services. The scope of External Audit work covers not only the audit of financial statements but also aspects of corporate governance.

- 17.2 In September 2014, the Council's External Auditor produced their 'report to those charged with governance' relating to the 2013/14 audit of the Council's financial statements. This report was presented to the meeting of the Audit & Standards Committee on 25 September 2014. In relation to, 'audit matters of governance interests that arise from the audit of the financial statements,' the report stated that there was just one matter to note. This related to the deficit on the NDR element of the Collection Fund and the report concluded that "the Authority is applying established processes to recover the deficit in future years".
- 17.3 **Risk Management** - is the process by which risks are identified, evaluated, recorded and controlled and is a key element of the governance framework. The Risk Management Policy was reviewed and updated in June 2013.
- 17.4 The Audit & Standards Committee received a report on the Council's Risk Register in November 2013.
- 17.5 **EMAS** - The Council has been registered under the Eco-Management and Audit Scheme (EMAS) since 1999. EMAS, which is only awarded after an external and independent assessment, is designed to recognise and reward organisations that go beyond minimum legal compliance and continually review their environmental performance.
- 17.6 The Council recognises that it has an impact on the environment through the services it provides and that it has powers and responsibilities to encourage and enforce where necessary. To ensure the Council carries out and keeps up to date with environmental legislation, it subscribes to a web based legal register applicable to local authorities. The Council also has an annual environmental legal compliance audit which is carried out by an external auditor to ensure that the Council's own activities comply with legislation.
- 17.7 **Assurance Statements** - A further source of assurance has been obtained from the introduction of Assurance Statements. These Statements have been issued to all Heads of Service, and they have been requested to complete, and to identify any significant internal control issues within their portfolio. There were no significant governance issues identified.
- 17.8 To comply with the CIPFA Code of Practice on Local Authority Accounting, a specific statement is required to be reported in the Annual Governance Statement on whether the authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The following statement has been prepared by the council's Strategic Head of Finance & Business Services who is the Council's s.151 Officer:
- 17.9 'This statement is given in respect of the Statement of Accounts for Stroud District Council. I acknowledge my responsibility for ensuring that an effective system of internal control is maintained and operated in connection with the resources concerned.'

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the council. In particular, the system includes:

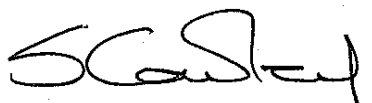
- Comprehensive budget systems
- Regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
- Setting targets to measure financial and other performance
- The preparation of regular financial reports which indicate actual expenditure against the forecasts;
- Clearly defined capital expenditure guidelines, and
- Formal project management disciplines.

The arrangements for internal audit are as set out in the Annual Governance Statement (paragraph 14) and I am satisfied that they operate to a defined standard. A review of the effectiveness of internal audit has been undertaken and reported to the Audit & Standards Committee. The Internal Audit Manager has also provided an independent opinion in his annual report stating that he is satisfied the council has an adequate control environment in place.

My review of the effectiveness of the system of internal financial control is informed by:

- The work of managers within the council
- The work of internal auditors as described above, and
- The external auditors in their annual audit letter and other reports

I can confirm that the council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).



25 June 2015

Signed:

Dated:

**Sandra Cowley, Strategic Head of Finance & Business Services
(S151 Officer)**

18.0 Significant governance issues

- 18.1 There are no significant governance issues that need to be reported at this time. The Council will continually monitor the governance arrangements in place to ensure they are effective.

Signed

Cllr Geoff Wheeler
Leader of the Council

David Hagg
Chief Executive

STROUD DISTRICT COUNCIL
AUDIT & STANDARDS COMMITTEE

**AGENDA
ITEM NO**

7 JULY 2015

9

Report Title	ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2014/2015
Purpose of Report	To advise on the treasury management activities in 2014/2015, in accordance with the Council's Treasury Policy Statement. To report on actual 2014/2015 Prudential Indicators in accordance with the requirements of the Prudential Code.
Decision(s)	The Audit & Standards Committee: approves the treasury management activity annual report for 2014/2015 and the actual Prudential Indicators.
Consultation and Feedback	Capita Asset Services Limited.
Financial Implications and Risk Assessment	<p>There are no financial implications arising directly from this report.</p> <p>The Council has operated within the approved Treasury Management Strategy for the year, which is designed to ensure the Council's exposure to risk is limited.</p> <p>Appendix A of the report sets out the return made on the Council's investments. The average rate on these investments was 0.82% and the interest earned was £224k. Total borrowing for the year was £95.717m, as set out in paragraph 16 of the report. Paragraphs 17-19 set out the outturn position regarding the Icelandic Currency deposits, with a currency and auction loss of £102k.</p> <p>David Stanley, Accountancy Manager Tel: 01453 754100 E-mail: david.stanley@stroud.gov.uk</p>
Legal Implications	<p>No substantive legal implications arise from this report.</p> <p>Alan Carr, Temporary Solicitor Tel: 01453 754357 Email: alan.carr@stroud.gov.uk</p>
Report Author	<p>Graham Bailey, Principal Accountant Tel: 01453 754133 Email: graham.bailey@stroud.gov.uk</p>

Options	None
Performance Management Follow Up	The Committee will receive regular reports on treasury activity throughout the year.
Background Papers/ Appendices	<ul style="list-style-type: none"> • Council Report 26 February 2015 Agenda Item 8(a), Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2015/16 • Council Report 27 February 2014 Agenda Item 9(b), Treasury Management Strategy, Annual Investment Strategy and MRP Policy Statement 2014/15 <p>A – Temporary investments 2014/2015 B – Actual Prudential Indicators 2014/2015 C – Explanation of Prudential Indicators D – The economy and interest rates 2014/2015 E – Borrowing and investment rates in 2014/2015</p>

Discussion

1. The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2001 was adopted by this Council on 21 March 2002, and the revised 2009 code was adopted on 21 January 2010. This Council fully complies with its requirements.
2. The primary requirements of the Code are as follows:
 - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - Receipt by the Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead, a midyear review report and an annual review report of the previous year.
 - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, which in this Council is the Audit & Standards Committee.

3. Treasury management in this context is defined as:

“The management of the local authority’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.”

Treasury Activity

4. A summary of treasury management activity for 2014/2015 is shown below:

Treasury Activity 2014-15				
	April 2014	Increase	Decrease	March 2015
	£000	£000	£000	£000
Debt				
Borrowing:				
Long-term	94,717	1,000	-	95,717
Short-term	-	-	-	-
Total debt	94,717	1,000	-	95,717
Investments				
Externally managed	-	-	-	-
Internally managed - Long term	-	-	-	-
Internally managed - Short term	18,144	5,767	-	23,911
Total investments	18,144	5,767	-	23,911
Net investments	-76,573	4,767	-	-71,806

Investment Strategy

5. Investment strategy for 2014/2015 was to give primary importance to security of capital and liquidity. This was achieved through having regard to government ‘Guidance on Local Government Investment’ issued in March 2004, and our own investment policy which set out permitted specified and non-specified investments. In addition, the Council received and followed weekly investment advice from Capita Asset Services detailing counterparty credit ratings, which were also subjected to a credit default swap overlay. This was supplemented by daily update emails from Capita Asset Services, economic briefings and monitoring the financial press.

6. Investment strategy, set out in the report to Council in February 2014, stated that the Council would aim to keep investments on call or short-dated and primarily within the UK. The Council would invest for up to a year with the government supported banking groups, and in particular instances the Section 151 Officer would authorise investments in excess of a year for example to take advantage of enhanced interest rates on Lloyds 366-day notice deposit. Otherwise, the length of investments permitted would vary if necessary in line with Capita Asset Services' advice subject to the Council's 3-year upper limit.
7. The expectation for interest rates within the strategy for 2014/15 was for Bank Rate to remain at 0.5%, and this is what occurred. The Council achieved a return of 0.82% in an environment of sharply falling interest rates.
8. **Appendix A** has a summary of investments during the year.

Borrowing Outturn for 2014/15

9. The Council had a total of 95.717m as at 31 March 2015. During the year £1m of PWLB was borrowed in line with the Council's Capital Financing Requirement.

Lender	Principal	Type	Interest Rate	Years to Maturity	Maturity Date
PWLB	£6m	Fixed Interest Rate	3.32%	17 years	31/03/2032
PWLB	£10m	Fixed Interest Rate	3.45%	22 years	31/03/2037
PWLB	£7m	Fixed Interest Rate	3.51%	27 years	31/03/2042
PWLB	£7m	Fixed Interest Rate	3.51%	27 years	31/03/2042
PWLB	£7m	Fixed Interest Rate	3.53%	32 years	31/03/2047
PWLB	£7m	Fixed Interest Rate	3.53%	32 years	31/03/2047
PWLB	£7m	Fixed Interest Rate	3.52%	37 years	31/03/2052
PWLB	£7m	Fixed Interest Rate	3.52%	39 years	31/03/2052
PWLB	£7m	Fixed Interest Rate	3.51%	42 years	31/03/2057
PWLB	£7m	Fixed Interest Rate	3.51%	42 years	31/03/2057
PWLB	£10m	Fixed Interest Rate	3.48%	46 years	31/03/2061
PWLB	£9.717m	Fixed Interest Rate	3.48%	46 years	31/03/2061
Hampshire CC	£2m	Fixed Interest Rate	2.40%	4 years	05/02/2019
PWLB	£1m	Fixed Interest Rate	2.42%	3 years	28/03/2018
PWLB	£1m	Fixed Interest Rate	3.55%	49 years	28/11/2064
Total Loans	£95.717m				

The Economy and Interest Rates

10. An analysis of UK economic performance and interest rates during 2014/2015 is in **Appendix D**.

Performance Measurement

11. **Appendix A** has details of the investments made during the year. All of these were 'approved investments' with counterparties included on the Council's lending list, and within permitted limits as regards time and amount, except for one instance in the first quarter where the RBS limit was breached by £75,000 for a period of one day due to a spreadsheet error.

12. The average level of investments held was £27.726 million and the average return on these investments was 0.82%, compared with the average un compounded 7-day LIBID rate of 0.352% which is a generally accepted benchmark rate (the 3 month un compounded LIBID rate is given as well for comparative purposes). The interest earned was £228k.

	Average Investment	Rate of Return	Benchmark Return 7 day LIBID un compounded	For comparison 3 month LIBID un compounded
Internally Managed	£27,726,485	0.82%	0.352%	0.429%
Externally Managed	N/A	N/A	N/A	N/A

13. Stroud is a member of a Capita Asset Services Benchmarking group. The group is comprised of Worcestershire County Council, North Warwickshire Borough Council, Wyre Forest District Council, Warwick District Council, Warwickshire County Council, Cherwell District Council, Stratford District Council and Oxford City Council. A primary aim of the group is to evaluate and compare return on investment taking into account the level of risk for the investment portfolio. During 2014/15 Stroud has again compared very favourably with the benchmark group in terms of return achieved, whilst maintaining a low risk portfolio.
14. The above figures exclude interest earned on the £1m invested in the Local Authority Mortgage Scheme and £331k retained by Glitnir bank in an Escrow account. If these investments earning 3.8% and 3.65% respectively are taken into account then the rate of return increases to 0.968% on an average investment balance of £29.199m. Total interest earned including these non-standard investments was £285k.

Prudential Indicators and Compliance with Borrowing Limits

15. The Council is required by the Prudential Code to report actual prudential indicators after the yearend. These are shown in **Appendix B**.
16. The Council had loans totalling £95.717m during 2014/2015. This amount of borrowing was well within both the authorised and operational borrowing limits of £110m and £106m respectively.

Borrowing limits 2014/2015	Approved Limit	Actual
Authorised limit for external debt (£'million) (Includes deferred liabilities)	£110m	£95,717
Operational boundary for external debt (£'million)	£106m	£95,717

Icelandic Currency Deposits

17. An amount equivalent to £331k at March 2015 (£667k March 2014) is held by Glitnir Bank in an Icelandic Kroner Escrow account. This amount is retained due to Icelandic government currency controls that prevent repayment to the Council. Under the terms of those currency controls an interest rate of 3.65% is payable.
18. During February 2015 the Council participated in an auction organised by the Icelandic Central Bank. A total of £228,694.83 was received by the Council. The transaction meant a loss was incurred of £101,727.73, comprising an exchange rate loss of £24,845.88 and an auction loss of £76,881.85.
19. The auction loss was charged to the £127k set aside as cover against potential risks associated with foreign exchange fluctuations and currency controls. There is therefore £50k remaining in the provision.

Member Training

20. Member training on treasury management issues took place on 21 October 2014 and 21 January 2015. Further training for Members will be scheduled for 2015/16.

Temporary Investments - Summary Activity 2014/2015				
Borrower	Type	Average Principal Invested £	Interest £	Average Rate
RBS Group				
NatWest Treasury Reserve	Call	7,186,639	64,452.45	0.90%
RBS Deposit	Call	7,452	25.10	0.34%
RBS	CD	1,408,219	14,223.01	1.01%
NatWest Notice	Call	3,990	19.93	0.50%
RBS Group Total		8,606,300	78,720.49	
Lloyds Group				
Bank of Scotland	Fixed	5,008,219	45,841.64	0.92%
Lloyds TSB	Fixed	4,260,274	40,587.12	0.95%
Bank of Scotland	Notice	284,932	1,501.37	0.53%
Lloyds Group Total		9,553,425	87,930.13	
Barclays Bank PLC				
Barclays	FIBCA	1,109,310	6,099.90	0.55%
Barclays	Fixed	495,890	3,024.93	0.61%
		1,605,200	9,124.83	
A & L Money Market Account				
A & L Money Market Account	Call	2,104,153	16,833.23	0.80%
Standard Chartered	CD	320,548	2,211.78	0.69%
Handelsbanken - 35 day notice	Notice	1,823,241	12,378.03	0.68%
Ignis	MMF	394,307	1,666.17	0.42%
Goldman Sachs MMF	MMF	383,771	1,654.59	0.43%
Federated Prime Rate MMF	MMF	1,079,033	4,888.47	0.45%
Handlesbanken	Call	1,415,151	8,741.96	0.62%
Grand Total		£27,285,129	£224,149.68	0.82%

Types of investment

Call - account with current day access to funds invested. Interest rates are fixed.

Notice - account with withdrawal subject to minimum specified notice. Interest rates are fixed.

MMF - Money Market Funds are AAA-rated current day access accounts. Interest rates can change daily.

Fixed - fixed term investments at fixed interest rates.

DMO - Investment with the government's Debt Management Office. Interest rate fixed.

TB - Treasury Bills are fixed term investments in government securities at fixed interest rates.

	2013/14 £'000 actual outturn	2014/15 £'000 original indicator	2014/15 £'000 actual outturn
Prudential Indicators			
Capital Expenditure			
Non- HRA	2,554	2,949	2,280
HRA	16,094	21,675	12,818
TOTAL	£18,648	£24,624	£15,098
Ratio of financing costs to net revenue stream			
Non- HRA	-2.13%	-2.29%	-2.46%
HRA	15.68%	14.84%	15.55%
Net borrowing requirement			
brought forward 1 April	91,717	94,717	94,717
carried forward 31 March	94,717	100,117	94,717
in year borrowing requirement	£91,717	£5,400	£0
In-year Capital Financing Requirement			
Non- HRA	-	-	-
HRA	3,000	5,400	-
TOTAL	£3,000	£5,400	£0
Capital Financing Requirement as at 31 March			
Non- HRA	7,569	7,569	7,569
HRA	87,980	93,470	87,980
TOTAL	£95,549	£101,039	£95,549
HRA borrowing limit	£95,742	£95,742	£95,742
Incremental impact of capital investment decisions			
Increase in council tax (band D) per annum	£0.15	£0.00	£0.05
Increase in average housing rent per week	£12.36	£0.07	-£0.20
Authorised limit for external debt			
borrowing	94,717	110,000	95,717
other long term liabilities	-	-	-
TOTAL	94,717	110,000	95,717
Operational boundary for external debt			
borrowing	94,717	106,000	95,717
other long term liabilities	-	-	-
TOTAL	94,717	106,000	95,717
Upper limit for fixed interest rate exposure			
Net principal re. Fixed rate borrowing / investments	100%	100%	100%
Upper limit for variable rate exposure			
Net principal re. Fixed rate borrowing / investments	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	-	6,000	-

Explanation of prudential indicators

Central Government control of borrowing was ended and replaced with Prudential borrowing by the Local Government Act 2003. Prudential borrowing permitted local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

Capital expenditure – compares the 2014/15 original capital estimates with the actual outturn. Actual 2013/14 outturn is shown for comparison.

Ratio of financing costs to net revenue stream – this indicator shows the effect of HRA self-financing debt, with the cost of servicing debt accounting for 15.55% of rental income. Interest on reserves and balances still makes a positive contribution to General Fund finances.

Net borrowing requirement – this demonstrates borrowing need to fund capital spending.

In year capital financing requirement – this shows that in 2014/2015 capital spend was fully financed by the Council's capital resources such as grants, capital receipts and revenue contributions. The comparative 2013/2014 figure shows the £3m borrowing that occurred in that year.

Capital financing requirement (CFR) as at 31 March – the capital financing requirement shows the underlying need of the Council to borrow for capital purposes as determined from the balance sheet. The overall positive CFR of £95.549m provides the Council with the opportunity to borrow if appropriate. The Council has £95.717m in long term borrowing.

Incremental impact of capital investment decisions – increase in Council Tax (Band D) per annum – this indicator shows that the funding of the Non-HRA capital programme over and above the original estimate in 2013/2014 meant the equivalent of 5p per annum on band D council tax arising through interest foregone arising from the additional capital resources spent.

Incremental impact of capital investment decisions – increase in average housing rent per week – The lower than estimated spending on the HRA capital programme saved an estimated 20p per week of the average housing rent in increased investment interest.

Authorised limit for external debt - this is the “affordable borrowing limit” for external temporary borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cashflows. The Council does not have the power to borrow above this level. The Authorised Limit was set at £110m in February 2014.

Operational boundary for external debt – this is set as the more likely amount required for day to day cashflow purposes. It is acceptable to be above or below this level as long as the Authorised Limit is not breached. The Operational Boundary was set at £106m in February 2014.

Upper limit for fixed and variable interest rate exposure – these limits allow the Council flexibility in its investment and borrowing options.

Upper limit for total principal sums invested for over 364 days – the amount it is considered can prudently be invested for a period in excess of a year. Although the Council can invest for longer than a year no such investments were made in 2014/2015 in accordance with Sector's advice.

The Economy and Interest Rates 2014-2015: The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. In mid-October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.

Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the EZ had been disproved. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election due in May 2015.

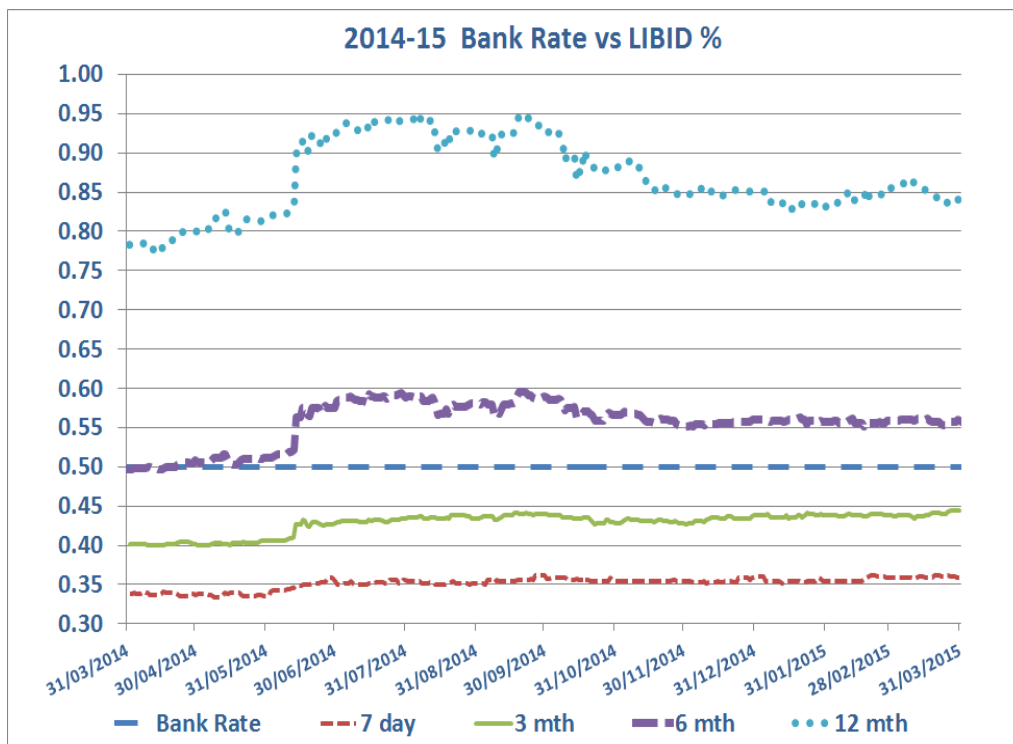
The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing throughout 2014/15.

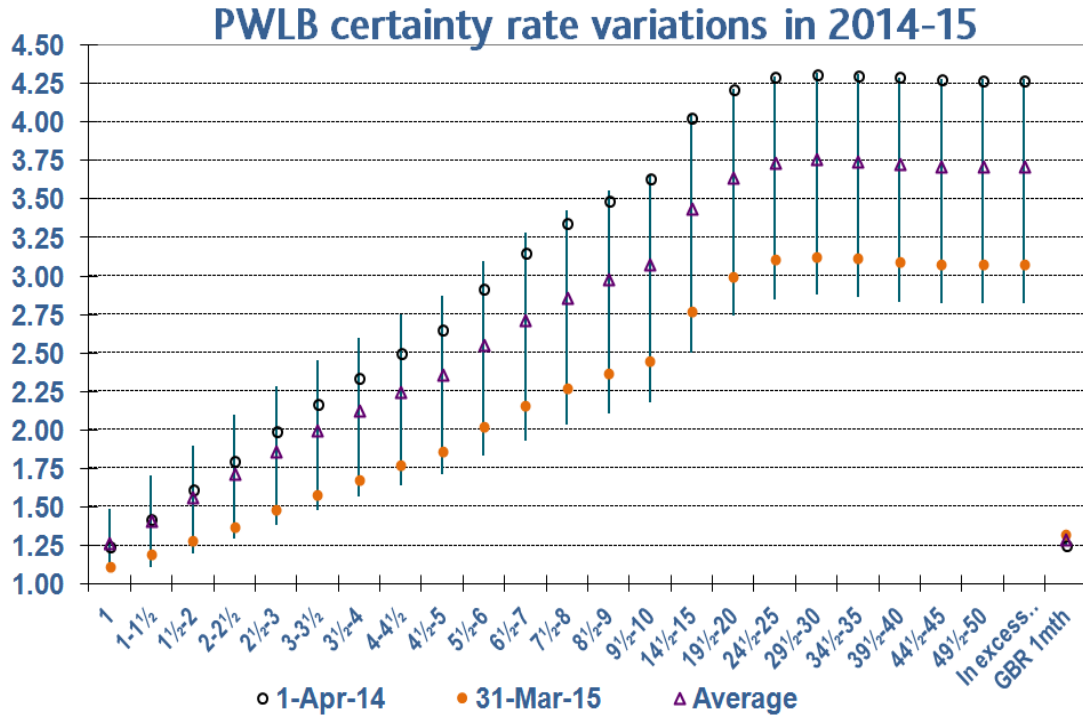
The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth and falling gilt yields led to a reduction in the forecasts for total borrowing in the March budget.

The EU sovereign debt crisis had subsided since 2012 until the Greek election in January 2015 sparked a resurgence of fears. While the UK and its banking system has little direct exposure to Greece, it is much more difficult to quantify quite what effects there would be if contagion from a Greek exit from the euro were to severely impact other major countries in the EZ and cause major damage to their banks.

INVESTMENT AND BORROWING RATES 2014-2015

Money market investment rates 2014/15					
	7 day	1 month	3 month	6 month	1 year
1/4/14	0.338	0.362	0.402	0.497	0.783
31/3/15	0.358	0.378	0.445	0.559	0.841
High %	0.362	0.384	0.445	0.596	0.951
Low %	0.334	0.360	0.400	0.496	0.772
Average %	0.352	0.374	0.429	0.556	0.868
Spread %	0.028	0.024	0.045	0.100	0.180
High date	26/3/15	26/9/14	27/3/15	19/9/14	5/8/14
Low date	8/5/14	4/4/14	9/4/14	14/4/14	14/4/14

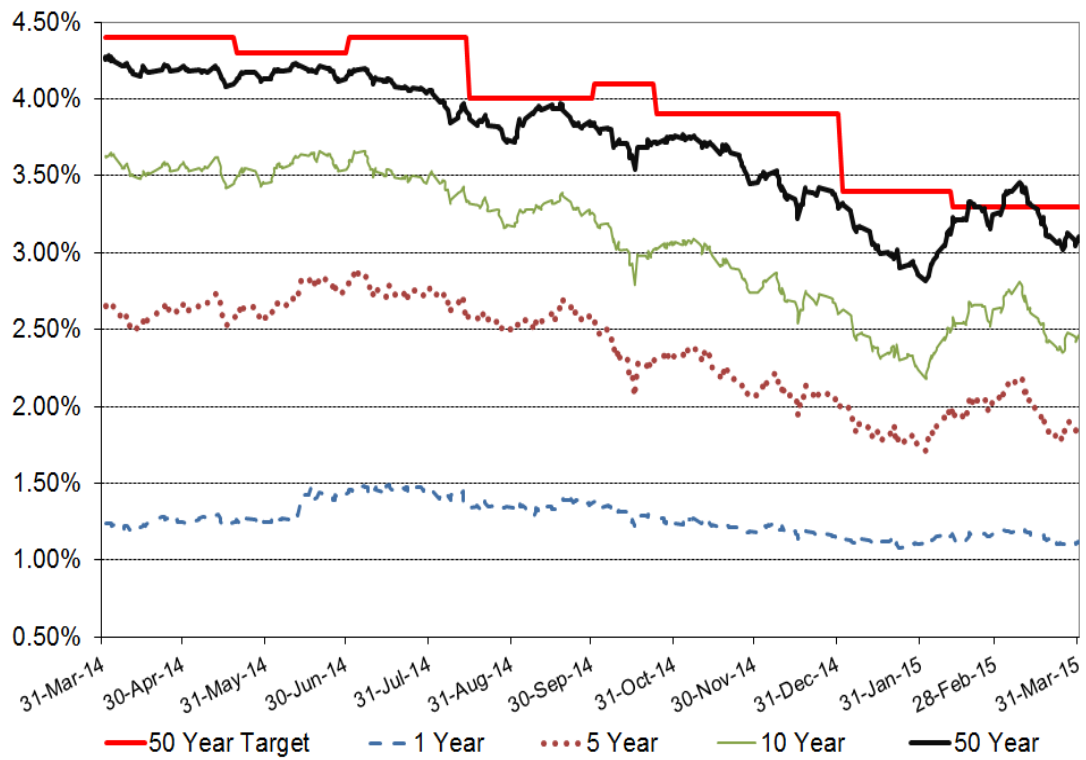




	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
1/4/14	1.240%	1.420%	1.990%	2.340%	2.650%	3.630%	4.290%	4.270%	1.250%
31/3/15	1.110%	1.190%	1.480%	1.680%	1.860%	2.450%	3.110%	3.080%	1.320%
High	1.490%	1.700%	2.280%	2.600%	2.870%	3.660%	4.300%	4.280%	1.340%
Low	1.080%	1.110%	1.380%	1.570%	1.710%	2.180%	2.850%	2.820%	1.250%
Average	1.266%	1.417%	1.863%	2.130%	2.362%	3.083%	3.737%	3.719%	1.290%
Spread	0.410%	0.590%	0.900%	1.030%	1.160%	1.480%	1.450%	1.460%	0.090%
High date	16/07/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	20/06/2014	03/04/2014	02/04/2014	17/09/2014
Low date	23/01/2015	06/01/2015	07/01/2015	07/01/2015	02/02/2015	02/02/2015	02/02/2015	02/02/2015	01/04/2014

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/14	1.24%	2.65%	3.63%	4.29%	4.27%
31/3/15	1.11%	1.86%	2.45%	3.11%	3.08%
Low	1.08%	1.71%	2.18%	2.85%	2.82%
Date	23/01/2015	02/02/2015	02/02/2015	02/02/2015	02/02/2015
High	1.49%	2.87%	3.66%	4.30%	4.28%
Date	16/07/2014	03/07/2014	20/06/2014	03/04/2014	02/04/2014
Average	1.27%	2.36%	3.08%	3.74%	3.72%

PWLB certainty maturity borrowing rates.



STROUD DISTRICT COUNCIL
AUDIT & STANDARDS COMMITTEE

**AGENDA
ITEM NO**

7 JULY 2015

10

Report Title	INTERNAL AUDIT PLAN MONITORING REPORT
Purpose of Report	To inform Members of the remaining audits completed as part of the 2014/15 Internal Audit Plan.
Decision(s)	The Committee RESOLVES to accept the report and the assurance given on the adequacy of internal controls operating in the systems audited.
Consultation and Feedback	Internal Audit findings are discussed with service managers. Management responses to audit recommendations are included in each assignment report.
Financial Implications and Risk Assessment	<p>There are no financial implications arising from the report.</p> <p>David Stanley Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk</p> <p><u>Risk Assessment</u> It is important that planned audits are carried out so that assurance can be given about the adequacy of the Council's control environment. If too few audits are undertaken, this limits the extent of assurance that can be given.</p>
Legal Implications	<p>The Committee is being requested to endorse the opinion of the report author and thus subject to being reasonably satisfied that sufficient information is available to do so, there are no direct legal implications.</p> <p>Karen Trickey Legal Services Manager Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk</p>
Report Author	Terry Rodway Internal Audit Manager Tel: 01453 754111 Email: terry.rodway@stroud.gov.uk
Options	Not applicable

Performance Management Follow Up	This is the final report relating to the 2014/15 Plan. The Committee will receive regular monitoring reports on achievement against the 2015/16 Internal Audit Plan.
Background Papers/ Appendices	Background papers - None Appendix A – List of the remaining audits completed as part of the 2014/15 Plan.

Background

1. At the Audit and Standards Committee meeting held on 25 March 2014 Members approved the Internal Audit Annual Plan 2014/15. In accordance with the requirements of the Public Sector Internal Audit Standards this report details the outcomes of Internal Audit work.

Progress

2. This is the final report on compliance against the 2014/15 Plan and includes details of the remaining audits completed as part of the 2014/15 Plan. The performance information is based on the number of completed audits vs. the number of planned audits (i.e. an output measure). The indicator for the 2014/15 Audit Plan is 92% (32 out of 35 planned audits completed), against a target of 90% (31 out of 35 planned audits completed).
3. Details of the audits completed are given in **Appendix A**. The Audit Opinion reached on each audit has been provided, which should provide Members with a view on the adequacy of the controls operating within each area audited.
4. It has been agreed previously that Members would be notified of any agreed Rank 1 'High Priority' and Rank 2 'Medium Priority' audit recommendations that had not been fully implemented by the agreed date. There were none identified during the period covered by this report.

Conclusions

5. The role of Internal Audit is to examine, evaluate, and report on the adequacy of internal controls. The audit work that has been completed has either identified that controls are operating as intended, or, where weaknesses have been identified, made recommendations to improve the level of control.

List of the remaining Audits completed as part of the 2014/15 Audit Plan

Audit	Comments	Level of Assurance
Housing Rents	<p><u>Audit Objective</u> The objective of the audit was to ensure that the following controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • Rent is charged on all housing property and is correctly calculated and valued. <p><u>Period of Audit</u> The audit covered the setting of housing rents for the 2015/16 financial year.</p> <p><u>Audit Opinion</u> On the basis of the work carried out during this audit, the audit opinion is that there is a Good level of assurance on the adequacy and operating effectiveness of controls in place relating to housing rents being correctly calculated..</p>	Good
Benefits	<p><u>Audit Objective</u> The objective of the audit was to ensure that the following controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • That the notified updated parameters (relating to 2015/16) are accurately loaded to the data held on Civica Open Revenues in line with the DWP Circular A18/2014. <p><u>Period of Audit</u> The audit covered the parameters for 2015/16</p> <p><u>Audit Opinion</u> On the basis of the work carried out during this audit, the audit opinion is that there is a Good level of assurance on the adequacy and operating effectiveness of controls in place relating to the updating of benefit parameters for 2015/16.</p>	Good
Council Tax	<p><u>Audit Objective</u> The objective of the audit was to ensure that the following controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • Periodic reconciliation of the Council Tax system to the Valuation Office property banding report; 	Satisfactory

	<ul style="list-style-type: none"> • Periodic reconciliation of the Council Tax system to the cash receipting system and general ledger • Periodic review of management exception reports e.g. suppressed accounts' overpayments, refunds • Periodic review of Discounts and exemptions • Access restrictions and review of access rights to the Council Tax system. <p><u>Period of Audit</u> The audit covered the testing of transactions for the financial year up to January 2015.</p> <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, the audit opinion is that there is a Satisfactory level of assurance over the adequacy and operating effectiveness of controls relating to the areas covered by this audit.</p>	
Canal Project – Canal Lock Gates contract	<p><u>Audit Objective</u> The objective of the audit was to ensure that the following controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • to verify that actual costs have been contained within contract figures • To obtain evidence that lock work by the contractor had been checked by prior to payment. <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, the audit opinion is that there is a Satisfactory level of assurance over the adequacy and operating effectiveness of controls relating to verification of costs incurred and work completed under this contract.</p>	Satisfactory
IT	<p><u>Audit Objective</u> The objective of the audit was to ensure that the following controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • Maintenance and publication of a comprehensive IT security policy; • Adequate password-based access restrictions to the network. <p>The audit also included a review of the Public Service Network (PSN) self assessment for 2014/15 approach to</p>	Satisfactory/ Limited

	<p>confirm as complete, appropriate and in line with supporting audit trail</p> <p><u>Period of Audit</u> The scope of the audit covered the 2014/15 financial year.</p> <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, the audit opinion is that there is a Satisfactory level of assurance over the adequacy and operating effectiveness of controls relating to the password-based access restrictions to the network and the PSN self assessment, but only a Limited level of assurance over the adequacy and operating effectiveness of controls relating to the maintenance and publication of a comprehensive IT security policy.</p> <p>The main areas of weakness identified for which one Rank 1 'High Priority' recommendation and five Rank 2 'Medium Priority' recommendations have been made, are as follows:</p> <ul style="list-style-type: none"> • The Information Security Policy review and update should be completed as soon as possible, authorised and published. • The Council should ensure that evidence of Information Security Policy sign up is retained for all officers e.g. within the employee HR file. • New user access requests (raised through the new user management system) should only be actioned by ICT following authorisation by both the new user line manager and HR • HR and Managers should be reminded of the ICT deregistration process - including the importance of complete and timely information submission to ICT, to ensure that leaver's network user access is disabled accordingly. • The Council should ensure that signed and authorised home working agreements are retained for all relevant employed Council officers e.g. within the employee HR file. • The Council should ensure that 'supporting explanation' statements made within the PSN self assessment reflect the 'current' situation at the point of statement completion and submission. Where controls are not in place or are in progress of review/implementation, these should be highlighted within the PSN self assessment with confirmation of 	
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	<p>target actions and implementation dates.</p> <p>The recommendations made as a result of this audit have been agreed by management with the latest implementation date being September 2015, except for the recommendation relating to the PSN self assessment which has been given a date of February 2016 to coincide with the next review.</p>	
<p>Canal Project – Wallbridge Lower Locks refurbishment contract</p>	<p><u>Audit Objective</u> The objective of the audit was to ensure that the following controls were in place and operating effectively:-</p> <ul style="list-style-type: none"> • The process for inviting submission and evaluation of Pre-Qualification Questionnaires (PQQs) was satisfactory; • Selection of contractors from the select list to be invited to tender for the Wallbridge Lower Lock refurbishment contract was carried out on an appropriate basis; • The contract was awarded in line with evaluation of tenders • The Contract Register was updated accordingly <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, the audit opinion is that there is a Satisfactory level of assurance over the adequacy and operating effectiveness of controls relating to the latter areas of the contract letting process ie tender receipt, opening and evaluation, contract award, however only a Limited level of assurance may be taken over the adequacy and operating effectiveness of controls relating to the early part of the procurement process.</p> <p>The main areas of weakness identified relate to the lack of documentary evidence to show:</p> <ul style="list-style-type: none"> • How the invitation to submit PQQs was carried out; • How the PQQ evaluation process was conducted and concluded by SDC officers; • How a select list was derived from PQQ evaluation; <p>Two Rank 2 ‘Medium Priority’ recommendations have been made as a result of this audit which have been agreed by management, with an agreed implementation date of June 2015.</p>	<p>Satisfactory/ Limited</p>

<p>Creditors</p>	<p><u>Audit Objective</u> The objectives for this audit were to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • The creditors system is periodically reconciled to the general ledger system; • There is an independent review of exceptions; • A review of purchase orders for which invoices have not been received (open orders) is performed; • Periodic clearance of suspense and holding account balances support by evidenced management checks; • Staff systems access levels and privileges are regularly reviewed to confirm staff access is still appropriate and ensures segregation of duties to key processes. <p><u>Period of Audit</u> The scope of the audit covered the eleven months to February 2015</p> <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, the audit opinion is that there is a Satisfactory level of assurance over the adequacy and operating effectiveness of controls relating all areas covered by the audit, except for the adequacy and operating effectiveness of controls relating to the creditor and suspense account reconciliations for which a Limited level of assurance has been provided.</p> <p>The main areas of weakness identified for which four Rank 2 'Medium Priority' recommendations have been made, are as follows:</p> <ul style="list-style-type: none"> • Inadequate arrangements to ensure that the creditor and suspense reconciliations were promptly completed during the long term absence of the Systems Accountant. As a result the May, June, July and August 2014 reconciliations were not completed until September 2014.; • The rational and the system parameters relating to the creditor and suspense reconciliations and exception reports have not been documented to show their purpose and design; • Documentation to support new supplier bank account details is not centrally filed with the suppliers Agresso account, but normally with the Service area and it is 	<p>Satisfactory/ Limited</p>
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	<p>not subject to independent checks;</p> <ul style="list-style-type: none"> • A small number of staff have update access to the supplier payment file before it is transferred to BACSTEL for transmission and payment. <p>The recommendations made as a result of this audit have been agreed by management with the latest implementation date being September 2015</p>	
Payroll	<p><u>Audit Objective</u> The objectives for this audit were to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • A regular reconciliation of the payroll system to the general ledger is performed and is subject to management review and approval; • An establishment list is periodically circulated to Service area management to check and confirm correct; • Exceptions (movement in net pay >20%) are promptly and correctly checked and subject to timely management review; • Systems access and privileges to the ResourceLink and MyView systems is restricted to appropriately authorised staff; • Payroll controls have been correctly designed and are appropriate to provide effective control environment assurance; <p><u>Period of Audit</u> The scope of the audit covered the 11 months to February 2015.</p> <p><u>Audit Opinion</u> On the basis of the work carried out and the number and classification of recommendations identified through audit testing, the audit opinion is that there is a Limited level of assurance over the adequacy and operating effectiveness of controls relating to the daily operation of the payroll functions.</p> <p>The main areas of weakness identified for which two Rank 1 'High Priority' recommendations and six Rank 2 'Medium Priority' recommendations have been made, are as follows:</p> <ul style="list-style-type: none"> • The net pay variance report, which is a key control, has not been promptly checked and subject to timely and comprehensive management review; 	Limited

	<ul style="list-style-type: none"> • A check, performed monthly by HR, to confirm that the Payroll Provider had correctly updated all starter, leaver and amendment instructions for the appropriate month stopped during 2014; • Payroll control general ledger accounts have not been promptly completed within Finance approved timescale and subject to timely management review; • There is no control check to confirm the completeness of the net pay variance report, i.e. all employees and their net pay has been correctly and completely reported; • There is no formal recovery process/policy for salary overpayments. In addition there is no central place where HR management can review all overpayments (current and closed) to confirm that the recovery process is being correctly followed: • There is no documentary evidence to confirm that an annual review of staff access to the MyView system has been performed in accordance with the Information Security Policy; • The member of staff authorised to approve the salary related BACS payments does not first obtain formal confirmation that Finance and HR have successfully completed their checks of the payroll; • There was no documentary evidence to confirm that HR control checks to confirm correct calculation and payment had been undertaken for the global pay amendments in December (non consolidated pay) and January 2015 (pay award). <p>The recommendations made as a result of this audit have been agreed by management with the latest implementation date being</p>	
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The report includes an ‘opinion’ on the adequacy of controls in the area that has been audited, classified in accordance with the following descriptions:

CONTROL LEVEL	DESCRIPTION
Good	Robust framework of controls – provides substantial assurance. A few minor recommendations (if any) i.e. Rank 3 (Low Priority).
Satisfactory	Sufficient framework of controls – provides satisfactory level of assurance – minimal risk. A few areas identified where changes would be beneficial. Recommendations mainly Rank 3 (Low Priority), but one of two in Rank 2 (Medium Priority).
Limited	Some lapses in framework of controls – provides limited assurance. A number of areas identified for improvement. Mainly Rank 2 (Medium Priority) recommendations, but one or two Rank 1 (High Priority) recommendations.

Unsatisfactory	Significant breakdown in framework of controls – provides unsatisfactory level of assurance. Unacceptable risks identified – fundamental changes required. A number of Rank 1 (High Priority) recommendations.
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Internal Audit recommendations are graded as follows:

RANK		DESCRIPTION
1	High Priority	Necessary due to statutory obligation, legal requirement, Council policy or major risk of loss or damage to Council assets, information or reputation, or, compliance with External Audit identified key control.
2	Medium Priority	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist.
3	Low Priority	Current procedure is not best practice and could lead to minor inefficiencies.

STROUD DISTRICT COUNCIL
AUDIT & STANDARDS COMMITTEE

**AGENDA
ITEM NO**

7 JULY 2015

11

Report Title	REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT
Purpose of Report	To inform Members of the outcome of the review of the effectiveness of internal audit as required under the Accounts and Audit (England) Regulations 2011.
Decision(s)	The Committee is asked to: a) approve the review process and b) note the outcome of the review of the effectiveness of Internal Audit.
Consultation and Feedback	The feedback received from customers of the Internal Audit service has been included in the report.
Financial Implications and Risk Assessment	There are no financial implications arising from the report. The need for the review is to ensure that the opinion on the adequacy of the control environment, contained in the annual report of the Internal Audit Manager, may be relied upon as a key source of evidence in the Annual Governance Statement. The focus of this self-assessment has been on the delivery of the internal audit service to the required standards in order to produce the required outcome i.e. a reliable assurance on internal control and the management of risks in the authority Sandra Cowley, Strategic Head (Finance and Business Services) Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk
Legal Implications	No direct legal implications. The Committee acts as check and balance on the appropriateness of the review assessment. Karen Trickey, Legal Services Manager and Monitoring Officer Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk

Report Author	Sandra Cowley, Strategic Head (Finance and Business Services) Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk
Options	N/A
Performance Management Follow Up	The review is undertaken annually.
Background Papers/ Appendices	The Accounts & Audit (England) Regulations 2015. Public Sector Internal Audit Standards (PSIAS). CIPFA Local Government Application Note for the UK PSIAS. Appendix A – Review of the effectiveness of Internal Audit 2014 -15. Appendix B – Table of Non/Partial Conformance

1. Background

- 1.1 The Accounts and Audit (England) Regulations 2011 includes the requirement for authorities to review the effectiveness of its internal audit once a year. The Regulations further state that the findings of this review should be included in the Annual Governance Statement.
- 1.2 The Department for Communities and Local Government (DCLG) has previously issued guidance that suggests, for authorities that have an audit committee, it is the appropriate group to receive and consider the results of the review.
- 1.3 Guidance issued by the IPF Finance Advisory Network (FAN) on how the review might be undertaken suggests that the Head of Internal Audit could carry out a self-assessment and that following the completion of this self-assessment, this would then have to be independently reviewed before being submitted to the audit committee. The outcome of the self-assessment carried out by the Internal Audit Manager, is detailed in Appendix A, and this has been reviewed by the Strategic Head of Finance and Business Services, who is also the Council's s151 Officer.
- 1.4 The overall conclusion is that internal audit at SDC is effective. Although the self-assessment has identified a small number of 'gaps' in conformance with the Public Sector Internal Audit Standards (PSIAS) (detailed at Appendix B), these do not materially affect the reliance the Council can place on the Internal Audit Manager's opinion on the adequacy of the control environment.

Report to Strategic Head of Finance and Business Services

Review of the Effectiveness of Internal Audit 2014/15

1. Introduction

- 1.1 The Accounts and Audit (England) Regulations 2011 include the requirement for authorities to conduct a review of the effectiveness of internal audit, at least once a year.
- 1.2 The Department for Communities and Local Government (DCLG) has previously issued guidance that suggests, for authorities that have an audit committee, it is the appropriate group to receive and consider the results of this review.
- 1.3 Guidance issued by the IPF Finance Advisory Network (FAN) on how the review might be undertaken suggests that the Head of Internal Audit could carry out a self-assessment and that following the completion of this self-assessment, this would then have to be independently reviewed before being submitted to the audit committee. The outcome of the self-assessment carried out by the Internal Audit Manager is detailed in Appendix A.

2. Results of the Review

2.1 Definition of 'Effectiveness'

The effectiveness of internal audit has been taken to mean 'an assurance function that provides an independent and objective opinion to the organisation on the control environment'.

2.2 Internal Audit at SDC

Stroud District Council (SDC) and Gloucester City Council (GCC), have formed the Gloucestershire Audit & Assurance Partnership (**G A A P**) in order to deliver a professional, cost effective, efficient, internal audit function to the partner organisations. The provision of the Internal Audit service at SDC is by a team consisting of 3 staff that is managed by the Internal Audit Manager.

The mission statement of the service, as identified in the **G A A P** Business Plan, is 'to provide an efficient, cost effective Audit & Assurance service which gives a professional, independent and objective opinion on the adequacy and effectiveness of the Council's control environment comprising risk management, internal control, and, governance.

2.3 Public Sector Internal Audit Standards (PSIAS)

The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced. These Standards are intended to promote further improvement in the professionalism, quality, consistency, and, effectiveness of internal audit across the public sector.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced a Local Government Application Note to provide guidance to local authorities on how to apply the new Standards.

One of the specific requirements of the Accounts & Audit Regulations 2011 is that a relevant body must '*undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*'. CIPFA have advised that 'proper practices' for UK local government is the PSIAS plus the Local Government Application Note. Therefore the content of both these documents must be followed in order to satisfy proper internal audit practices. The Local Government Application Note includes a checklist which is useful for assessing conformance with the PSIAS and therefore informing the review of the effectiveness of internal audit.

A copy of the completed checklist is separate to this report. A table identifying the areas of partial/non conformance with the Standards is included at Appendix B.

2.4 Key Performance Indicators for Internal Audit

The PSIAS state that performance monitoring should include performance targets. Performance is regularly monitored by the Internal Audit Manager using key performance indicators (KPI's) for the service. Performance is also reported to Members as part of the Internal Audit Plan Monitoring Report that is presented to the Audit & Standards Committee on a quarterly basis.

For 2014/15, there were only 2 KPI's for internal audit. These were the percentage of the approved plan completed, and, the level of customer satisfaction. Performance on achievement against the approved plan has been reported to Members as part of the Internal Audit Plan Monitoring Report which is presented to the Audit & Standards Committee on a quarterly basis.

The KPI's for Internal Audit are as follows:-

KPI	Target	Perf. 2012-13	Perf. 2013-14	Perf. 2014-15
Number of audits completed as a % of planned audits	90%	91%	93%	92%
Level of Customer Satisfaction (per audit)	Good (3)	>Good (3.39)	>Good (3.42)	>Good (3.61)

In addition to the above, Internal Audit provide, on a quarterly basis to the Audit Committee, a comprehensive summary of all Rank1 'High Priority', and Rank 2 'Medium Priority' recommendations that were agreed to be

implemented but that remain outstanding as a result of internal audit follow up work undertaken.

2.5 Customer Feedback

On completion of each audit assignment, the auditee is asked to complete a questionnaire. This asked auditees to give their views, on a scale of 1 - 4 (1 = Poor, 2 = Fair, 3 = Good, 4 = Very Good) on the audit. For the 2014/15 audits that had been completed, 13 survey forms had been completed and returned, which represents approximately 41% of the audits completed. The results of the returned survey forms indicate a 'Good' rating (average score 3.61).

The PSIAS suggests that in addition to obtaining user feedback for each individual audit, user feedback for the whole service should also be obtained periodically. Although no such survey was carried out during 2014/15, one of the agreed actions within the Financial Services Key Action Plan 2015/16 is to undertake a customer survey of Financial Services and Internal Audit.

2.6 External Audit review of Internal Audit

The Audit team have a joint working protocol with the Council's External Auditor. Close co-operation between audited bodies' internal and external auditors helps to ensure that audit resources are used efficiently and to maximum effect. The aim of the joint working protocol is for External Audit to place a high degree of reliance on the work of the Audit team. This will help inform their judgement on the council's financial control environment, and is also one of the factors taken into account when calculating the External Audit fee.

The following comments have been received from the Council's External Auditor KPMG:-:

'Based on the files reviewed, KPMG did not identify any significant issues with Internal Audit's work and considered that Internal Audit's files contained appropriate evidence to support the conclusions reached and clear evidence of management review of work completed.'

3. **Conclusions**

In essence, the need for the review is to ensure that the opinion on the adequacy of the control environment, contained in the annual report of the Internal Audit Manager, may be relied upon as a key source of evidence in the Annual Governance Statement. The focus of this self-assessment has been on the delivery of the internal audit service to the required standards in order to produce the required outcome i.e. a reliable assurance on internal control and the management of risks in the authority.

The overall conclusion is that internal audit at SDC is effective. Although this self-assessment has identified a number of 'gaps' in conformance with the PSIAS, it is the author's view that these do not materially effect the reliance the Council can place on the Internal Audit Manager's opinion on the adequacy of the control environment.

Terry Rodway
Internal Audit Manager
1st June 2015

REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2014/15

The following narrative provides a commentary on those areas where it has been assessed that the Internal Audit service does not fully conform to the PSIAS.

Non Conformance

Standard	Conformance to the Standard	Evidence	Action	Date
1110 – Organisational Independence	<p>The following examples can be used by the CAE when assessing the organisational independence of the internal audit activity:</p> <ul style="list-style-type: none"> - The Audit & Standards Committee approves the internal audit budget and resource plan. - The Audit & Standards Committee approves decisions relating to the appointment and removal of the Internal Audit Manager. - The chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Internal Audit Manager. - Feedback is sought from the chair of the Audit & Standards Committee for the Internal Audit Manager's performance appraisal. 	Recognised as non-conformance items – reported to Audit & Standards Committee 26/09/13.	<i>Accepted by Strategic Head of Finance & Business Services.</i>	<i>N/A</i>

Appendix B

1312 – External Assessments	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?	Whilst the requirement to carry out an external assessment is known, this has not been carried out or planned to be carried out.	<i>Discuss with the Strategic Head of Finance & Business Services and the Chair of Audit & Standards Committee the scope and timetable for the external review</i>	<i>By 31/03/16</i>
2500 – Monitoring Progress	Where issues have been identified during the follow-up process, has the CAE considered revising the internal audit opinion?	A revised internal audit opinion is not produced.	<i>The IA Manager to consult further on this. Standard to obtain details of best practice.</i>	<i>By 30/09/15</i>

Partial Conformance

Standard	Conformance to the Standard	Evidence	Action	Date
1 - Definition of IA	Is the internal audit activity independent?	Internal Audit Manager also has responsibility for the Anti-Fraud & Corruption policies.	<i>Accepted by Strategic Head of Finance & Business Services (s151 Officer). Internal audit Anti-fraud arrangements to be sourced externally.</i>	N/A
1130 – Impairment to Independence or Objectivity	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?	Wherever possible, however, scope for rotation is limited within a small internal audit team	<i>Accepted by the Strategic Head of Finance & Business Services.</i>	N/A

Appendix B

Standard	Conformance to the Standard	Evidence	Action	Date
1300 – Quality Assurance and Improvement Programme	Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	The main elements of a QAIP are in place e.g. ongoing performance monitoring; periodic assessment, however the 'Programme' has not been formally documented.	<i>Produce a formal Quality Assurance and Improvement Programme. This will be undertaken as part of the new Internal Audit shared service with Glos. County Council and Stroud District Council.</i>	<i>By 31/3/16</i>
1310 – Requirements of the Quality Assurance and Improvement Programme	Does the QAIP include both internal and external assessments?	The internal assessment is carried out on an annual basis as per the requirements of the Accounts & Audit Regs 2011. Whilst the requirement for an external assessment is recognised, the timing of the review is still to be agreed.	<i>Discuss with the Strategic Head of Finance & Business Services (s151 Officer) and the Chair of Audit & Standards Committee the scope and timetable for the external review</i>	<i>By 31/3/16</i>
1311 – Internal Assessments	Does ongoing performance monitoring include comprehensive performance targets?	The performance targets in place relate to the number of days to complete an individual audit (individual – based on audit budget) and target % completion of the annual plan (team). Limited cost comparison carried out during 2014/15.	<i>Discuss with Strategic Head of Finance & Business Services (s151 Officer) the future potential use of the CIPFA Benchmarking Club.</i>	<i>By 30/09/15</i>

Appendix B

Standard	Conformance to the Standard	Evidence	Action	Date
1320 – Reporting on the Quality Assurance and Improvement Programme	Has the CAE reported the results of the QAIP to senior management and the board? Note that:- (a) the results of both external and periodic internal assessment must be communicated upon completion.	The results of the periodic internal assessment are report to Corporate Team and Audit & Governance Cttee. Whilst the requirement for an external assessment is recognised, the timing of the review is still to be agreed.	<i>Discuss with the Strategic Head of Finance & Business Services (s151 Officer) and the Chair of Audit & Standards Committee the scope and timetable for the external review</i>	<i>By 31/3/16</i>
2010 - Planning	Does the risk based plan take into account the organisation's assurance framework	No formal assurance mapping framework in place. Assurance arrangements in place identified via 'local knowledge' of the organisation.	<i>This issue will be discussed with the Strategic Head of Finance & Business Services to determine the extent of the work required.</i>	<i>By 31/12/15</i>
2040 – Policies and Procedures	Has the Internal Audit Manager developed and put into place policies and procedures to guide the internal audit activity?	The Internal Audit Charter is the main policy that guides audit procedure. This was last updated in Sept 14. Other policies and procedures (e.g. audit manual; standard working papers; standard report template) are in place, however some require review or are inconsistent between audit sites.	<i>Documentation to be reviewed, updated, and communicated to the team in 2014/15.</i>	<i>Complete review by 31/03/15</i>

STROUD DISTRICT COUNCIL
AUDIT & STANDARDS COMMITTEE

**AGENDA
ITEM NO**

7 JULY 2015

12

Report Title	INTERNAL AUDIT ANNUAL REPORT 2014/15
Purpose of Report	To provide Members with a brief overview of Internal Audit work, compliance with council policies and general probity issues for the financial year ending 31 st March 2015, and to provide an opinion on the overall adequacy and effectiveness of the organisation's control environment.
Decision(s)	The Committee is asked to resolve to endorse the assurance from the Internal Audit Manager that a satisfactory level of assurance can be given that there is a generally sound system of internal control designed to meet the Council's objectives and that controls are generally being applied consistently.
Consultation and Feedback	None
Financial Implications and Risk Assessment	<p>There are no financial implications arising from the report</p> <p>David Stanley Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk</p> <p>Risk Assessment:- The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The organisation's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.</p>
Legal Implications	<p>The Committee is being requested to endorse the opinion of the report author and thus subject to being reasonably satisfied that sufficient information is available to do so, there are no direct legal implications.</p> <p>Karen Trickey Legal Services Manager Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk</p>

Report Author	Terry Rodway Internal Audit Manager Tel: 01453 754111 Email: terry.rodway@stroud.gov.uk
Options	Consideration could be given to not producing an Annual Report however this would not be in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS)
Performance Management Follow Up	Regular reporting on progress against the 2015/16 Internal Audit Annual Plan to future meetings of the Audit & Standards Committee.
Background Papers/ Appendices	Public Sector Internal Audit Standards (PSIAS) CIPFA Local Government Application Note for the UK PSIAS Appendix A - Details of the audits that received a 'Limited' or 'Unsatisfactory' level of assurance

INTERNAL AUDIT MANAGER'S ANNUAL REPORT AND OPINION 2014/15

1. The Council's Internal Audit Manager is required to produce a formal annual report and opinion in accordance with the Public Sector Internal Audit Standards (PSIAS). This forms an integral part of the formulation of the Council's Annual Governance Statement, as required under the Accounts and Audit Regulations 2011 and the CIPFA "Framework for Delivering Good Governance in Local Government".
2. This report encompasses the reporting requirements specified in Standard 2450 of the PSIAS.
3. Opinion on the Overall Adequacy and Effectiveness of the Council's Internal Control Environment

My overall opinion is that a satisfactory level of assurance can be given that there is a generally sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently.

4. Qualifications to the Opinion

My opinion is based upon, and limited to, the work performed during the year. The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the Council, but is based upon the range of individual opinions arising from risk based audit assignments completed during 2014/15.

These individual opinions are summarised below:

Opinion

2014/15
No. %

Good	9	21
Satisfactory	19	45
Limited	12	29
Unsatisfactory	<u>2</u>	<u>5</u>
Total	<u>42</u>	<u>100</u>

NB On a number of audits, a ‘split’ opinion has been provided. This approach helps to identify to management the specific areas of control that are operating/not operating as intended, rather than provide an overall conclusion on all the areas covered by the audit. Where a ‘split’ opinion has been provided on an audit, both opinions have been included in the above table.

Details of the audits that received a ‘Limited’ or ‘Unsatisfactory’ level of assurance are provided in Appendix A.

No operational constraints have been placed upon Internal Audit, apart from agreed budgetary control provisions.

5. Issues Relevant to the Preparation of the Annual Governance Statement

From the risk-based Internal Audit assignment work undertaken during 2014/15, there are no issues of which I am aware which I regard as sufficiently significant to be considered in relation to the preparation of the Council’s AGS. Whilst the Internal Audit work undertaken did result in two audits with an unsatisfactory level of assurance (Car Parks and Cash & Bank) in my view, the weaknesses identified are not deemed to be significant governance issues.

6. Summary of Audit Work Undertaken

6.1 Annual Plan

The 2014-2015 Annual Audit Plan was approved by the Audit & Standards Committee on 25th March 2014. The Plan was developed using risk-based principles that started with the maintenance of an audit needs assessment of all the areas of the council that could be included within an annual audit plan. This needs assessment was split into work on corporate governance issues, work on fundamental financial systems, and, work of a service base or cross council nature.

6.2 Staffing

Stroud District Council (SDC) and Gloucester City Council (GCC), have formed the Gloucestershire Audit & Assurance Partnership (**G A A P**) in order to deliver a professional, cost effective, efficient, internal audit function to the partner organisations. The provision of the Internal Audit service is by a team consisting of 6 staff, 3 (2.6 FTE) based at SDC, and 3 (2.6 FTE) based at GCC. In addition, the team is managed by the Head of Partnership, who acts as the Internal Audit Manager for SDC.

6.3 Progress against Agreed Plan

92% of the 2014/15 Plan had been completed by the audit year end. Guidance suggests (at least) 90% for completion of the audit plan as a good benchmark.

6.4 Recommendations

Every internal audit report, where appropriate, includes an Audit Recommendation sheet which the Strategic Head of Service, or Head of Service, is requested to complete. The completed Recommendation Sheet should indicate the actions that have been taken, or are planned to be taken, in relation to each agreed recommendation.

Agreed recommendations are subject to a follow-up audit, normally three months after the agreed implementation date, in order to ascertain that the recommendations have been implemented. As per the request by Members of the Audit & Standards Committee, they were informed of any Rank 1 'High Priority', and, Rank 2 'Medium Priority' recommendations that had not been implemented by the agreed implementation date, via the quarterly Internal Audit Plan Monitoring Report.

7. Internal Audit Standards

The Council's Internal Audit Service is operated in accordance with the PSIAS.

In accordance with the requirements of the Accounts and Audit (England) Regulations 2011, a review of the effectiveness of internal audit has been undertaken. A detailed report on the review was submitted to the meeting of the Audit & Standards Committee held on 7th July 2015.

The result of the review was that, although a number of gaps in conformance with the Standards were identified, these do not materially affect the reliance the Council can place on the Internal Audit Manager's opinion on the adequacy of the control environment.

8. External Audit

The Audit team have a joint working arrangement with the Council's External Auditor. Close co-operation between audited bodies' internal and external auditors helps to ensure that audit resources are used efficiently and to maximum effect. The aim of the joint working arrangement is for External Audit to place a high degree of reliance on the work of the Internal Audit team. This will help inform their judgement on the council's financial control environment, and is also one of the factors taken into account when calculating the External Audit fee.

The following comments have been received from the Council's External Auditor KPMG:

'Based on the files reviewed, KPMG did not identify any significant issues with Internal Audit's work and considered that Internal Audit's files contained appropriate evidence to support the conclusions reached and clear evidence of management review of work completed.'

9. Opinion Survey

On completion of each audit assignment, the auditee is asked to complete a questionnaire. This asked auditees to give their views, on a scale of 1 - 4 (1 = Poor; 2 = Fair; 3 = Good; 4 = Very Good) on the audit. For the 2014/15 audits that had been completed, 13 completed survey forms have been returned, which represents approximately 41% of the main audits completed. The results of the returned survey forms indicate a 'Good' rating (average score 3.61).

10. Audit Plan 2015/16

The Council's Internal Audit Plan for 2015/16 was approved by the Audit and Standards Committee on 7th April 2015.

In March 2015, Council approved the proposal to enter into a new internal audit shared service arrangement with Gloucester City Council and Glos. County Council. This new shared service commenced on 1st June 2015. Although under this new arrangement all Internal Audit staff transferred, under TUPE arrangements, to Glos. County Council, 3 staff will remain based at Stroud District Council offices.

APPENDIX A

Details of the audits that received a 'Limited' or 'Unsatisfactory' level of assurance

Audit	Limited	Unsatisfactory
Council Tax Discount Fraud	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none">• The Council should introduce a policy specifically dealing with SPD fraud..	
Food Safety	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none">• An unqualified Officer, although authorised by the Head of Environmental Control, is undertaking food hygiene inspections, albeit on low risk food operators, in contravention of the Food Safety Code of Practice.• There is no documentary evidence, such as a 'gap analysis', that clearly details compliance with the Food Safety Code of Practice rules and regulations, including details of any exceptions, actions to be taken to resolve the issues and where non compliance has been accepted;• There was no documentary evidence of the supervisory and data validation checks. In addition audit tests have highlighted a number of issues that indicate that the extent and level of checks performed may not be sufficient;• Regular identification and review of inspections, interventions and complaints that remain open for further investigation to confirm if still appropriate is not carried out.• A regular review, at least annually, of staff access and privileges to the Uniform system food safety module is not performed to confirm	

	<p>appropriate. Internal Audit tests identified that a number of staff, who have left SDC employment, still have access to the Uniform system. In addition Officers not specifically responsible for food safety have update access to the food safety element in the Uniform system that may not be appropriate.</p>	
Community Grants	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> • Duplicate payment of a grant in 2013/14 which the existing grant monitoring controls, and budgetary controls, did not identify. 	
Housing Contract - Servicing and Repairs to Domestic Heating Appliances Contract	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> • Lack of documentary evidence to confirm management monitoring and approval over the termination process. 	
Brimscombe Port	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> • The Memorandum of Agreement between the Council and the Stroud Valley Canal Company (SVCC) was not formally agreed until 10 months after the council took over the operation and management of Brimscombe Port; • SDC were not fully aware of the complete financial accounting position and arrangements for Brimscombe Port until sometime after they took over the operation and management of it in December 2013; • Quarterly reports with accounts, including a list of outstanding 	

	<p>debtors has not been provided on a timely basis to the SVCC Board as per the Memorandum of Agreement;</p> <ul style="list-style-type: none"> • There is no documentary evidence of regular bank, sales and purchase ledger control account reconciliations that have also been subject to management review and approval; • Outstanding debtors have not been pursued in accordance with SDC's recovery procedures and the tenancy agreements, due to issues with the financial records and debtor disputes; • There was no documentary evidence to confirm that the grant conditions had been satisfied by SVCC prior to the payment of the 2013/14 grant by the Council. As at the date of the audit, no grant had been paid for 2014/15. • The key risk of taking on the operation and management of Brimscombe Port, as noted in the 14th November 2013 and 27th March 2014 Strategy and Resources Committee reports, has not been included in the Corporate Risk Register (Excelsis) and therefore subject to formal management and monitoring. 	
General Ledger	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> • The process for reviewing all Agresso users annually should be expedited. 	
Benefits	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> • The regular reconciliations between the Benefits system to General Ledger, Council Tax and Housing Rents systems are not subject to management review to confirm that they have been promptly completed and correctly completed and that there are no unmatched or long outstanding unresolved items. 	

	<ul style="list-style-type: none"> • Not all write off of benefit debts are presented to the appropriate staff and/or committee for review and formal authorisation to write off as per the Financial Regulations. 	
Sundry Debtors	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> • The Sundry Debtor Payment Holding control general ledger account was not subject to Finance management review and approval to confirm that the monthly reconciliations had been promptly completed, correctly performed and that there were no unmatched or long outstanding items. • Inadequate arrangements in place to ensure that the sundry debtor reconciliation was promptly completed during the long term absence of the Systems Accountant. 	
Payroll	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> • The net pay variance report, which is a key control, has not been promptly checked and subject to timely and comprehensive management review; • A check, performed monthly by HR, to confirm that the Payroll Provider had correctly updated all starter, leaver and amendment instructions for the appropriate month stopped during 2014. ; • Payroll control general ledger accounts have not been promptly completed within Finance approved timescale and subject to timely management review ; • There is no control check to confirm the completeness of the net pay variance report, i.e. all employees and their net pay has been correctly and completely reported; 	

	<ul style="list-style-type: none"> • There is no formal recovery process/policy for salary overpayments. In addition there is no central place where HR management can review all overpayments (current and closed) to confirm that the recovery process is being correctly followed; • There is no documentary evidence to confirm that an annual review of staff access to the MyView system has been performed in accordance with the Information Security Policy; • The member of staff authorised to approve the salary related BACS payments does not first obtain formal confirmation that Finance and HR have successfully completed their checks of the payroll; • There was no documentary evidence to confirm that HR control checks to confirm correct calculation and payment had been undertaken for the global pay amendments in December (non consolidated pay) and January 2015 (pay award). 	
IT	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> • The Information Security Policy review and update should be completed as soon as possible, authorised and published. • The Council should ensure that evidence of Information Security Policy sign up is retained for all officers e.g. within the employee HR file. • New user access requests (raised through the new user management system) should only be actioned by ICT following authorisation by both the new user line manager and HR • HR and Managers should be reminded of the ICT deregistration process - including the importance of complete and timely information submission to ICT, to ensure that leaver's network user access is disabled accordingly. 	

	<ul style="list-style-type: none"> • The Council should ensure that signed and authorised home working agreements are retained for all relevant employed Council officers e.g. within the employee HR file. • The Council should ensure that ‘supporting explanation’ statements made within the PSN self assessment reflect the ‘current’ situation at the point of statement completion and submission. Where controls are not in place or are in progress of review/implementation, these should be highlighted within the PSN self assessment with confirmation of target actions and implementation dates. 	
Canal Project - Wallbridge Lower Locks refurbishment contract	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> • How the invitation to submit PQQs was carried out; • How the PQQ evaluation process was conducted and concluded by SDC officers; • How a select list was derived from PQQ evaluation; 	
Creditors	<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> • Inadequate arrangements to ensure that the creditor and suspense reconciliations were promptly completed during the long term absence of the Systems Accountant. As a result the May, June, July and August 2014 reconciliations were not completed until September 2014; • The rationale and the system parameters relating to the creditor and suspense reconciliations and exception reports have not been documented to show their purpose and design; • Documentation to support new supplier bank account details is not centrally filed with the suppliers Agresso account, but normally with the Service area and it is not subject to independent checks. ; 	

	<ul style="list-style-type: none"> A small number of staff have update access to the supplier payment file before it is transferred to BACSTEL for transmission and payment. 	
Cash & Bank		<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> The monthly reconciliation of the procurement card control general ledger account had not been performed since March 2014, as at the date of the audit. The balance on the account was approximately £31k of which £10k could be classified as timing differences.
Car Parks		<p>Main areas of weakness identified:-</p> <ul style="list-style-type: none"> The contract for the collection and banking of car park takings, which was let approximately 9 years ago, does not specify a termination date; At the time of the audit there was no documented and agreed contingency plan to account for the risk that all car park machines on the same site were not operating as intended; The Council took over responsibility for the management and operation of the Merrywalks MSCP on 2nd

		<p>December 2013. However, the Management Agreement between the Council and the landlord, at the time of the audit, had still not been formally agreed and approved;</p> <ul style="list-style-type: none"> • There are a number of issues with the car park machine cash collection, banking and reconciliation processes and controls e.g. Balancing Tickets from the car park machines recording the total value of money taken have not always been provided by the Contractor resulting in the council being unable to confirm that all the money due has been received; and, the late receipt of the relevant documents from the Contractor has resulted in SDC not always being able to carry out the required control checks in a timely manner. • Appropriate checks on the monthly invoices submitted by the Contractor for the cash collection and banking service have not been undertaken resulting in over payment for contractual services that have not been performed. In addition the charges made could
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		<p>not be verified to contract documentation;</p> <ul style="list-style-type: none"> • The general ledger account postings include the total cash banked by the Contractor rather than the amount shown on the car park machine 'Balancing Tickets'. Therefore, any differences between takings and cash banked by the Contractor are not identified and monitored; • There are no checks performed to confirm that car park money collected via debit or credit card has been correctly and fully accounted for; • The monthly car park cash and notes general ledger reconciliations are not always performed promptly and are not subject to management review and approval. In addition a copy of the reconciliation is not provided to Community Safety management as budget holders; • There is no regular reconciliation of season ticket income between the car park back office systems and general ledger; • A regular review of staff systems
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		<p>access to the car park back office systems is not performed to confirm correct and that it remains appropriate to staff job responsibilities;</p> <ul style="list-style-type: none">• The 'management' logon passwords to one of the car park back office systems are known to operational staff;• Where SDC staff are involved, there is a lack of separation of duties in respect of cash machine float money replenishment arrangements;• Not all payments due to the Landlord have been made from the commencement date of the Merrywalks MSCP Management Agreement.
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