

# Anti-fraud and Corruption

Policy Statement and Strategy  
2017-2019

# Contents

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- Anti Fraud and Corruption Policy Statement ..... 3
- Anti Fraud and Corruption Strategy ..... 4
- Scope ..... 7
- What are the aims and objectives of the strategy?..... 8
- What is SDC’s approach to Countering Fraud?..... 9
- Fighting Fraud and Corruption Locally: Acknowledge, Prevent, Pursue .....10
- Responsibilities .....11
- Reporting, Advice and Support.....12
- Further Information .....13
- Strategy Review .....14
- Appendix 1 Key fraud indicators .....15
- Appendix 2 Types of Fraud.....16
- Appendix 3 SDC’s Fraud Response Plan .....17
- Appendix 4 Anti-Bribery Policy .....18
- Appendix 5 Anti-Money Laundering Policy .....21

# Anti Fraud and Corruption Policy Statement

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Fraud costs the UK economy around £193 billion a year – equating to more than £6,000 lost per second every day. It dwarfs previous estimates produced by the UK Government which put the figure at around £50 billion in 2013. Fraud in the public sector is around £37.5 billion and is equivalent to 5.5 per cent of the £694 billion spent annually.

This statement sets out the Council's policy in relation to fraud and corruption. It has the full support of the Council, the Council's Audit and Standards Committee and Corporate Team.

The Council takes its responsibilities to protect the public purse very seriously and is fully committed to the highest ethical standards, in order to ensure the proper use and protection of public funds and assets.

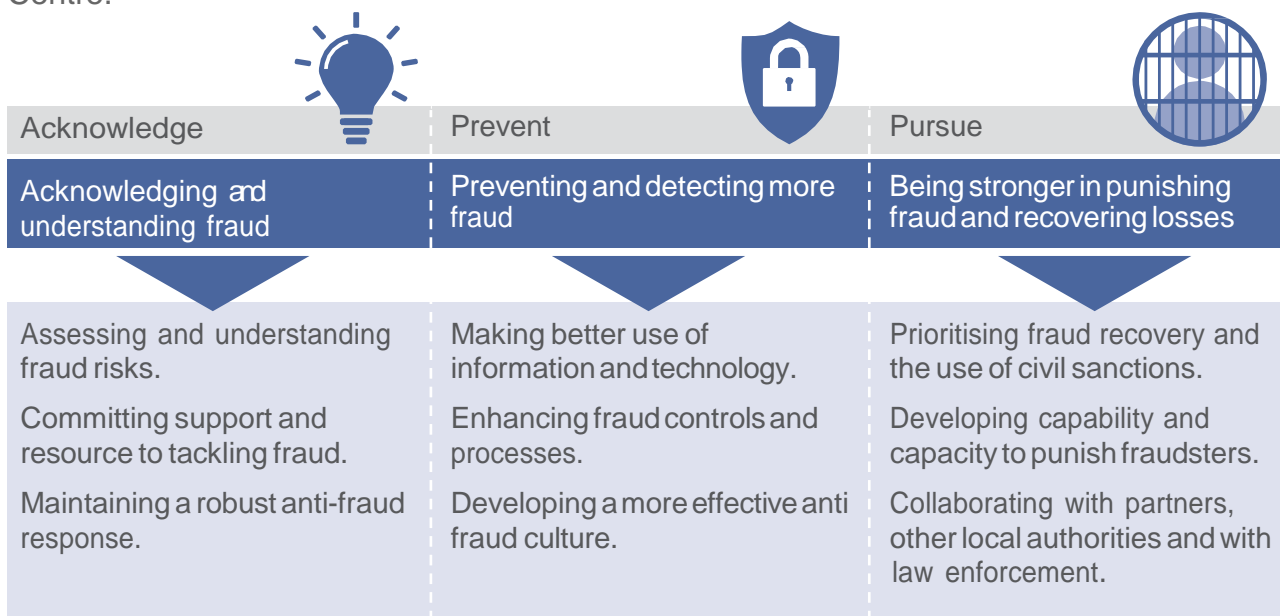
The Council will not tolerate fraud or corruption by its councillors, employees, suppliers, contractors, partners or service users and will take all necessary steps to investigate all allegations of fraud, bribery or corruption and pursue sanctions available in each case, including removal from office, disciplinary action, dismissal and/or prosecution. The required ethical standards are included in both our Members Code of Conduct and Employees Code of Conduct.

To fulfil the Council's Strategy, we need to maximise the financial resources available to us. In order to do this, we aim to reduce fraud and misappropriation to zero.

This policy statement is underpinned by an Anti Fraud and Corruption Strategy, which sets out the key responsibilities with regard to fraud prevention, what to do if fraud is suspected and the action that will be taken by management.

The strategy is based upon three key themes: **Acknowledge, Prevent and Pursue** and adheres to the Local Government Counter Fraud and Corruption Strategy 2016 - 2019: Fighting Fraud and Corruption Locally, which is supported by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud

Centre.



## Anti Fraud and Corruption Strategy

Stroud District Council has a **zero tolerance** stance to all forms of fraud, bribery, corruption and theft, both from within the Council and from external sources. We recognise fraud can:

- Undermine the standards of public service that the Council is attempting to achieve;
- Reduce the level of resources and services available for the residents of Stroud; and
- Result in major consequences which reduce public confidence in the Council.

### What is Fraud?

**Fraud:** Is defined by the [Fraud Act 2006](#) (at [UK Legislation](#)) as follows:

A person is guilty of fraud if she/he is in breach of any of the following:

- Fraud by false representation: that is if a person:
  - (a) Dishonestly makes a false representation; and
  - (b) Intends, by making the representation:
    - (1) To make a gain for him/herself or another; or
    - (2) To cause loss to another or to expose another to the risk of loss.
- Fraud by failing to disclose information: that is if a person:
  - (a) Dishonestly fails to disclose to another person information which she/he is under a legal duty to disclose; and
  - (b) Intends, by failing to disclose the information:

- (1) to make gain for him/herself or another; or
- (2) to cause loss to another or to expose another to the risk of loss.

- Fraud by abuse of position: that is if a person:
  - (a) Occupies a position in which he is expected to safeguard, or not to act against the financial interests of another person;
  - (b) Dishonestly abuses that position; and
  - (c) Intends, by means of the abuse of that position to:
    - (1) Make a gain for her/himself or another; or
    - (2) Cause loss to another or to expose another to the risk of loss.

In addition the Fraud Act deals with offences relating to the possession of articles for use in fraud, making or supplying articles for use in frauds, participation by a sole trader in fraudulent business, and obtaining services dishonestly, personally or for another.

## What is Corruption?

Corruption is the deliberate misuse of your position for direct or indirect personal gain. "Corruption" includes offering, giving, requesting or accepting a bribe or reward, which influences your actions or the actions of someone else. [The Bribery Act 2010](#) (at [UK Legislation](#)) makes it possible for Senior Officers to be convicted where they are deemed to have given their consent or tacit approval in giving or receiving a bribe.

The Act also created the Corporate Offence of "Failing to prevent bribery on behalf of a commercial organisation" (corporate liability).

To protect itself against the corporate offence, the Act also requires organisations to have "adequate procedures in place to prevent bribery".

## What is Bribery?

The Bribery Act 2010 came into force in the UK on 1st July 2011. It amends and reforms the UK criminal law and provides a modern legal framework to combat bribery in the UK and internationally. Staff need to be aware of their obligations under this Act, which sets out the criminality of accepting and giving of bribes. This applies to both individual staff and the Council corporately.

The Bribery Act creates the following offences:

- Active bribery: promising or giving a financial or other advantage;
- Passive bribery: agreeing to receive or accepting a financial or other advantage;
- Bribery of foreign public officials; and
- The failure of commercial organisations to prevent bribery by an associated person (corporate offence).

The penalty under the Bribery Act is an unlimited fine and/or imprisonment up to a maximum of 10 years. These responsibilities are set out within the Council's Anti Bribery Policy (Appendix 4).

## **What is Theft?**

Theft is the physical misappropriation of cash or other tangible assets. A person is guilty of "theft" if he or she dishonestly takes property belonging to another, with the intention of permanently depriving the other of it.

## What is Money Laundering?

Money Laundering is the process by which criminals attempt to 'recycle' the proceeds of their criminal activities in order to conceal its origin and ownership whilst retaining use of the funds.

The burden of identifying and reporting acts of money laundering rests within the Council. Any service that receives money from an external person or body is potentially vulnerable to a money laundering operation. The need for vigilance is vital and any suspicion concerning the appropriateness of a transaction should be reported and advice sought from the Money Laundering Reporting Officer.

The Council recognises its responsibilities under the Money Laundering Regulations 2007 and the Proceeds of Crime Act 2002. These responsibilities are set out within the Council's Anti Money Laundering Policy (Appendix 5).

## Scope

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This strategy applies to those involved in the Council's work including for example its:

- Employees (including volunteers and agency staff);
- Councillors;
- Council funded voluntary organisations;
- Stroud District Council partners;
- Suppliers, contractors and consultants;
- Service Users; and
- Residents.

## What are the aims and objectives of the strategy?

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We aim to:

- Protect the Council's valuable resources by ensuring they are not lost through fraud but are used for improved services to Stroud's residents and visitors;
- Create and promote an 'anti fraud' culture which highlights the Council's **zero tolerance** of fraud, bribery, corruption and theft;
- Provide a Counter Fraud Service which:
  - Ensures that the resources dedicated are sufficient and those involved are trained to deliver a professional counter fraud service to the highest standards;
  - Proactively deters, prevents and detects fraud, bribery, corruption and theft;
  - Investigates suspected or detected fraud, bribery, corruption and theft;
  - Enables the Council to apply appropriate sanctions and recover all losses. In addition wherever possible the Council seeks to recover all proven financial losses through court action or by invoicing an individual. Where an employee is a member of the Local Government Pension Scheme, then in accordance with the provisions of those pension schemes, the Council will seek to recover any money owing as a result of that employee's grave misconduct, criminal, negligent or fraudulent acts or omission from the employee's pension benefits. Alternatively and again in accordance with the provisions of those pension schemes, the Council will seek full forfeiture of that members pension benefits where applicable.
- Provides recommendations to inform policy, system, risk management and control improvements, thereby reducing the Council's exposure to fraudulent activity.
- Create an environment that enables the reporting of any genuine suspicions of fraudulent activity. However, we will not tolerate malicious or vexatious allegations or those motivated by personal gain and, if proven, we may take disciplinary or legal action; and
- Work with our partners and other investigative bodies to strengthen and continuously improve our arrangements to prevent fraud and corruption.



# What is SDC's approach to Countering Fraud?

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## Managing the Risk of Fraud and Corruption

- As with any risk faced by the Council, it is the responsibility of managers to ensure that fraud risk is adequately considered when preparing risk assessments in support of achieving strategic priorities, business plan, projects and programmes objectives and outcomes. In making this assessment it is important to consider the risk of fraud occurring rather than the actual incidence of fraud having occurred in the past. Once the fraud risk has been evaluated, appropriate action should be taken to mitigate those risks on an ongoing basis.
- Any changes in operations or the business environment must also be assessed to ensure any impacts, which might increase the risk or otherwise change the risk of fraud, bribery and corruption, are properly taken into account.
- Good corporate governance procedures are a strong safeguard against fraud and corruption. Adequate supervision, recruitment and selection, scrutiny and healthy scepticism must not be seen as distrust but simply as good management practice shaping attitudes and creating an environment opposed to fraudulent activity.
- Whilst all stakeholders in scope have a part to play in reducing the risk fraud, SDC's Members and senior management are ideally positioned to influence the ethical tone of the organisation and play a crucial role in fostering a culture of high ethical standards and integrity.
- SDC will fulfil the responsibility to reduce fraud and protect our resources by a strategic approach consistent with that outlined in the Local Government Counter Fraud and Corruption Strategy 2016-2019 and CIPFA's Fighting Fraud and Corruption Locally publication.

# Fighting Fraud and Corruption Locally: Acknowledge, Prevent, Pursue

ACKNOWLEDGE	Committing Support	The Council’s commitment to tackling the threat of fraud is clear. We have strong whistleblowing procedures and support those who come forward to report suspected fraud. All reports will be treated seriously and acted upon. We will not, however, tolerate malicious or vexatious allegations.
	Assessing Risks	We will continuously assess those areas most vulnerable to the risk of fraud as part of our risk management arrangements. These risk assessments will inform our internal controls and counter fraud priorities. In addition, Internal Audit will carry out work in these high risk areas to assist management in detecting existing and new types of fraudulent activity. <b>Examples of fraud indicators are provided at Appendix 1 and types of fraud are provided at Appendix 2.</b>
	Robust Response	We will strengthen measures to prevent fraud. Internal Audit will work with our internal partners such as management, HR, Finance, Legal, policy makers and external partners, to ensure new and existing systems and policy initiatives are adequately fraud proofed.
PREVENT	Better use of Information Technology	We will make greater use of data and analytical software to prevent and detect fraudulent activity. We will look for opportunities to share data and fraud intelligence to increase our capability to uncover potential and actual fraud.
	Anti Fraud Culture	We will promote and develop a strong counter fraud culture, raise awareness, provide a fraud e-learning tool and provide information on all aspects of our counter fraud work. This will include publicising the results of all proactive work, fraud investigations, successful sanctions and any recovery of losses due to fraud.
PURSUE	Fraud Recovery	A crucial element of our response to tackling fraud is recovering any monies lost through fraud. This is an important part of our strategy and will be rigorously pursued, where possible.
	Punishing Fraudsters	We will apply realistic and effective sanctions for individuals or organisations where an investigation reveals fraudulent activity. This may include legal action, criminal and/or disciplinary action, where appropriate.
	Enforcement	Appropriately trained investigators will investigate any fraud detected through the planned proactive work; cases of suspected fraud referred from internal or external stakeholders, or received via the confidential reporting procedure. We will also work with relevant internal and external partners/external agencies/organisations.

# Responsibilities

Stakeholder	Specific Responsibilities
Chief Executive	Accountable for the overall effectiveness of the Council's arrangements for countering fraud and corruption.
Monitoring Officer	To advise the Council on its legal obligations.
Chief Financial Officer (Section 151 Officer)	To ensure the Council has adopted and implemented an appropriate Anti Fraud and Corruption Policy/Strategy and that the Council has an adequately resourced and effective Internal Audit service to deliver "counter fraud" activity.
Audit and Standards Committee	To monitor the adequacy and effectiveness of the arrangements in place for combating fraud and corruption.
Members	To comply with the Members Code of Conduct and related Council policies and procedures, to be aware of the possibility of fraud, corruption, bribery and theft, and to report any genuine concerns accordingly.
External Audit	Statutory duty to ensure that the Council has adequate arrangements in place for the prevention and detection of fraud, corruption, bribery and theft.
Internal Audit	Responsible for developing and promoting to the Council the requirements of the Anti Fraud and Corruption Strategy and monitoring and/or undertaking the investigation of any reported issues. To ensure that all suspected or reported irregularities are dealt with promptly and in accordance with this strategy and that action is identified to improve controls and reduce the risk of recurrence. <b>Please see Appendix 3 – Fraud Response Plan.</b>
Strategic Heads, Service Heads, Service Managers	To promote staff awareness and ensure that all suspected or reported irregularities are brought to the attention of the Monitoring Officer and/or the Chief Internal Auditor. To ensure that there are mechanisms in place within the Council and their service areas to assess the risk of fraud, corruption, bribery and theft and to reduce these risks by implementing strong internal controls.
Staff	To comply with Council policies and procedures, to be aware of the possibility of fraud, corruption, bribery and theft, and to report any genuine concerns to their managers, Strategic Heads or the Monitoring Officer, Chief Internal Auditor as appropriate. Staff will be able to make use of the confidential reporting procedure set out in the Whistleblowing Policy.
Public, Service Users, Partners, Suppliers, Contractors and Consultants	To be aware of the possibility of fraud and corruption against the Council and report any genuine concerns / suspicions.

## Reporting, Advice and Support

Any person may report their concerns about a possible fraud or corruption direct to the following persons:

Role	Officer Name/Co.	Tel. No.	E-mail Address
Monitoring Officer	Karen Trickey	01453 754 369	<a href="mailto:karen.trickey@stroud.gov.uk">karen.trickey@stroud.gov.uk</a>
SDC's Chief Internal Auditor	Theresa Mortimer	01453 754 111	<a href="mailto:theresa.mortimer@stroud.gov.uk">theresa.mortimer@stroud.gov.uk</a>

Whilst the above reporting mechanisms apply to all persons, Council employees may prefer to raise any initial concerns they have verbally or in writing (marked 'confidential') to either their manager or Strategic Head. Employees may wish to note the Whistle-blowing Policy to reassure them of the protection and confidentiality of the reporting process.

Alternatively, if any person prefers to report a potential fraud or corruption case to a body which has no associations with the Council, they should contact either:

Public Concern at Work	(Independent whistleblowing charity)	Helpline: (020) 7404 6609	E-mail: <a href="mailto:whistle@pcaw.co.uk">whistle@pcaw.co.uk</a> Website: <a href="http://www.pcaw.co.uk">www.pcaw.co.uk</a>
SDC's External Auditors	KPMG LLP (UK)	0808 101 5341	<a href="http://www.kpmg.com/uk">www.kpmg.com/uk</a>

In any event, all concerns in relation to possible financial impropriety will also be reported by the Council to the Chief Financial Officer and / or the Chief Internal Auditor as appropriate.

## Further Information

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Further information on relevant Council policy and practice and relevant publications can be found in the following documents:

- The [Council's Constitution \(stroud.gov.uk\)](http://stroud.gov.uk) which includes Financial Regulations, Members Code of Conduct and Contract Standing Orders, Council's Whistleblowing Policy; and the Council's Employee Code of Conduct;
- [Fraud Response Plan \(Appendix 3\)](#);
- [Anti Bribery Policy \(Appendix 4\)](#)
- [Anti Money Laundering Policy \(Appendix 5\)](#)
- Risk Management Policy Statement and Strategy;
- Internal Audit Charter;
- Information Security Policy;
- [The Local Government Transparency Code 2015](#) (at [Gov.uk](http://Gov.uk));
- [National Fraud Initiative \(NFI\)](#) (at [Gov.uk](http://Gov.uk)); and
- [Fighting Fraud and Corruption Locally \(at the Chartered Institute of Public Finance & Accountancy\)](#)

## Strategy Review

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The Chief Financial Officer and the Audit and Standards Committee will ensure the continuous review and amendment of this strategy and the relevant associated policies as necessary to ensure that it remains compliant with good practice, national public sector Codes of Practice and meets the needs of the Council.

Responsible Officer: Chief Internal Auditor

Review date: Frequency as required by legislative changes / November 2018

## Appendix 1 Key fraud indicators

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A number of frauds can come to light because of suspicions aroused by, for instance, the behaviour of certain individuals. It is impossible to give a definitive list of fraud indicators or warning signs. However, the following are indicators that may, either alone or cumulatively with other factors, suggest the possibility of fraud and may therefore warrant further investigation or enquiry.

- **Unusual employee behaviour:** Refusal to comply with normal rules and practices, fails to take leave, refusing promotion, managers by-passing subordinates, subordinates by-passing managers, living beyond means, regularly working long hours, job dissatisfaction / unhappy employee, secretiveness or undue defensiveness.
- **Financial irregularities:** Key documents missing (e.g. invoices, contracts); absence of controls and audit trails; missing expenditure vouchers and official records; general ledger out of balance; bank and ledger reconciliations are not maintained or cannot be balanced; excessive movements of cash or transactions between accounts; numerous adjustments or exceptions; constant overdue pay or expense advances; duplicate payments; ghost employees on the payroll; large payments to individuals; excessive variations to budgets or contracts.
- **Poor procurement practice:** Too close a relationship with suppliers/contractors; suppliers / contractors who insist on dealing with only one particular member of staff; unjustified disqualification of any bidder; lowest tenders or quotes passed over with minimal explanation recorded; defining needs in ways that can be met only by specific contractors; single vendors; vague specifications; splitting up requirements to get under small purchase requirements or to avoid prescribed levels of review or approval.
- **Disorganisation:** Understaffing in key control areas; consistent failures to correct major weaknesses in internal control; inadequate or no segregation of duties.
- **Inadequate supervision:** Policies not being followed; lack of senior management oversight; inadequate monitoring to ensure that controls work as intended (periodic testing and evaluation); low staff morale, weak or inconsistent management.
- **Lax corporate culture:** Management frequently override internal control; climate of fear or a corporate culture; employees under stress without excessive workloads; new employees resigning quickly; crisis management coupled with a pressured business environment; high employee turnover rates in key controlling functions.
- **Poor work practices:** Lack of common sense controls; work is left until the employee returns from leave; post office boxes as shipping addresses; documentation that is photocopied or lacking essential information; lack of rotation of duties; unauthorised changes to systems or work practices.

## Appendix 2 Types of Fraud

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Local authorities have reported a wide range of fraud types. The main areas of fraud that were reported in Fighting Fraud Locally 2011 continue to feature as significant risks. However, there are also new fraud types emerging and some of these are more prevalent in particular parts of the country. It is clear that a one size fits all approach is not appropriate and therefore the council needs to remain vigilant and be aware of these types of fraud risks.

### Known Fraud Risks Remaining Significant

**Council tax** – Discounts and exemptions, council tax support.

**Grants** – Work not carried out, funds diverted, ineligibility not declared.

**Identity fraud** – False identity / fictitious persons applying for services / payments.

**Internal fraud** – Diverting council monies to a personal account; accepting bribes; stealing cash; misallocating social housing for personal gain; working elsewhere while claiming to be off sick; false overtime claims; selling council property for personal gain; wrongfully claiming benefit while working.

**Payroll** – False employees, overtime claims, expenses.

**Pensions** – Deceased pensioner, overpayments, entitlement overstated.

**Procurement** – Tendering issues, split contracts, double invoicing.

**Tenancy** – Fraudulent applications for housing or successions of tenancy, and subletting of the property.

### Emerging / Increasing Fraud Risks

**Business rates** – Fraudulent applications for exemptions and reliefs, unlisted properties.

**Commissioning of services** – Including joint commissioning, third sector partnerships – conflicts of interest, collusion.

**Cyber dependent crime and cyber enabled fraud** – Enables a range of fraud types resulting in diversion of funds, creation of false applications for services and payments.

**Disabled Facility Grants** – Fraudulent applications for adaptations to homes aimed at the disabled.

**Immigration** – Including sham marriages. False entitlement to services and payments.

**Insurance Fraud** – False claims including slips and trips.

**Local Enterprise Partnerships** – Voluntary partnerships between local authorities and businesses. Procurement fraud, grant fraud.

**New Responsibilities** – Areas that have transferred to local authority responsibility e.g. Public Health grants, contracts.

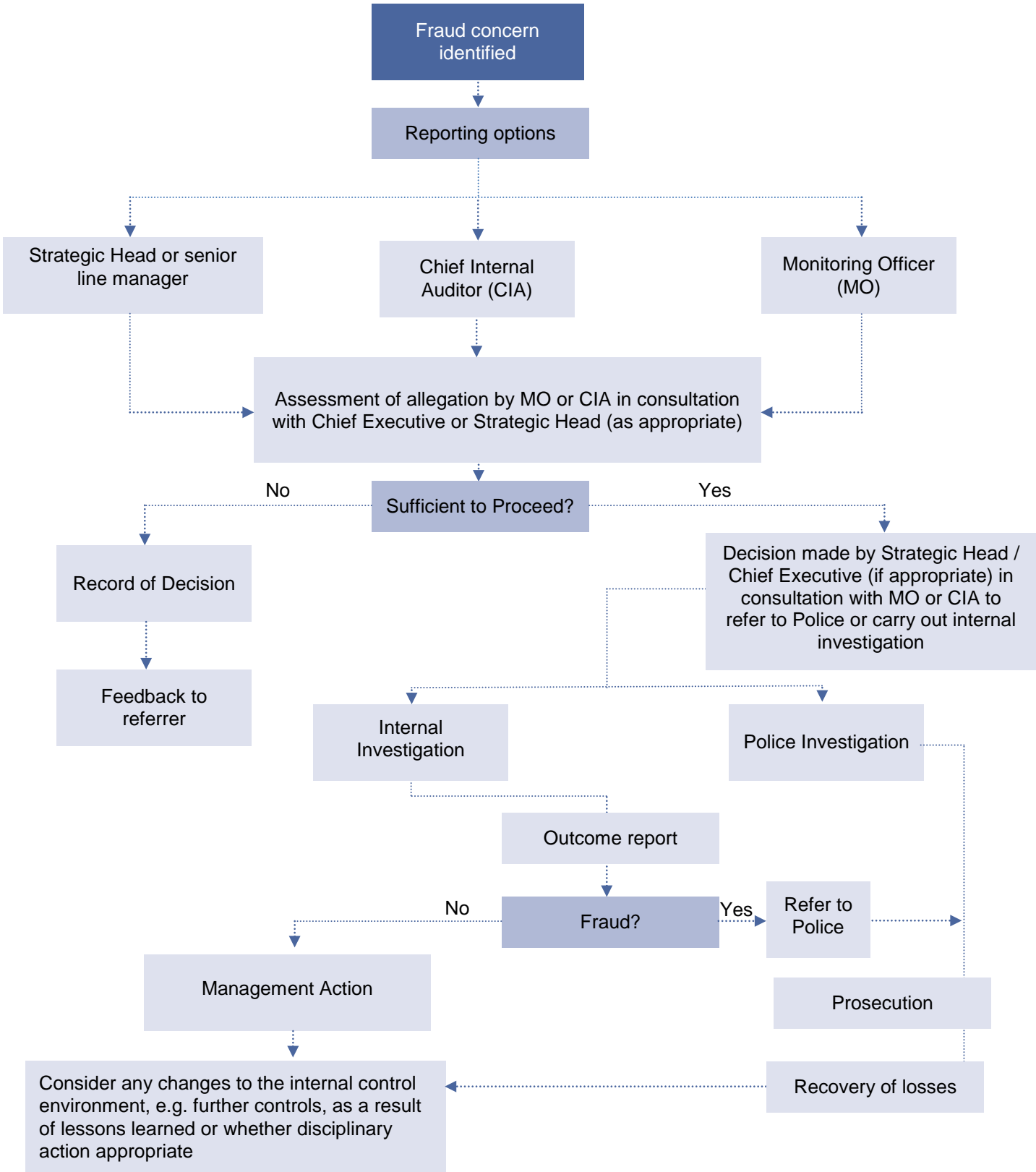
**Money laundering** – Exposure to suspect transactions.

**No recourse to public funds** – Fraudulent claim of eligibility.

**Right to buy** – Fraudulent applications under the right to buy/acquire.



# Appendix 3 SDC's Fraud Response Plan



## Appendix 4 Anti-Bribery Policy

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### Introduction

The council is committed to implementing and enforcing effective systems to counter bribery. Therefore, it is the council's policy to conduct all aspects of its business in an honest and ethical manner at all times.

### Bribery Act 2010

The Bribery Act 2010 came into force in the UK on 1st July 2011. It amends and reforms the UK criminal law and provides a modern legal framework to combat bribery in the UK and internationally. Staff need to be aware of their obligations under this Act, which sets out the criminality of accepting and giving of bribes. This applies to both individual staff and the council corporately. The Bribery Act creates the following offences:

- Active bribery: promising or giving a financial or other advantage;
- Passive bribery: agreeing to receive or accepting a financial or other advantage;
- Bribery of foreign public officials; and
- The failure of commercial organisations to prevent bribery by an associated person (corporate offence).

The penalty under the Bribery Act is an unlimited fine and/or imprisonment up to a maximum of 10 years.

Full details of the Act can be found at:

<http://www.legislation.gov.uk/ukpga/2010/23/contents>

### Policy

The aim of this policy is to help the council act in accordance with the Bribery Act 2010, maintain the highest possible standards of business practice, and advise individuals of the council's 'zero-tolerance' to bribery.

This policy applies to all councillors, permanent and fixed-term staff employed by the council, and any contractors, consultants or other persons acting within or on behalf of the council.

The council will not:

- Make contributions of any kind with the purpose of gaining any commercial advantage;
- Provide gifts or hospitality with the intention of persuading anyone to act improperly, or to influence a public official in the performance of their duties; and
- Make, or accept, inducements of any kind.

## **Council Responsibility**

The council will:

- Keep appropriate internal records that will evidence the business reason for making any payments to third parties;
- Encourage employees to raise concerns about any issue or suspicion of malpractice at the earliest possible stage; and
- Ensure that anyone raising a concern about bribery will not suffer any detriment as a result, even if their concerns are not validated, providing there is no malicious intent.

## **Employee Responsibility**

Employees must not:

- Accept any financial or other reward from any person in return for providing some favour;
- Request a financial or other reward from any person in return for providing some favour; and
- Offer any financial or other reward to any person in return for providing some favour.

## **Non Compliance**

All employees have a role to play in enforcing the policy and are required to report any suspected breach in accordance with the council's whistleblowing policy.

The council will not tolerate bribery or corruption by its councillors, employees, suppliers, contractors, partners or service users and will take all necessary steps to investigate all allegations of bribery or corruption and pursue sanctions available in

each case, including removal from office, disciplinary action, dismissal and/or prosecution under the Bribery Act 2010.

## Appendix 5 Anti-Money Laundering Policy

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### Introduction

The Proceeds of Crime Act (POCA) 2002, Money Laundering Regulations 2007 and the Terrorism Act 2000 place obligations on the Council and its employees with respect to suspected money laundering. These obligations impact on certain areas of local authority business and require local authorities to establish internal procedures to prevent the use of their services for money laundering. This Policy sets out how any concerns should be raised.

Whilst the majority of money laundering activity in the UK falls outside of the public sector, vigilance by employees of the Council can help identify those who are or may be perpetrating crimes relating to the financing of terrorism and money laundering.

### Scope of the Policy

This Policy applies to all employees of the Council and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering. The Policy sets out the procedures which must be followed (for example the reporting of suspicions of money laundering activity) to enable the Council to comply with its legal obligations.

Failure by a member of staff to comply with the procedures set out in this Policy may lead to disciplinary action being taken against them. Any disciplinary action will be dealt with in accordance with the Council's Disciplinary Policy and Procedure.

### What is Money Laundering?

Money laundering is the generic term used to describe the process by which criminals disguise the original ownership and control of the proceeds of criminal conduct by making such proceeds appear to have derived from a legitimate source. In other words, the process of changing 'bad' money into 'good' money in order to hide the fact that the money originated from criminal activity. Formally, the following acts constitute money laundering:

- Concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the Proceeds of Crime Act 2002); or
- Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328);
- Acquiring, using or possessing criminal property (section 329); or
- Becoming concerned in an arrangement facilitating concealment, removal from the jurisdiction, transfer to nominees or any other retention or control of terrorist property (section 18 of the Terrorism Act 2000).

These are the primary money laundering offences and thus prohibited acts under the legislation. There are also two secondary offences: failure to disclose any of the primary offences and tipping off. Tipping off is where someone informs a person or people who are, or are suspected of being involved in money laundering, in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation.

Potentially any member of staff could be implicated by the money laundering provisions if they suspect money laundering and either become involved with it in some way and/or do nothing about it.

### Failure to disclose (section 330)

A person commits an offence if each of the following three conditions are satisfied;

- they know or have reasonable grounds to suspect that another person is engaged in money laundering;
- the information or knowledge in which they have grounds for suspicion is received in the course of business in the regulated sector; and
- the required disclosure is not made as soon as is practicable after the information comes to them.

A person does not commit an offence under this section if:

- there is a reasonable excuse for not disclosing this information or other matter;
- they provide professional legal advice and the information came to them in privileged circumstances; and
- they do not know or suspect money laundering, or have not been provided with such training as specified by the Secretary of State.

Whilst the risk to the Council of contravening the legislation is low, ***it is extremely important that all employees are familiar with their legal responsibilities: serious criminal sanctions may be imposed for breaches of the legislation.***

### What are the Obligations on the Council?

Organisations conducting "relevant business" must:

- appoint a Money Laundering Reporting Officer ("MLRO") to receive disclosures from employees of money laundering activity (their own or anyone else's);
- implement a procedure to enable the reporting of suspicions of money laundering;
- maintain client identification procedures in certain circumstances; and
- maintain record keeping procedures.

Not all of the council's business is "relevant" for the purposes of the legislation. It is mainly the accountancy and audit services carried out by the financial service functions within the council and the financial, company and property transactions undertaken by Legal Services.

However, the safest way to ensure compliance with the law is to apply it to all areas of work undertaken by the Council; therefore, all staff are required to comply with the reporting procedure set out in the [Disclosure Procedure](#) section below.

## **The Money Laundering Reporting Officer (MLRO)**

The officer nominated to receive disclosures about money laundering activity within the Council is the Chief Financial Officer Contact details are provided below:

Chief Financial Officer  
Stroud District Council  
Ebley Mill,  
The Wharf,  
Stroud,  
Gloucestershire.  
GL5 4UB

Telephone: 01453 754136 (direct line)

In the absence of the MLRO, the Deputy S151 Officer is authorised to deputise.

## **Disclosure Procedure**

### **Cash Payments:**

No payment to the council will be accepted in cash (including notes, coins or travellers cheques in any currency) if it exceeds £5,000. Cash payments in excess of £10,000 received in more than one transaction within a twelve month period must also be treated as suspicious.

Even if the cash value is less than £5,000 and there is suspicion that the monies are from proceeds of crime then it should still be reported to the MLRO.

Any officer involved in a transaction of this kind should ensure that the person(s) provide satisfactory evidence of their personal identity.

## **Reporting to the Money Laundering Reporting Officer**

Where you know or suspect that money laundering activity is taking/has taken place, or become concerned that your involvement in a matter may amount to a prohibited act under the legislation, you must disclose this as soon as practicable to the MLRO.

Your disclosure should be made to the MLRO using the pro-forma report form on Staffnet Money Laundering page. The report must include as much detail as possible.

The employee must follow any subsequent directions from the MLRO or deputy and must not make any further enquiries themselves into the matter. Additionally, they must not take any further steps in the transaction without authorisation from the MLRO or deputy.

The employee must not disclose or otherwise indicate their suspicions to the person(s) suspected of money laundering otherwise you may commit a criminal offence of "tipping off". They must not discuss the matter with others or note on a file that a report has been made to the MLRO in case this results in the suspect becoming aware of the suspicion, through a request to see their file. The MLRO will keep the appropriate records in a confidential manner.

Full details of the people involved (including you, if relevant), e.g. name, date of birth, address, company names, directorships, phone numbers, etc. will be required. If you are concerned that your involvement in the transaction would amount to a prohibited act under sections 327 - 329 of the 2002 Act, then your report must include all relevant details, as you will need consent from the National Crime Agency (NCA) via the MLRO, to take any further part in the transaction - this is the case even if the client gives instructions for the matter to proceed before such consent is given.

You should therefore make it clear in the report if such consent is required and clarify whether there are any deadlines for giving such consent e.g. a completion date or court deadline;

Once you have reported the matter to the MLRO you must follow any directions he may give you. You must **not** make any further enquiries into the matter yourself: any necessary investigation will be undertaken by the NCA. Simply report your suspicions to the MLRO who will refer the matter on to the Serious Organised Crime Agency (SOCA) if appropriate. All members of staff will be required to co-operate with the MLRO and the authorities during any subsequent money laundering investigation.

## **Client Identification Procedure (Customer Due Diligence)**

Where the Council is carrying out relevant business (e.g. accountancy, audit and certain legal services) it must apply customer due diligence measures:

- a) when you establish a business relationship
- b) when you carry out an 'occasional transaction' worth €15,000 (approximately £10,000) or more
- c) when you suspect money laundering or terrorist financing
- d) when you have doubts about a customer's identification information that you obtained previously
- e) when it's necessary for existing customers - for example if their circumstances change



A business relationship is one that you enter into with a customer where both of you expect that the relationship will be ongoing. It can be a formal or an informal arrangement.

When a new business relationship is established the Council needs to obtain information on:

- the purpose of the relationship
- the intended nature of the relationship - for example where funds will come from, the purpose of transactions, and so on.

The type of information that you need to obtain may include:

- details of your customer's business or employment
- the source and origin of funds that the customer will be using in the relationship
- copies of recent and current financial statements
- details of the relationships between signatories and any underlying beneficial owners
- the expected level and type of activity that will take place in the relationship.

**Please note that unlike the reporting procedure, the client identification procedure is restricted to those operating relevant business, i.e. Financial Services and Legal Services.**

In the above circumstances, staff in the relevant unit of the Council must obtain satisfactory evidence of the identity of the prospective client, as soon as practicable after instructions are received (unless evidence of the client has already been obtained). This applies to existing clients, as well as new ones, but identification evidence is not required for matters entered into prior to 1 March 2004.

Once instructions to provide relevant business have been received, and it has been established that any of paragraphs (a) to (e) apply, evidence of identity should be obtained.

With instructions from new clients, or further instructions from a client not well known to you, you may wish to seek additional evidence of the identity of key individuals in the organisation and of the organisation itself.

In all cases, the evidence should be retained for at least five years from the **end** of the business relationship or transaction(s).

**If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one off transaction(s) cannot proceed any further.**

## Record Keeping Procedures

The MLRO should retain records of all referrals made to them and of any action taken. The precise nature of these records is not set out in law but should be capable of providing an audit trail during any subsequent investigation.

All records should be retained for at least five years. This is so that they may be used as evidence in any subsequent investigation by the authorities into money laundering.

## Guidance and Training

In support of this policy, the council will:

- make staff aware of the requirements and obligations under the anti-money laundering policy legislation; and
- provide training to those most likely to encounter money laundering.

## Conclusion

The legislative requirements concerning anti-money laundering procedures are lengthy and complex. This Policy has been written to support the Council to meet the legal requirements in a way which is proportionate to the very low risk to the Council of contravening the legislation.

Should you have any concerns whatsoever regarding any transactions then you should contact the MLRO.

## Further Information

Further information relating to the anti-money laundering policy can be found at the following links:

- [National Crime Agency \(NCA\)](#)
- [Money Laundering Regulations 2007](#)
- [Terrorism Act 2002 - Code of Practice](#)
- [CIPFA Guidance on Money Laundering](#)
- [Proceeds of Crime Act 2002](#)
- Money Laundering Disclosure Form
- Guidance for MLRO

**Anti-Fraud  
and Corruption**  
Policy Statement and Strategy  
2017-2019

**December 2016**



## **Risk Management Policy: Statement and Strategy 2017 - 2020**

### **1. Purpose**

- 1.1 Whilst risks are inevitable in any environment, they can cause considerable uncertainty in the outcome of an organisation's operations. Effective management of risks is therefore essential to ensuring an organisation is able to conduct its core business and achieve its priorities. The position is no different for public authorities such as the Council.
- 1.2 As a public body, the Council also has to provide assurance in its Annual Governance Statement that its corporate governance is fit for purpose. Risk management is one of the key principles underlying that assurance and has to be specifically addressed in the Annual Governance Statement.
- 1.3 This document sets out the Council's policy and general strategy to identify, evaluate, monitor and ultimately to effectively manage the Council's risks particularly those which affect its priorities and core business.

### **2. Risk Management Policy Statement**

- 2.1 The Council is committed to securing **effective risk management** as part of its responsibility to deliver effective public services within its district.
- 2.2 It acknowledges that effective risk management **helps strengthen its capacity and ability to efficiently meet its corporate priorities and core business.**
- 2.3 In managing its risks, SDC commits to:
  - (a) operate in a **culture of creativity and innovation, rather than risk avoidance**; and
  - (b) act consistently within recognised best practice to **identify, evaluate and secure the proportionate control of its risks.**

### **3. Risk Management Objectives**

- 3.1 In supporting the achievement of its Policy Statement, the Council has the following overriding and key risk management objectives:
  - (a) To ensure that the Council has a **clear understanding of the risks it faces and how to effectively manage them**;
  - (b) To ensure that the **importance of risk management in contributing to effective decision making is reflected in working practices**; and

(c) To ensure that **risk management is corporately owned and managed.**

3.2 The Council **applies good practice risk management principles**, in line with the Institute of Risk Management Professional Standards 2015 and the International Risk Management Standard (ISO 31000 - 2009) as updated from time to time. Internal Audit provides advice and guidance to the Council on such standards. The application of the standards and principles in practice is periodically reviewed by the Audit and Standards Committee and annual action plans implemented to address any improvement areas identified.

3.3 **Risk management is also incorporated into the Council's decision making and processes in a consistent manner.** Section 4 of this document outlines the Council's approach to the assessment of risks. In setting out the roles and responsibilities for effective management, Section 5 serves to acknowledge that risk management concerns all parts of the Council.

#### **4. The Council's Risk Management Framework**

4.1 The **Council's Risk Register** which records the Council's identified risks ensures judgements on risks are informed; being based upon explicit, transparent and consistent information. The register includes strategic risks through to more routine operational delivery risks, all of which potentially have implications for the delivery of the Council's business.

4.2 The Council has a 'toolkit' which provides clear guidance to officers on how to **identify and describe any risks** for inclusion in the Risk Register; and importantly how to consistently **assess the level of risk and the risk appetite** on the specific matter (i.e. how much risk the Council is prepared to take).

4.3 By understanding the Council's risk appetite within an environment where risks are clearly identified and consistently assessed, its decision makers will be in a position to know whether it is appropriate to make any decision. This is particularly important for the Council given the often competing demands on its increasingly limited resources.

4.4 Whilst efforts should be made to reduce all risks to an acceptable level, in applying the framework, the Council will be able to ensure that risks which will have significant adverse consequences for delivery of the Council's priorities and / or prevent the Council undertaking its core business, are always effectively managed, monitored and where possible reduced.

#### **5. Responsibilities**

5.1 In order to ensure that there is effective continuous risk management, the relevant responsibilities of each part of the Council for risk management are outlined below. They are divided into two key areas, namely strategic and operational areas of responsibilities.

**Strategic Risk Management**

- Council**
- i. Be aware of the risk management implications of the strategic decisions it makes; and
  - ii. Ensure there are Member Risk Management Champion(s) who promote effective scrutiny and oversight of the risk management activities across the Council.<sup>1</sup>

- All committees**
- i. Facilitate a risk management culture across the Council;
  - ii. Be aware of the risk management implications of decisions they make; and
  - iii. Contribute to the Council's review of risk and be proactive in highlighting potential risks within the wider Stroud District.
  - iv. Appoint up to two Member Risk Management Champions for each committee.<sup>2</sup>

- Audit and Standards Committee**
- i. Approve the Council's Risk Management Policy Statement and Strategy;
  - ii. Provide independent assurance to the Council of the adequacy and effectiveness of the risk management arrangements across the Council as part of the annual report on Risk Management; and
  - iii. Monitor and challenge key risk controls and actions across the Council.

- Corporate Team**
- i. Lead on the development and implementation of an integrated and effective risk management framework on behalf of the Council;
  - ii. Advise Members of key risks and on their effective management;
  - iii. Ensure that the Council complies with the Corporate Governance Requirements relating to risk management; and
  - iv. Own the Council's Corporate Risk Register and ensure that its content is challenged and key risks are always included and effectively managed as part of the wider Council's performance arrangements.

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<sup>1</sup> Each committee has up to two Members who meet with the strategic heads / heads of service to review the performance of the services for which they are responsible, including key risks. As at 1.3.17 the member champions are Strategic & Resources Committee: Cllrs Cooper and Pearson; Housing Committee: Cllrs Young and Braun; Environment Committee: Cllrs Sutton and Reed; Community Services & Licensing Committee: Cllrs McKeown and J Jones.

<sup>2</sup> See Footnote 1 above

**Operational Risk Management**

**Strategic Heads and Chief Executive for their particular service areas**

- i. Ensure the Risk Register is kept up to date in respect to their service areas and in particular that all risks with strategic or otherwise of a key cross cutting nature, are included;
- ii. Ensure that effective risk mitigation measures relevant to their service areas are developed and implemented as appropriate;
- iii. Regularly challenge and review their Services' risks
- iv. Ensure corporate information and requirements are communicated throughout their service areas
- v. Liaise with their Member and Officer Risk Champions; and
- vi. Promote and share good practice across service areas.

**Heads of Service / Unit Managers**

- i. Ensure the Risk Register is kept up to date in respect to their service area including any of a cross cutting nature;
- ii. In consultation with their Strategic Heads, ensure that mitigating actions are initiated and monitored for all key risks affecting their service area;
- iii. Report to Strategic Heads on any perceived new and emerging risks or, failures in existing control measures;
- iv. Communicate relevant risk management arrangements to their team; and
- v. Promote and share good practice across service areas.

**Officer Risk Champions<sup>3</sup>**

- i. Work alongside the relevant Strategic Head to promote and support effective risk management within their service areas; and
- ii. In respect to their allocated strategic team, maintain risk awareness and encourage consistent and effective assessment and management of risks.

**All staff**

Maintain risk awareness and raise any potential risks with their Service Manager or Head of Service.

5.2 In addition, the Principal Procurement Officer and Legal Services Manager provide support to both areas. In particular they:

- Support the review and update of the Corporate Risk Register;

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<sup>3</sup> As at 1.3.17 the Risk Champions for each Strategic service area are Mike Godwin (for Finance Services); Jenny Kelly and Phil Park (for Tenant and Corporate Services); Eka Nowakowska (for Development Services); and Sarah Turner (for Customer Services and the Canal Team).

- Provide the Council with guidance on the application of the effective risk management;
- Arrange training on effective risk management for relevant staff and Members;
- Liaise with Internal and External Audit Services with regard to risk management;
- Report to Audit and Standards Committee from time to time on the progress and development of effective risk management across the Council; and
- Co-ordinate the work of the Officer Risk Champions.

5.3 Internal Audit provides further support at a strategic level by:

- Providing an annual independent, objective assessment / opinion of the effectiveness of the risk management and control processes operating within the Council which feeds into the Council's Annual Governance Statement; and
- Working in consultation with Procurement Officer / Legal Services Manager to advise and provide guidance to the Council on risk and control with particular emphasis on key risks facing the Council.

Policy Drafted: March 2017  
Ref: LEG001/COR1/1



# INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016/2017



## **(1) Introduction**

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that a relevant authority “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. The Internal Audit Service is provided by Audit Risk Assurance under a Shared Service agreement between Stroud District Council, Gloucester City Council and Gloucestershire County Council and carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

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

## **(2) Responsibilities**

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements. Internal Audit plays a key role in providing independent assurance and advising the organisation that these arrangements are in place and operating effectively. Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance and these are set out in the Council’s Code of Corporate Governance and its Annual Governance Statement.

## **(3) Purpose of this Report**

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

This report summarises:

- The progress against the 2016/2017 Internal Audit Programme, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period January 2017 to March 2017;
- Special investigations/counter fraud activity; and
- The Housing Revenue Account (HRA) balances internal audit follow up review report.

#### (4) Progress against the 2016/2017 Internal Audit Programme, including the assurance opinions on risk and control

The schedule provided at **Attachment 1** provides the summary of 2016/17 audits which have not previously been reported to the Audit and Standards Committee.

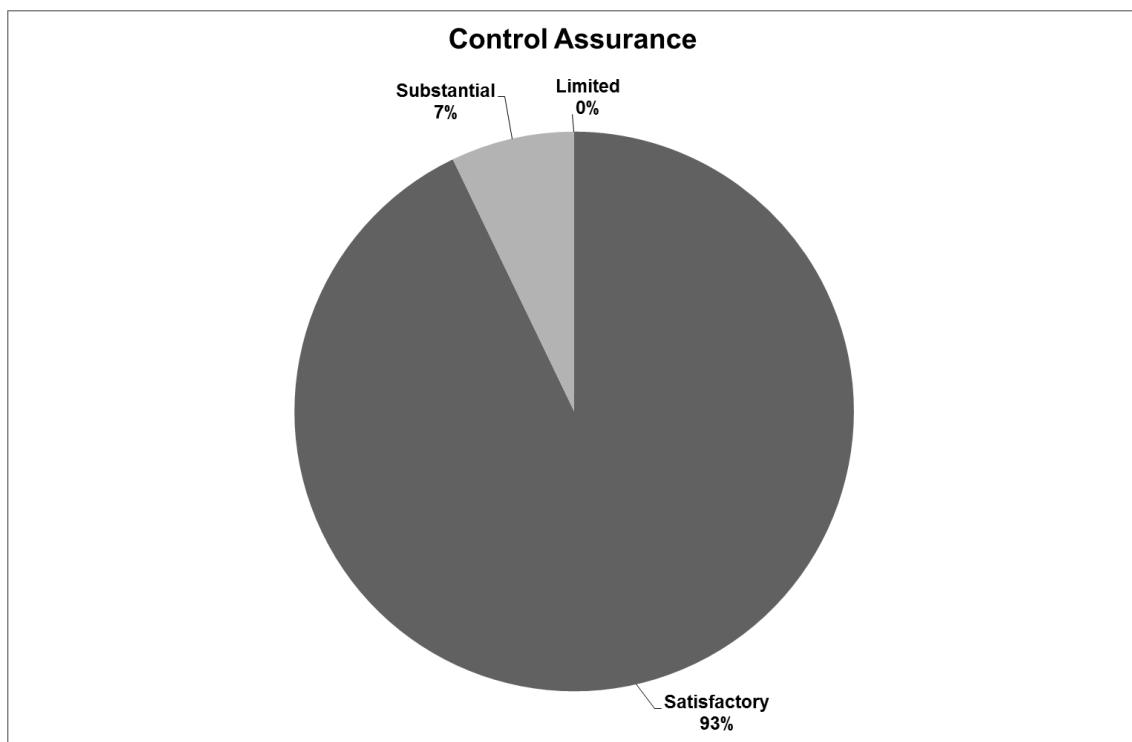
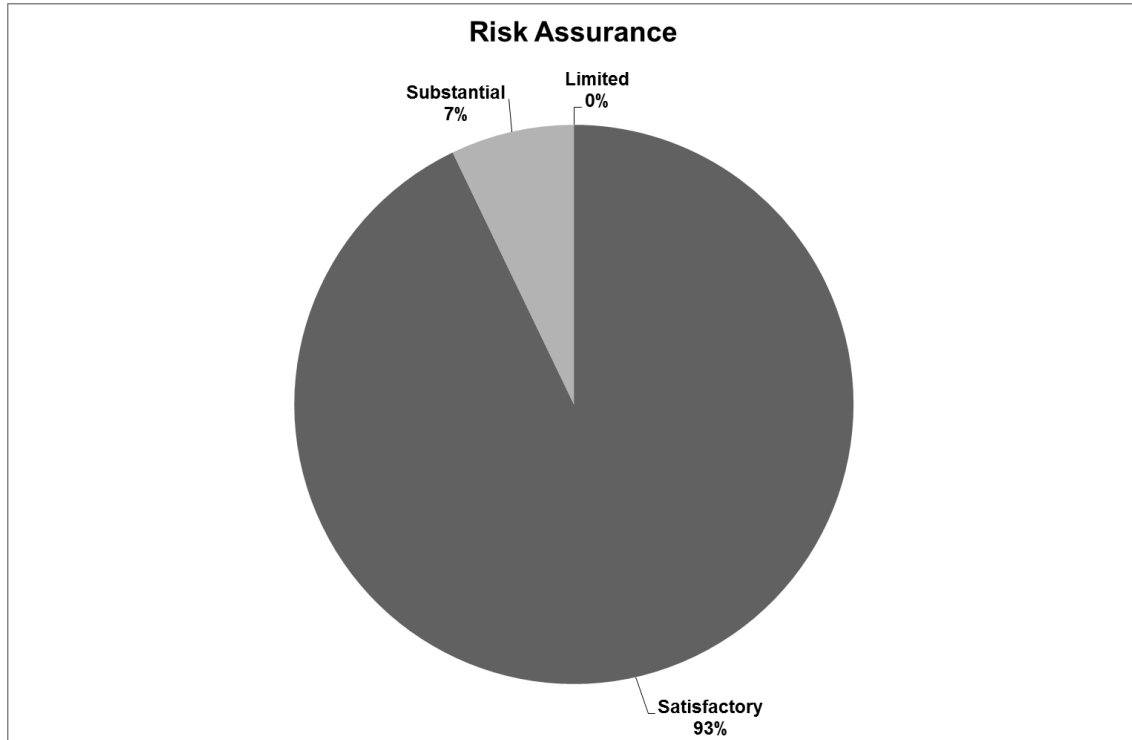
The schedule provided at **Attachment 2** contains a list of all of the 2016/17 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Standards Committee. Explanations of the meaning of these opinions are shown below.

The Housing Revenue Accounts Balances follow up report / outcomes – **Attachment 3**.

Assurance Levels	Risk Identification Maturity	Control Environment
<b>Substantial</b>	<p><b>Risk Managed</b> Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Policy.</p>	<ul style="list-style-type: none"> <li>• System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved</li> <li>• Control Application – Controls are applied continuously or with minor lapses</li> </ul>
<b>Satisfactory</b>	<p><b>Risk Aware</b> Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff, however some key risks are not being accurately reported and monitored in line with the Council's Risk Management Policy.</p>	<ul style="list-style-type: none"> <li>• System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger</li> <li>• Control Application – Controls are applied but with some lapses</li> </ul>
<b>Limited</b>	<p><b>Risk Naïve</b> Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council's Risk Management Policy, the service area has not demonstrated a satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.</p>	<ul style="list-style-type: none"> <li>• System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls</li> <li>• Control Application – Significant breakdown in the application of control</li> </ul>

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

The pie charts below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the audit activity undertaken during the period April 2016 to March 2017.



**(4b) Limited Control Assurance Opinions**

Where audit activity record that a limited assurance opinion on control has been provided, the Audit and Standards Committee may request Senior Management attendance to the next meeting of the Committee to provide an update as to their actions taken to address the risks and associated recommendations identified by Internal Audit.

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

During the period January 2017 to March 2017, it is pleasing to report that no limited assurance opinions on control have been provided on completed audits from the 2016/17 Internal Audit Plan.

**(4d) Satisfactory Control Assurance Opinions**

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

**(4e) Internal Audit Recommendations**

During the period January 2017 to March 2017 Internal Audit made, in total, **25** recommendations to improve the control environment, **1** of these being high priority recommendations (**100%** of these being accepted by management) and **24** being medium priority recommendations (**100%** accepted by management).

The Committee can take assurance that all high priority recommendations will remain under review by Internal Audit, by obtaining regular management updates, until the required action has been fully completed.

**(4f) Risk Assurance Opinions**

During the period January 2017 to March 2017, it is pleasing to report that no limited assurance opinions on risk have been provided on completed audits from the 2016/17 Internal Audit Plan.

In the cases where a limited assurance opinion has been given, the Shared Service Senior Risk Management Advisor is provided with the Internal Audit reports, to enable the prioritisation of risk management support.

## Completed Internal Audit Activity during the period January 2017 to March 2017

### Summary of Satisfactory Assurance Opinions on Control

#### Service Area: Customer Services

#### Audit Activity: Council Tax – Part 2

##### Background

Council Tax is a system of local taxation collected by local authorities and is a tax on domestic property.

All homes are given a Council Tax band (A to H) by the Valuation Office Agency (VOA), which is based on the value of the property on 1st April 1991. Newly constructed properties are also assigned a nominal 1991 value by the VOA.

There are a number of exemptions and discounts to Council Tax, which are set out in national Council Tax law and regulations that a resident can be in receipt of. Exemptions generally apply to properties, both occupied and unoccupied, whereas a discount usually relates to people and their circumstances. In general it is for a Council to interpret Council Tax law on exemptions and discounts and to apply it appropriately.

For 2016-17 the Council Tax requirements for the Council as approved by Members at 25th February 2016 Council meeting was approximately £8m, and other 'precepting' authorities and agencies were determined as £60m.

The Council maintains a list of all domestic properties in its district and manages Council Tax, collection and arrears, etc. on the Civica Open Revenues system.

##### Scope

An audit of Council Tax was undertaken and reported on during quarter 1, 2016-17, which focused on the verification and calculation of the Council Tax opening debit. This review covered the following objectives for the period April 2016 to January 2017:

- All key control reconciliations have been correctly completed in a timely manner and subject to management review and approval;
- Exception / management reports, e.g. suppressed accounts, overpayments and refunds, etc. are subject to regular review and approval;

- Requests and ongoing application of exemptions and discounts to residents and properties are subject to appropriate verification and are correctly applied;
- Council Tax arrears are effectively managed and write-offs are subject to appropriate approval;
- Systems access to the Civica system (Council Tax and National Non Domestic Rates modules only) is restricted to authorised Officers and Officer access is subject to regular review; and
- Previous Internal Audit recommendations have been implemented.

### **Risk Assurance - Satisfactory**

### **Control Assurance - Satisfactory**

#### **Key findings**

Key control reconciliations are being successfully completed on a regular basis by Revenue and Benefits Officers and Finance to confirm the completeness and accuracy of the Council Tax and finance system records, although they have not been subject to management review and approval.

Regular checks are performed by Revenue Officers to confirm that residents in receipt of exemptions and discounts are still entitled to them. The Cabinet Office, as part of the National Fraud initiative (NFI), provided Revenue and Benefits in 2015-16 and 2016-17 with details of residents (approximately two thousand cases for each financial year) that were claiming single person discount that may not be entitled to the discount. Work has recently commenced on reviewing the 2015-16 cases and the Revenue and Benefits Manager is exploring the use of the Gloucestershire Fraud Hub to assist in this exercise.

The Council's performance management system shows that Revenue and Benefits has exceeded the Council Tax collection target and recovery of arrears indicating that arrears are being effectively managed to date within 2016-17.

The Revenue and Benefits Manager performed his annual review of user access to the Council Tax system for 2016-17 in June 2016. A review by Internal Audit of all users with access to the Council Tax system identified that one member of staff that had left the Council's employment in September 2016 still had read only access to the system and nine users had either never signed on or had not signed on for a couple of years to the system. The Revenue and Benefits Manager has now made appropriate amendments to the identified users' access and has agreed to extend his checks.

A sample check by Internal Audit on suppressed accounts (September and December 2016) and refunds (15 days) confirmed that regular reviews were performed by authorised Officers on these reported accounts. However, accounts with a credit balance totalling approximately 6,000 accounts and £500k in value for August 2016 had not been fully investigated and cleared.

The status of the recommendations raised in the following two previous audits were as follows:

- 2016-17 Council Tax opening debit - One high priority recommendation relating to the documenting of risks was implemented and the other high priority recommendation relating to improvement and extension of the reconciliation process had been deferred until commencement of the 2017-18 opening debit process; and
- 2015-16 Council Tax - The two medium priority recommendations relating to the management monitoring of the key reconciliations and review of credit balances had not been fully implemented.

### **Conclusions**

Revenues staff that are involved in performing the Council Tax operation are very experienced in the processes and systems, which compensates for the lack of a procedures manual. In addition the Revenue and Benefits Manager has applied a high level monitoring control framework to confirm the effectiveness and correct operation and performance of the service provision.

The results of the Internal Audit testing confirmed that key Council Tax controls were being effectively operated and exemptions and discounts were being subject to regular checks. However, going forward the Revenue and Benefits Manager should consider, if changes in personnel occur or if the high level monitoring controls start to identify adverse trends, introducing more detailed and frequent monitoring controls.

### **Management Actions**

Management has responded positively to the audit findings and have accepted the implementation of the two reiterated medium priority recommendations that were raised in the 2015-16 Council Tax audit.



**Service Area: Customer Services****Audit Activity: National Non Domestic Rates (NNDR) – Part 2****Background**

NNDR is a tax on properties which are not used for domestic purposes such as shops, factories, offices, etc. and is a contribution towards local services. For 2016-17 the NNDR due to the Council was determined to be approximately £34m (gross) as per the Civica system as at 1st April 2016. Since 2013-14 local authorities are allowed to retain a proportion of the NNDR revenue that is generated in their area.

Some properties are eligible for discounts from the Council or exemptions to NNDR. In addition NNDR is not applied to empty buildings for three months although for some properties this can be extended for up to six months.

Each non-domestic property has a rateable value which is set by the Valuation Officer Agency (VOA). Local authorities work out NNDR liability for every non-domestic property by multiplying the rateable value of the property by the appropriate Government set multiplier.

**Scope**

An audit of NNDR was undertaken and reported on during quarter 1, 2016-17, which focused on the verification and calculation of the NNDR debit.

This review covered the following objectives for the period April 2016 to January 2017:

- All key control reconciliations have been correctly completed in a timely manner and subject to management review and approval;
- Exception / management reports, e.g. suppressed accounts, overpayments and refunds, etc. are subject to regular review and approval;
- Requests and ongoing application of exemptions and reliefs to businesses and properties are subject to appropriate verification and are correctly applied;
- NNDR arrears are effectively managed and write-offs are subject to appropriate approval; and
- Previous Internal Audit recommendations have been implemented.

Note: The Civica system access controls for NNDR have been reviewed as part of the 2016-17 audit of Council Tax.

## **Risk Assurance - Satisfactory**

## **Control Assurance - Satisfactory**

### **Key findings**

Key control reconciliations are being successfully completed on a regular basis by Revenue and Benefits Officers and Finance to confirm the completeness and accuracy of the NNDR and Finance system records, although they have not been subject to management review and approval.

Checks performed by Revenue Officers to confirm NNDR exemptions or reliefs are limited to ad-hoc visits to business properties by the Visiting Officer and a monthly review of non-domestic customers in receipt of the empty property exemption. Internal Audit established that the empty properties report used by Revenue Officers was not reporting all cases, which resulted in the empty property exemption not having been withdrawn from two cases (around £5k and £7k). Confirmation can be given that the exemptions for both properties have now been removed and actions being taken to recover these amounts.

The Revenue and Benefits Manager is taking positive steps to increase the level of verification on properties that have been registered as empty by employing the services of the Gloucestershire Fraud Hub to undertake a review of such cases.

The Council's performance management system showed that as at December 2016, Revenue and Benefits has not achieved the targets for NNDR collection for the current year and arrears recovery. The Revenue and Benefits Manager is fully aware of the position, which he has attributed to a small number of cases with large balances where recovery is proving challenging.

Internal Audit identified one arrears case out of 15 randomly selected for review that due to human error an NNDR bill for approximately £10k was not issued to the non-domestic customer in May 2016, which also resulted in the arrears recovery process not being invoked. The NNDR bill has now been issued to the non-domestic customer.

A sample check by Internal Audit on suppressed accounts (September and December 2016) and refunds (15 days) confirmed that regular reviews were performed by authorised Officers on these reported accounts. However, a report was produced in January 2017 for Internal Audit detailing accounts with a credit balance that highlighted approximately 300 accounts totalling £200k in value (period 1990 to 2015) that had not been subject to review and clearance. Details of all credit balances are however regularly published on the Council's website.

The status of the recommendations raised in the following two previous audits were as follows:

- 2016-17 NNDR opening debit - One high priority recommendation relating to the documenting of risks was implemented and the other high priority recommendation relating to improvement and extension of the reconciliation process had been deferred until commencement of the 2017-18 opening debit process; and
- 2015-16 NNDR - The two medium priority recommendations relating to the management monitoring of the key reconciliations and review of credit balances had not been fully implemented.

### **Conclusions**

Revenues staff that are involved in performing the NNDR operation are very experienced in the processes and systems, which compensates for the lack of a procedures manual. In addition the Revenue and Benefits Manager has applied a high level monitoring control framework to confirm the effectiveness and correct operation and performance of the service provision.

The results of the Internal Audit testing confirmed that key NNDR controls were being effectively operated and exemptions and reliefs were being subject to regular checks. However, going forward the Revenue and Benefits Manager should consider, if changes in personnel occur or if the high level monitoring controls start to identify adverse trends, introducing more detailed and frequent monitoring controls.

### **Management Actions**

Management has responded positively to the audit findings and have accepted the implementation of the two reiterated medium priority recommendations that were raised in the 2015-16 NNDR audit.

**Service Area: Customer Services****Audit Activity: Off-Street Car Parking Income****Background**

The Council provides off-street car parks for public use throughout the district, with charges being levied at eight locations. In addition, the Council took on the management of the Merrywalks Shopping Centre multi storey car park on behalf of Streetlands (landlord) on 2nd December 2013.

The Council purchased and installed new machines for its sites (September 2015) and for Merrywalks Shopping Centre (24th December 2015) as part of the management agreement with the landlord. These machines are all pay and display and do not provide change to customers paying for parking. Payment can be taken by cash, debit or credit card (Merrywalks Shopping Centre only) and cashless by phone, text, etc. The total value of income received from the 32 car park machines operated by the Council for 2015-16, as per the Council's financial accounting system, was approximately £650k for Council sites and £200k for Merrywalks Shopping Centre.

**Scope**

The review covered the period September 2015 to January 2017 and the objectives for this audit were as follows:

- Management agreements / contracts between the Council and external companies who support the car park operation and hardware maintenance exist, have been formally approved and are effectively managed;
- Car park charges have been correctly approved and updated to machines;
- Car park takings are properly accounted for and subject to regular and timely reconciliation;
- Season tickets and permits are: correctly managed, authorised, access limited to authorised staff, and monies due have been correctly accounted for;
- Access to the car park machines cash boxes and tickets are limited to authorised staff and the keys stored in a secure location;
- Adequate insurance arrangements are in place for cash held in the car park machines and during collection and transit;

- Compliance with car park regulations and the Local Government Transparency Code; and
- Previous Internal Audit recommendations have been implemented.

Income from Penalty Charge Notices and the management and accounting arrangements for the Merrywalks multi-storey car park operation (as per the Agreement between the Council) are excluded from the scope of the audit.

### **Risk Assurance - Satisfactory**

### **Control Assurance - Satisfactory**

### **Key findings**

Off-street car park charges are reviewed annually by the full Council as part of the normal budgetary process and were last increased in 2011-12. Parking Orders are held to support the use of car parks under the Road Traffic Regulation Act (RTRA) 1984, but the current Parking Order held by Community and Facilities was not signed and sealed. In addition discrepancies relating to charging periods and fees were found by Internal Audit between the tariff and fees recorded in the Parking Orders against what was being operated from four of the off-street car park sites.

Finance has calculated that for the financial years 2013-14 to 2015-16 the Council has achieved a surplus from off-street car parking of approximately £400k and that the surplus has been fully spent on supporting legitimate purposes as specified in the RTRA.

The Council has not published on its website a breakdown of its income and expenditure on its off-street parking account and how the Council has spent any surplus in accordance with the Local Government Transparency Code and this should be addressed.

There is appropriate segregation of duties operating for the off-street car park process relating to access to the car park machines, cash collection, counting and banking, income reconciliation and monitoring. In addition improvements to the security arrangements relating to off-street car parking permit stationery were introduced following discussions with the Service area management during the undertaking of this audit.

Monthly reconciliations from April to September 2016 were performed to confirm that the off-street car park fees received are correctly accounted for and credited to the Council. The reconciliations were subject to management review and approval with the exception of the off-street car park fees general ledger control account and Merrywalks Shopping Centre debit and credit card payments account.

Value Added Tax on income for the period September 2015 to October 2016 has been accounted for with the exception of Merrywalks Shopping Centre debit and credit card income. In this case approximately £1,300 has not been paid to Her Majesty's Revenue and Customs since the payment facility was introduced in June 2016.

It is pleasing to note that the recommendations raised in the 2014-15 audit have now been fully implemented or superseded.

### **Conclusions**

Community and Facilities has, during the second half of 2015-16, successfully managed the replacement of the original off-street car park machines, introduced new cash collection and banking operator services and new payment facilities. In addition its management and Officers have, with support from Finance, significantly improved the control environment since the previous 2014-15 audit that had highlighted material control weaknesses.

### **Management Actions**

Internal Audit has raised four medium priority recommendations that are aimed at further strengthening the internal control environment and ensuring that going forward there is compliance with internal and external regulations.

## **Service Area: Customer Services**

### **Audit Activity: Green and Bulky Waste Charges**

#### **Background**

Following a report to the Task and Finish (Waste) Group the Environment Committee, at 4th September 2014 meeting, approved the introduction of revised opt-in chargeable garden waste and fee based bulky waste collection services during 2015-16. The primary objective for both collection services operated by Ubico Ltd (Local Authority owned company) was to be self financing.

The new garden waste collection service commenced in February 2016 and runs from February to November each year and is operated by Ubico Ltd. The income received from residents for the first period of operation to 3rd November 2016 was approximately £230k. Ubico Ltd charges for the 2016-17 financial year for providing the service, are approximately £300k.

The new chargeable bulky waste service was introduced in September 2015 to residents and up to June 2016 was operated by the private sector waste management company Veolia, through the multi services contract.

From July 2016 the collection service is performed by the new multi services contract operator, Ubico Ltd. The income received from residents from April 2016 to 3rd November 2016 was approximately £50K.

### **Scope**

The focus of this review was to determine whether:

- All applications for the collection services are correctly registered and customer details are promptly and accurately submitted to the waste management company;
- Income is correctly accounted for within the Customer Services Information (CSI) system, Civica and financial general ledger systems;
- Waste management company charges for the services have been correctly approved and invoiced expenditure has been agreed and verified;
- Stock of wheeled bins is controlled, secured and regularly verified; and
- The performance and objectives of the service are regularly monitored, reviewed and reported to management to confirm it is operating effectively and is achieving the main aims and objectives for the service.

### **Risk Assurance - Satisfactory**

### **Control Assurance - Satisfactory**

### **Key findings**

- The Council's objectives for both the garden and bulky waste collection services are that the income should cover the costs. It is too early to establish whether the Council's objective for the bulky waste collection service operated by Ubico Ltd, which commenced in July 2016, has been achieved.
- The budget monitoring report to 15th September 2016 Environment Committee highlighted that 6,300 residents (breakeven position is approximately 8,000) had signed up for the first year of service, which has resulted in a shortfall in the Council's long term income of £135k.

The expectation from the Public Space Manager and reported to the Environment Committee is that from the second year of the garden waste collection service the income would cover costs. Discussions are currently being held between Public Spaces and other Service areas to determine the best approach to promote and encourage more residents to use the service.

- Fly tipping has been occurring at waste stores on Council house sites before the introduction of the bulky waste charges, but following this event the issue has increased. To date Tenant Services have identified that this has cost the service £4.5k and are currently reviewing all options available in order to prevent fly tipping occurring.
- The levels of resident garden and bulky waste collection service complaints are regularly reported to appropriate Council officers, Ubico Ltd and the Environmental Services Partnership Board who also receives strategic key performance indicator results for the multi service contract. The level of complaints for the month of October 2016 were considered satisfactory by Internal Audit based on the total number of collections, this being a new collection service and a new operator.
- The CSI system has been successfully adapted by IT to account for customer resident garden and bulky waste collection service applications.
- Invoices issued for the period April to September 2016 by Ubico Ltd for the total multi service provision were agreed by Internal Audit to a schedule provided by the Public Space Manager, which he advised had been agreed with Ubico Ltd. However, the invoices could not be agreed to the total annual sum included in the contract.
- A review by Internal Audit of completed income reconciliations since the start of each waste collection service to September 2016 highlighted that two months garden waste and three months bulky waste income reconciliations had not been performed at the time of the audit. In addition six completed income reconciliations out of fifteen had not been subject to management review and approval. However, the reconciliations that had been undertaken had been successfully performed by Public Spaces and Customer Services officers.
- An independent stock count was undertaken by Public Spaces as at 31st March 2016 in accordance with the Council's Financial Regulations, for financial year end accounting purposes. However previous to this, documentary evidence of regular stock counts, performed by the Public Space Officer to stock records maintained by Ubico Ltd, was not retained. A review by Internal Audit of the Ubico Ltd stock records highlighted incomplete and inaccurate stock record keeping, particularly from July to October 2016.



## Conclusions

Public Spaces has successfully introduced two chargeable waste collection services during the second half of the financial year 2015-16, alongside managing the closure of the multi services contract with Veolia and the procurement of the service to a new contractor.

At the time of the audit review, discussions were being held between Public Spaces and other Service areas to determine the best approach to promote and encourage more residents to use the service and therefore achieve the Council's objective for the service, i.e. for the income to cover the costs.

The review has highlighted that there has been some lapses in the performance of expected internal controls in respect of: income reconciliations, invoice verification and stock management.

## Management Actions

Internal Audit has raised three medium priority recommendations that are aimed at strengthening the control environment for the future management and monitoring of these contractual arrangements; these have been accepted in full.

## Service Area: Finance and Business Services

### Audit Activity: Capital Accounting Key Controls

#### Background / Scope

The focus of this review was to determine that the capital accounting key controls were in place and operating effectively for the 2015-16 year-end capital position:

- Capital expenditure is monitored against the capital programme;
- Capital expenditure is correctly identified and capitalised;
- Fixed Asset Register is reconciled to the general ledger annually;
- Annual reconciliation of corporate property to the Fixed Asset Register;
- There is a five year rolling programme of revaluation for fixed assets held at current cost;
- There is an annual impairment review of tangible and intangible fixed assets;
- There is periodic physical verification of tangible fixed assets; and
- There are controls in place in relation to the accuracy of the applied depreciation and amortisation.

## **Risk Assurance - Satisfactory**

## **Control Assurance - Satisfactory**

### **Key findings**

- The fixed asset accounting processes were completed by the Principal Accountant (Technical) and the valuation process by the Property Manager within the approved reduced year-end timescales, which enabled the external audit of the 2015 - 16 Statement of Accounts. In addition the timely completion of the work also enabled Section 151 Officer sign-off of the Statement of Accounts by the due date and their presentation to the September 2016 Audit and Standards Committee.
- Various activity control checks have been performed by the Principal Accountant (Technical) and Property Manager to confirm the accuracy and completeness of the fixed assets reported in the Fixed Asset Register and ultimately in the Statement of Accounts. However, there was found to be a lack of secondary independent checks performed by Finance management to confirm all the expected controls had been completed correctly and accounting policy correctly applied. In addition although the Property Manager performed secondary checks on the valuation of assets performed by other staff, there was no such check performed on those valuations performed by the Property Manager.
- The Internal Audit testing sample identified instances where valuations had been incorrectly calculated and determined (net impact of £113k Fixed Asset Register overstatement identified). It is noted the identified misstatement did not exceed the 2015/16 External Audit materiality level (£1.5m), which would have required amendments to the Statement of Accounts.
- The following themes of audit recommendation have been raised to support the strengthening of the Council's capital controls: completion of independent secondary checks of property and land valuations; appropriate corrections to the Fixed Asset Register following audit sample testing results; development and update of the year end Statement of Accounts checklist to include key capital controls; guidance on the distinction between capital and revenue expenditure to be issued to budget holders; review and update of the Council's depreciation policy; and review of the Council's property insurance policy to confirm adequate cover for heritage assets and incoming museum exhibits.

## **Conclusion**

The internal audit identified the absence of and lapses in the monitoring type controls, which has resulted an incorrect property valuations being included in the Fixed Asset Register 2015-16, albeit the identified errors did not exceed the External Audit materiality threshold

It is noted that the External Auditors issued an unqualified audit opinion on the Council's 2015-16 Statement of Accounts and also did not raise any control improvement recommendations regarding capital accounting.

For the 2016-17 financial year there will be shorter timescales for the completion and approval for the Statement of Accounts. Therefore there will be challenges for Finance and Asset Management in the earlier application of the capital accounting internal controls (including those highlighted within the Internal Audit recommendations).

## **Management Actions**

The internal audit raised one high and five medium priority recommendations to further strengthen the capital accounting internal control environment, with the understanding of the tighter year end timescales to be applied in 2016/17. Management has accepted the internal audit recommendations in full.

## **Service Area: Finance**

### **Audit Activity: Cash and Bank**

## **Background**

The Cash and Bank reconciliation and monitoring arrangements are a key set of controls, underpinning internal and external reporting. The Finance team is responsible for carrying out the monthly bank reconciliation, reconciling to the Council's Agresso (finance system) General Ledger.

## **Scope**

The overall objective of this audit was to review the adequacy and effectiveness of the control environment for Cash and Bank financial transactions; this was achieved through a review of the following control objectives:

- The cash and bank procedures are reviewed periodically and updated to account for changes in processes and controls in administering the financial system;

- Petty cash and imprest cash balances are regularly reconciled;
- A reconciliation of the cash receipting system to the General Ledger is regularly performed and subject to management review;
- The bank reconciliation at month end is regularly reconciled to the Agresso General Ledger and subject to management review; and
- Previous Internal Audit recommendations have been fully implemented.

### **Risk Assurance - Satisfactory**

### **Control Assurance – Satisfactory**

#### **Key findings**

The five control objectives were tested and the audit results confirmed that the existing control environment for the key control areas was soundly managed.

An audit observation has been made and a medium priority recommendation raised in regards to the control objective that ‘cash and bank procedures are reviewed periodically and updated for changes in processes and controls’.

The recommendation is relevant because additional methods for receiving cash receipts through the internet are now in place and automated procedures have replaced manual staff interventions.

In addition, documentation review for petty cash balance holdings held at 31st March has identified a medium priority recommendation for the control objective “petty cash and imprest cash balances are regularly reconciled”. This recommendation seeks to strengthen the control environment for the verification of petty cash balances held at year end.

#### **Conclusions**

Audit review of the Cash and Bank control environment as at February 2017, found appropriate controls to be in place at the point of audit. Only two medium risk recommendations have been raised for consideration and action by management.

#### **Management Actions**

Management have responded positively to the two medium priority recommendations.

## **Service Area: Tenant and Corporate Services**

### **Audit Activity: Gas Servicing**

#### **Background**

Stroud District Council retains and manages its own housing stock of 5,187 Council rented properties, which includes 788 sheltered homes. The Council has a legal duty to service resident's gas boilers annually, and if this is not carried out effectively there is a health risk to the resident and financial and reputational risk to the Council.

At the full Council Meeting on 23rd January 2014 a budget of £300,000 was approved for the implementation of an in-house gas provisions team, responsible for the annual servicing, maintenance and repairs to heating systems in the Council's housing stock. The in-house Heating Services team was set up and began delivery in June 2015 with additional works delivered by an external Gas Servicing and Maintenance Contractor.

#### **Scope**

The review sought to provide:

Assurance that gas servicing of housing stock meets internal and external regulations to ensure legal and statutory compliance;

- Confirmation that there is efficient scheduling of in-house gas engineers workloads; and
- Verification that there is a clear rationale for allocating work to the appointed Contractor ensuring business needs are met.

During the audit the scope of the review was expanded to also include the servicing of all heating appliances due to the inherent risk to Stroud District Council.

#### **Risk Assurance - Satisfactory**

#### **Control Assurance – Satisfactory**

#### **Key findings**

The Council/Service has acknowledged the inherent associated risks and mitigating controls relating to the gas heating appliances under review and has captured these under two references (TNS59 and TNS60) using the corporate system for recording (Excelsis). The risks identified on Excelsis should be refreshed to reflect non-gas heating appliances.

There is a clear rationale for allocating repair and servicing work (out of warranty) to the Gas Servicing and Maintenance Contractor.

Heating Services correctly allocate repairs to either the Gas Servicing and Maintenance Contractor or boiler manufacturer whilst the installation or boiler is still under warranty however the controls to approve payments for this repair work need to be strengthened to ensure that invalid charges on contractor invoices are not authorised for payment.

There is effective paperwork in place for gas engineers to document the results of the safety checks for both the gas appliance and the flue.

The controls to prevent servicing being replicated by the in-house engineers once the Gas Servicing and Maintenance Contractor have completed the service need to be strengthened to ensure that the in-house engineer's time is effectively utilised and to mitigate the cost of duplicated service provision.

The 'Secure tenancy conditions' document outlines responsibilities about repairs; however this document should be further enhanced to outline the Council's expectations for the servicing and maintenance of tenant owned heating appliances and flues.

Review and testing of the information held within the computerised systems and formal paperwork identified that:

- The selected sample of forty gas boiler heating appliances were found to have been serviced as expected;
- There are 95 properties recorded within the Keystone Asset Management System that have a secondary gas heating appliance, however the Keystone Asset Management System requires updating in respect of decommissioned appliances;
- There are a total of nine properties that have solid fuel appliances as their primary heating source however at the time of the audit, four of the nine had not received a service in the last 12 months;
- Seventy four properties have solid fuel appliances as their secondary heating source but do not appear on the schedule for annual servicing. The Asset team had identified this omission and with Heating Services are actioning;
- All three properties identified on the Keystone Asset Management System as having Liquefied Petroleum Gas (LPG) heating appliances have received a service in 2016; and

- A review of scheduled appointments/completed jobs for 16th to 20th January confirmed that gas engineers had been scheduled to carry out either seven gas services or five repair jobs a day and these had been achieved.

### **Conclusions**

We conclude that there is a control framework in place for the management and monitoring of servicing of heating appliances, scheduling of gas engineers and contractor workloads; overall this is operating effectively however this review has identified some minor lapses in the control environment. Internal Audit has made five medium priority recommendations, the suggested improvements aim to further strengthen the control environment in respect of:

- Roles and responsibilities between the Council and its Tenants;
- The servicing of solid fuel heating appliances and installation of carbon monoxide alarms;
- Mitigating the risk of duplication of planned work between the in-house and external contractor;
- Timeliness and completeness of formal documentation and the quality of information held on computerised systems; and
- Improved management information, budgetary control, risk management and contract management arrangements.

### **Management Actions**

Management have responded positively to the five medium recommendations made.

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

### **Current Status**

During April – March 2017 there has been one potential irregularity referral to Internal Audit relating to a tenancy issue. Internal Audit is currently working with relevant officers within the Council and the investigation outcome will be provided to the Audit and Standards Committee once concluded.

In addition, Internal Audit has been notified that a potential scam involving an overpayment to the Council and subsequent refund request, has been thwarted by early intervention of the Council's bank.

Internal Audit also became aware of scams targeted at residents within not only the Stroud Council area but throughout the County.

The Council was proactive when it became aware of the issue and issued a Communications statement to the media to warn local residents of the scam. The scam involved local residents being informed, usually by email, that they were entitled to a Council Tax refund and to click on a link to provide their bank and other security details. Once this information is provided, the fraudster would then have access to their bank account and withdraw funds. This scam was reported to the National Anti-Fraud Network (NAFN).

Any fraud alerts received by Internal Audit from NAFN are passed onto the relevant service area within the Council, to alert staff to the potential fraud.

### **Fraud Risk Assessment / Risk Register**

A fraud risk register has been produced, the outcome of which will inform future Internal Audit activity.

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

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The data collections were collected throughout October 2016 and reports have started to come in for follow-up. Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

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

The outcomes of the review will be provided to the Audit and Standards Committee.

The Committee can also take assurance that all special investigations/counter fraud activities are reported to the Chief Executive, Monitoring Officer and Chief Financial Officer.



## **Anti Fraud and Corruption Policy Statement and Strategy**

Effective governance requires the Council to promote values for the authority and demonstrate the values of good governance through upholding high standards of conduct and behaviour. To enable this, the Fighting Fraud and Corruption Locally 2016–2019 Strategy has been developed by local authorities and counter fraud experts and supported by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre. It is the definitive guide for council leaders, chief executives, finance directors and all those with governance responsibilities. The strategy includes practical steps for fighting fraud, shares best practice and brings clarity to the changing anti-fraud and corruption landscape.

The Chief Internal Auditor has undertaken a self-assessment against the new guidance to measure the Council's counter fraud and corruption culture and response and propose enhancements as required. As such, a revised Anti Fraud and Corruption Policy Statement and Strategy, Anti Bribery Policy and Anti Money Laundering Policy 2017 -2019 has been developed and will be presented to the Audit and Standards Committee for approval on 11th April 2017.

Progress Report including Assurance Opinions

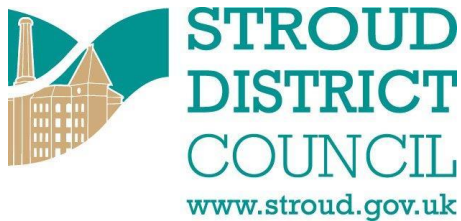
Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Standards Committee	Comments
Corporate	Document Retention Policy (Joint review with Legal Services)	High	Deferred				Considered to be included as part of the
Corporate	Procurement (Consultancy)	High	Cancelled				Procurement audit included within 2017/18 plan
Corporate	Delivery of Savings Target	Medium	Audit in Progress				
Corporate/Finance and Business	IT Disaster Recovery and Business Continuity	High	Final Report Issued	Not Applicable	Not Applicable	07/02/2017	Consultancy - no assurance levels
Corporate/Finance and Business	Cyber Security	High	Draft Report Issued				
Development Services	Building Control Shared Service	Medium	Final Report Issued	Satisfactory	Satisfactory	07/02/2017	
Customer Services	Council Tax Opening Debit 2016/17	High	Final Report Issued	Not Applicable	Not Applicable	22/09/2016	
Customer Services	National Non Domestic Rates (NNDR) 2016-17 Opening Debit	High	Final Report Issued	Not Applicable	Not Applicable	22/09/2016	
Customer Services	Benefits Uprating 2017-18	High	Deferred				Carried forward to 2017/18 plan
Customer Services	Multi Services Contract	High	Deferred				IA to support the development of a control
Customer Services	Off-Street Car Park Income	High	Final Report Issued	Satisfactory	Satisfactory	11/04/2017	
Customer Services	Dursley Pool - Direct Debits	Medium	Deferred				IA to include this review as part of the wider
Customer Services	Green Waste and Bulky Waste Charges	Medium	Final Report Issued	Satisfactory	Satisfactory	11/04/2017	
Customer Services	Benefits Part 2	High	Audit in Progress				
Customer Services	Council Tax - Part 2	High	Final Report Issued	Satisfactory	Satisfactory	11/04/2017	
Customer Services	National Non Domestic Rates (NNDR) - Part 2	High	Final Report Issued	Satisfactory	Satisfactory	11/04/2017	
Finance	Payroll - New System	High	Final Report Issued	Satisfactory	Satisfactory	07/02/2017	
Finance	Budget Monitoring	Medium	Cancelled				Due to work undertaken on HRA Balances and
Finance	Capital Accounting (Property, Plant and Equipment)	High	Final Report Issued	Satisfactory	Satisfactory	11/04/2017	KPMG Joint Working Protocol
Finance	Cash and Bank	High	Final Report Issued	Satisfactory	Satisfactory	11/04/2017	KPMG Joint Working Protocol
Finance	General Non Pay Expenditure (Creditors)	High	Audit in Progress				KPMG Joint Working Protocol
Finance	Network Access Controls	High	Audit in Progress				KPMG Joint Working Protocol
Finance	General Ledger	High	Final Report Issued	Satisfactory	Satisfactory	07/02/2017	KPMG Joint Working Protocol
Finance	Housing Revenue Account (HRA) Balances Consultancy Review	High	Final Report Issued	Not Applicable	Not Applicable	05/07/2016	New Activity
Finance	Housing Revenue Account (HRA) Balances Consultancy Review follow up	High	Final Report Issued	Not Applicable	Not Applicable	22/09/2016	New Activity
Tenant & Corporate Services	Gas Servicing	High	Final Report Issued	Satisfactory	Satisfactory	11/04/2017	
Tenant & Corporate Services	Housing Rents	High	Audit in Progress				KPMG Joint Working Protocol
Tenant & Corporate Services	LGPS Regulations 2014	High	Audit in Progress				
Tenant & Corporate Services	Response Repairs Contract	High	Audit in Progress				
Tenant & Corporate Services	Code of Conduct for Employees and Social Media Policy	Medium	Final Report Issued	Satisfactory	Satisfactory	07/02/2017	
Tenant & Corporate Services	Complaints Process - Tenant Services	Medium	Final Report Issued	Satisfactory	Satisfactory	07/02/2017	
Tenant & Corporate Services	Electoral Service	Medium	Deferred				Considered to be included as part of the
Tenant & Corporate Services	Health and Safety - Housing Stock and Corporate Assets	High	Final Report Issued	Satisfactory	Satisfactory	07/02/2017	
Tenant & Corporate Services	Sheltered Housing Modernisation Project	Medium	Final Report Issued	Substantial	Substantial	22/09/2016	
Tenant & Corporate Services	Housing Revenue Account (HRA) Rent Debit	High	Audit in Progress				
Finance	Housing Revenue Account (HRA) Balances Consultancy Review follow up 2	High	Final Report Issued	Not Applicable	Not Applicable	22/11/2016	New Activity
Finance	Housing Revenue Account (HRA) Balances Consultancy Review follow up 3	High	Final Report Issued	Not Applicable	Not Applicable	11/04/2017	New Activity

# Housing Revenue Account Balances Third Follow-Up Report

(FINAL)

6<sup>th</sup> March 2017

Janet Bruce – Principal Auditor



## Distribution

Corporate Team  
Audit and Standards Committee

## Contents

Executive Summary	page 1-2
Appendix 1 - Recommendations/Action Plan	pages 3 – 10
Appendix 2 – Statement of Accounts checklist	pages 11 - 12

## Important

- **The Internal Audit Shared Service conforms to the International Standards for the Professional Practice of Internal Auditing.**
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## Executive Summary

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### Introduction

1. An investigation was undertaken by Internal Audit, earlier in the financial year, following the discovery that balances had been overstated within the Housing Revenue Account (HRA) 2014/15 Outturn report to the Housing Committee. The overstated balance of £909k continued to be included in financial reports throughout 2015/16.
2. Following the investigation, a report was produced which included eight recommendations; seven high priority and one medium. A follow-up review was subsequently undertaken at the beginning of September 2016 but at that stage not all recommendations could be evidenced as having been implemented, and therefore a further review was required. At this second review, in October 2016, not all recommendations had been addressed by management and another error within a financial report to the Housing Committee was highlighted, albeit a much smaller amount.
3. This third review, undertaken on 1<sup>st</sup> March 2017, is intended to provide assurance that all outstanding recommendations have been addressed by management and appropriate agreed action taken.

### Key Findings

4. It is pleasing to note that all recommendations have been addressed and evidence provided of implementation.
5. In respect of recommendations nos. 3 and 5 relating to the independent checking of the financial information included within reports to members and the impact on year end balances, Internal Audit reviewed the financial reports submitted in respect of the Housing and Strategy and Resources Committees since October 2016. There have however, only been two meetings since that time where financial reports have been provided; these being the Housing Committee on 24<sup>th</sup> January 2017 and the Strategy and Resources Committee on 26<sup>th</sup> January 2017. It was intended to review further reports for both Committees initially programmed for 28<sup>th</sup> February and 2<sup>nd</sup> March 2017 respectively, but both meetings have been put back to the end of March and beginning of April, and therefore would not be available for review before the Audit and Standards Committee on 11<sup>th</sup> April 2017.

6. In respect of the one medium priority recommendation no. 8, the financial risk FIN29 (*if budget position is inaccurately reported to members and senior management then risk of significant year end balances/reputational impact*) has been reinstated with updated wording which can be found within the recommendation action plan attached at Appendix 1.
7. Updated progress on each recommendation is included within Appendix 1 of this report *in italics*.
8. In addition, the Statement of Accounts checklist will now be amended to include a check on the fixed asset valuation of Stroud DC assets, following a recommendation made within a separate Internal Audit review of capital accounting.

## **Conclusion**

9. Although all recommendations have now been implemented, Internal Audit will include an audit in the 2017/18 audit plan to ensure that all actions emanating from the recommendations made, in relation to the original HRA balances report, continue to be followed as agreed.

## HRA Balances - Recommendations/Action Plan

**High (H):** Action is imperative to ensure that the objectives for the area under review are met.

**Medium (M):** Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
1.	<p><b>A sense check is undertaken to ensure that all financial information contained within the Statement of Accounts, including the Explanatory Foreword and Notes is consistent throughout.</b></p> <p><b>A sign off sheet to be completed to evidence the check and to provide assurance to the Strategic Head (Finance and Business Services) that all financial information is consistent.</b></p>	<p><b>Inconsistency</b></p> <p><b>Reporting errors</b></p> <p><b>Unchecked information is used to inform budget and other spending decisions</b></p> <p><b>Reputation</b></p>	H	Agreed	GB (Principal Accountant – Technical)	July 2016
<p><b>Progress:</b></p> <p>A comprehensive sign-off sheet has now been instigated and was used prior to publication of the 2015/16 Statement of Accounts, with sign off by the Accountancy Manager/Deputy S.151 Officer at various stages of checks undertaken and completed as part of finalising the Statement of Accounts for publication. The signature of the Interim S.151 Officer was however not evident on the form provided to Internal Audit, although it is known that the Officer had viewed the checklist to ensure checks had been undertaken before the final publication of the Statement of Accounts.</p> <p>The Statement of Accounts was checked for accuracy against the Council’s accounting system balances on Agresso, and also for consistency within the report. The final version of the Accounts was presented to the Audit and Standards Committee on 22nd September 2016.</p> <p><i>The checklist will also include a check on the fixed asset valuation figures following a separate IA review of capital accounting.</i></p>						

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
2.	HRA and other HRA resources (earmarked reserves and capital receipts) are identified separately to capital receipts within Outturn and other reports to Members, given that capital receipts are ring-fenced and may need to be repaid to Central Government, if not utilised.	Ambiguity in respect of balances that are usable and those that are ring-fenced and may be unusable.	H	Agreed	DS (Accountancy Manager/Deputy S.151 Officer)	June 2016

**Progress:**

The 2015/16 HRA Outturn report for the June 2016 HRA Committee showed the Revenue and Capital tables separately and identified the impact on reserves and balances. The Right to Buy (RTB) receipts are now held on the balance sheet.

The Outturn summary figures have been agreed to Agresso (the Council's accounting system), i.e. net HRA income and expenditure outturn of £1,432k for 2015/2016 reflects a reduction in HRA balances from £3,370k to £1,938k. These figures are reflected in the published Statement of Accounts.



	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
3.	<p>Before using opening balances in reporting to Members and senior management the figures should be re-checked against financial information within the published Statement of Accounts and Agresso.</p> <p>A sign off sheet to be completed to evidence the check and provide the relevant assurances.</p>	<p>Incorrect financial information is used to inform Members and senior management.</p> <p>Impact on budgets and decisions.</p>	H	Agreed	DS (Accountancy Manager/Deputy S.151 Officer)	June 2016

**Progress:**

*Financial reports were presented to the Housing Committee on 24<sup>th</sup> January 2017 and Strategy and Resources Committee on 26<sup>th</sup> January 2017. Both Committee reports included Medium Term Financial Plan (MTFP) and budget reports, which showed balances brought forward from 2015/16. These figures were checked against the published Statement of Accounts for accuracy and were found to be correct.*

*Evidence was seen through the various editions of the reports, that verification checks were undertaken to ensure the accuracy of figures quoted within the reports to the Committees, with final sign off by the Interim S. 151 Officer/Accountancy Manager. All versions of the reports are now retained to provide an audit trail of checks undertaken.*

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
4.	Confirmation that:  Capital receipts from RTB are retained on the balance sheet within Capital Receipt Reserves until applied or repaid.	<b>Usable HRA balances might appear to be higher than they actually are.</b>  <b>Spend or budget decisions are based on unusable balances</b>	H	Agreed  (Any RTB receipts received to date in 2016/17 will be moved to comply)	GB (Principal Accountant – Technical)	July 2016

**Progress:**

All pooling returns up to 2015/16 have been audited by the Council’s external auditors and agreed by the DCLG. Queries have been made with the DCLG in respect of the last quarter’s return which do not allow for payments previously made within the year to show on the return.

As previously reported, capital receipts from RTB are now held on the balance sheet until applied.

*There are now separate codes for pooled and non-pooled receipts within Agresso, although the RTB receipts have not yet been split between the relevant codes. With the appointment of a new Principal Accountant this should be completed by the end of the financial year once the Q5 RTB return has been completed.*

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
5.	<p><b>Confirmation that:</b></p> <p><b>Budget monitoring updates to Committees will now include the impact of the projected outturn on year end balances at each quarterly Committee update rather than just the in year outturn forecast in budget monitoring reports.</b></p>	<p><b>Projected outturn and impact on balances is not known/regularly reported to Members to inform decision making.</b></p>	<b>H</b>	<b>Agreed</b>	<b>DS (Accountancy Manager/Deputy S.151 Officer)</b>	<b>July 2016</b>
<p><b>Progress:</b>  <i>Evidence has been seen that the projected outturn impact on year-end balances has been included in the financial reports to Members, in respect of the HRA reserves and General reserves as presented to the Housing Committee on 27<sup>th</sup> September and 24<sup>th</sup> January 2017 and the Strategy and Resources Committee on 13<sup>th</sup> October 2016 and 26<sup>th</sup> January 2017.</i></p>						

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
6.	An independent check, other than the author of Outturn reports is undertaken to ensure that the report agrees with Agresso and the figures within in the proposed/actual Statement of Accounts. It is suggested that this should be undertaken by either a peer of the author or the Accountancy Manager/Deputy S.151 Officer. A sign-off sheet should be completed to show that this has been carried out.	<p>Incorrect financial information is used to inform Members and senior management.</p> <p>Impact on budgets and decisions.</p>	H	Agreed	S.151 Officer in conjunction with Accountancy Manager/Deputy S.151 Officer	July 2016

**Progress:**

A timetable and sign-off sheet (Appendix 2) is in place in respect of the Statement of Accounts which includes checks to ensure that information is consistent with figures published within the HRA Outturn report and Agresso. It is intended that there will be a specific sign-off sheet in preparation for the production of the Outturn report for 2016/17. However, emails between the Accountancy Manager/Deputy S.151 Officer and Principal Accountant (Technical) were provided which showed independent checks had been undertaken before the final publication of the Outturn Report for 2015/16.

Internal Audit also verified the HRA 2015/16 Outturn summary figures to Agresso.

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
7.	There is formal sign off by the Section 151 Officer in respect of reports to Members which involves financial information, to ensure the accuracy and completeness of that information.	<p>Assurance that financial information provided to Members is not accurate.</p> <p>Incorrect financial information is used to inform Members and senior management.</p> <p>Impact on budgets and decisions.</p>	H	<p>Agreed</p> <p>Members of Finance staff involved in the monitoring &amp; reporting process have been involved in producing a revised timetable for the receipt of finance information from budget holders in order to feed into financial reports. This timetable includes other dates of deadlines and sign off requirement by the S.151 Officer. Non-conformation with timetable for budget holder reporting will be progressed to the appropriate Strategic Head.</p> <p>This proposed timetable is to be taken to the Corporate team for approval before implementation.</p>	S.151 Officer in conjunction with Accountancy Manager/Deputy S.151 Officer	July 2016

**Progress:**  
 At draft stage, all financial reports to Members are to be reviewed by the Section 151 Officer/Interim S.151. In addition, once financial reports are completed, there will be a formal sign-off by the Section 151 Officer to evidence that required checks have been completed, prior to being sent to Democratic Services for printing/publication ready for Committee. *This is now evidenced by the retention of working versions of the reports with the final version being signed by the Interim S.151 Officer/Accountancy Manager. The working versions of the financial reports for the Housing Committee on 24<sup>th</sup> January 2017 and the Strategy and Resources Committee on 26<sup>th</sup> January 2017 were reviewed.*

	Recommendation	Risks	Category	Management Response	Responsible officer	Target date
8.	Consideration is given to reinstatement/review of FIN29 in light of this report.	Recognition of risk of inaccurate budget position being reported to Members and senior management and subsequent risk of significant year-end balances and reputational impact.	M	Will review all finance risks and ensure risks from FIN29 is incorporated within those risks.	DS (Accountancy Manager/Deputy S.151 Officer)	Original: July 2016 Revised: October 2016

**Progress:**

The target date for this recommendation had been changed to October 2016 due to an initial review of all financial risks and recognition by the Interim S.151 Officer and Accountancy Manager/Deputy S.151 Officer that further consideration needs to be given to other potential risks relating to Finance, such as business continuity.

*The review of all strategic and financial risks has been progressed and FIN29 has been reinstated, with revised wording – ‘If financial internal control and monitoring procedures are not complied with, this may lead to errors in budgetary information being reported to Members and senior managers’.*

# Internal Audit Report – Appendix 2

## Stroud District Council

Finance and Business Services

### Statement of Accounts - Checklist

When reviewing the Statement of Accounts, s151 officer and Accountancy manager to complete the checklist below  
Principal Accountant (Technical) to keep copy on file to demonstrate evidence of formal review

Statement of Accounts version/date:

T:\Accountancy & Audit\Accounts\Financial Services\Statement of Accounts\2015-16\Words & Narrative 15-16\Audited Statement of Accounts

Issue	Statement of Accounts Section	Financial Reporting docs	Agresso check	Comments and further details	Reviewed by (1)	Reviewed by (2)	Date
GF Outturn information contained in the Narrative report is consistent with GF Outturn report provided to S&R Ctte	Narrative Report	S&R GF Outturn	1000-6999				
HRA Outturn information contained in the Narrative report is consistent with GF Outturn report provided to S&R Ctte	Narrative Report	S&R HRA Outturn	7000-7999				
Capital Outturn information contained in the Narrative report is consistent with GF Outturn report provided to S&R Ctte	Narrative Report	S&R Capital Outturn	8000-8999 + HRA Capital codes				
MTFP information contained in the Narrative report is consistent with latest approved version	Narrative Report	Council MTFP (February)					
Summary of Core Financial Statements contained in Narrative report consistent with Core Statements contained within main body of SOA	Narrative Report	SOA					
GF Balances shown in MiRS agree with opening and closing balances on Agresso (Z9400/ZZ770) and balances reported in MTFP	MiRS	MTFP & GF Outturn report	Z9400 PY & CY				
Earmarked Reserves shown in MiRS agree with opening and closing balances on Agresso (Z9401 to Z94xx) and balances reported in MTFP	MiRS	MTFP & GF Outturn report	Z9401 to Z94xx				
HRA Balances shown in MiRS agree with opening and closing balances on Agresso (Z9400/ZZ780) and balances reported in MTFP	MiRS	MTFP & GF Outturn report	Z9400 PY & CY				
GF Capital Receipts shown in MiRS agree with opening and closing balances on Agresso (Z9400) and balances reported in MTFP	MiRS	MTFP & GF Outturn report, Capital Outturn report	Z9400 PY & CY				
HRA Capital Receipts (non-RTB) shown in MiRS agree with opening and closing balances on Agresso (Z9400) and balances reported in MTFP	MiRS	MTFP & HRA Outturn report, Capital Outturn report	Z9400 PY & CY				
HRA Capital Receipts (RTB) shown in MiRS agree with opening and closing balances on Agresso (Z9400) and balances reported in MTFP	MiRS	MTFP & HRA Outturn report, Capital Outturn report	Z9400 PY & CY				
GF Capital Grants shown in MiRS agree with opening and closing balances on Agresso (Z9400) and balances reported in MTFP	MiRS	MTFP & GF Outturn report, Capital Outturn report	Z9400 PY & CY				

# Internal Audit Report – Appendix 2

## Stroud District Council

### Finance and Business Services

#### Statement of Accounts - Checklist

When reviewing the Statement of Accounts, s151 officer and Accountancy manager to complete the checklist below  
Principal Accountant (Technical) to keep copy on file to demonstrate evidence of formal review

Statement of Accounts version/date: <T:\Accountancy & Audit\Accounts\Financial Services\Statement of Accounts\2015-16\Words & Narrative 15-16\Audited Statement of Accounts>

Issue	Statement of Accounts Section	Financial Reporting docs	Agresso check	Comments and further details	Reviewed by (1)	Reviewed by (2)	Date
HRA Capital Grants shown in MIRS agree with opening and closing balances on Agresso (Z9400) and balances reported in MTFP	MIRS	MTFP & HRA Outturn report, Capital Outturn report	Z9400 PY & CY				
CI&ES figures reconcile back to Note 28 and other Financial Reporting	CI&ES	MTFP & GF/HRA Outturn report, Capital Outturn report					



# Internal Audit Plan

2017-2018



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## Background

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that authorities must “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

The guidance accompanying the Regulations recognises both the Public Sector Internal Audit Standards (PSIAS) 2016 and the CIPFA Local Government Application Note for the UK PSIAS as representing “public sector internal audit standards”. The standards define the way in which the Internal Audit Service should be established and undertakes its functions.

The standards also requires that an opinion is given on the overall adequacy and effectiveness of the Council’s control environment comprising risk management, control and governance, which is informed by the work undertaken by the Service.

The Shared Service Internal Audit function conforms to the International Standards for the Professional Practice of Internal Auditing.

## What is Internal Auditing?

The role of the internal auditor is to provide *independent, objective assurance* to management that key risks are being managed effectively. To do this, the internal auditor will evaluate the quality of risk management processes, systems of internal control and corporate governance frameworks, across all parts of an organisation, and to provide an opinion on the effectiveness of these arrangements. As well as providing assurance, an internal auditor’s knowledge of the management of risk enables them to act as a consultant and provide support for improvement in an organisation’s procedures. For example, at the development stage of a major new system where the internal auditor can help management to ensure that risks are clearly identified and appropriate controls put in place to manage them.

## Why is assurance important?

By reporting to senior management that important risks have been evaluated, and highlighting where improvements are necessary, the internal auditor helps senior management to demonstrate that they are managing the organisation effectively on behalf of their stakeholders. Hence, internal auditors, along with senior management and the external auditors are a critical part of the governance arrangements of our organisation, our work significantly contributing to the statutory Annual Governance Statement (AGS).

## Development of the 2017/2018 Internal Audit Plan

To enable the above, the Chief Internal Auditor is required to produce an Annual Risk Based Internal Audit Plan to determine the priorities of the internal audit activity. The proposed activity should be consistent with the organisation’s priorities and objectives and taking into account the organisation’s risk management framework, including risk appetite levels set by management and internal audit’s own judgement of risks.

## **How did we develop the plan - Risk Based Internal Audit Planning (RBIAP)**

To ensure our internal audit resources continue to be focussed accordingly, particularly during periods of organisational change, it is essential that we understand our clients' needs, which means building relationships with our key stakeholders, including other assurance/challenge providers, in order to gain crucial insight and ongoing 'intelligence' into the strategic and operational change agendas within our organisation.

This insight is not only identified at the initial development stages of the plan but dialogue continues throughout the financial year(s) which increases the ability for the Internal Audit Service to adapt more closely to meet the assurance needs of the Council, particularly during periods of significant change.

Our plan therefore needs to be dynamic and should be flexible to meet these needs.

### **How did we achieve the above?**

To ensure that an effective plan is developed, a consultation process took place with the Audit and Standards Committee, Corporate Team and Service Managers to establish priorities. The proposed activity from all sources was collated and matched against the internal audit resources available and prioritised accordingly.

### **A flexible audit plan - Risk and Control Assurance Programme**

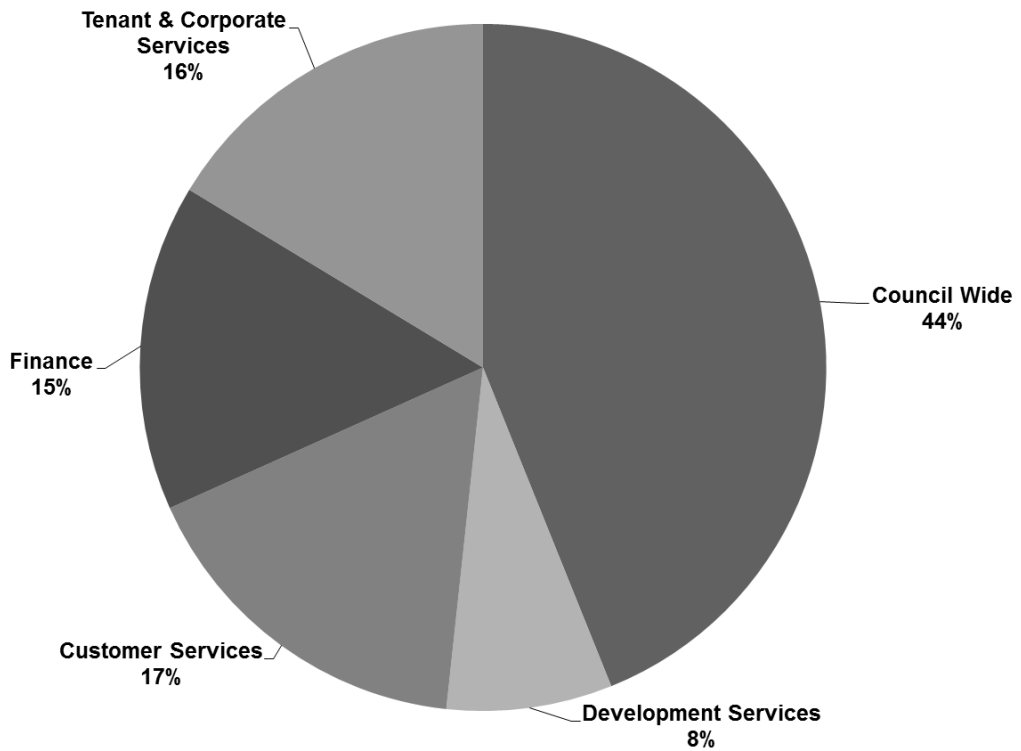
The audit plan is stated in terms of estimated days input to the Council of **515** audit days which is comparable to last year. By continuing to apply RBIAP principles; this level of input, with the ability to commission internal audit resources from current audit framework agreements as required, is considered acceptable to provide the assurance the Council needs. We will however, continue to reassess our resources required against the Council's priorities and risks and will amend the plan throughout the year as required, reporting any key changes to the Audit and Standards Committee.

### **Overview of Internal Audit's Risk and Control Assurance Programme**

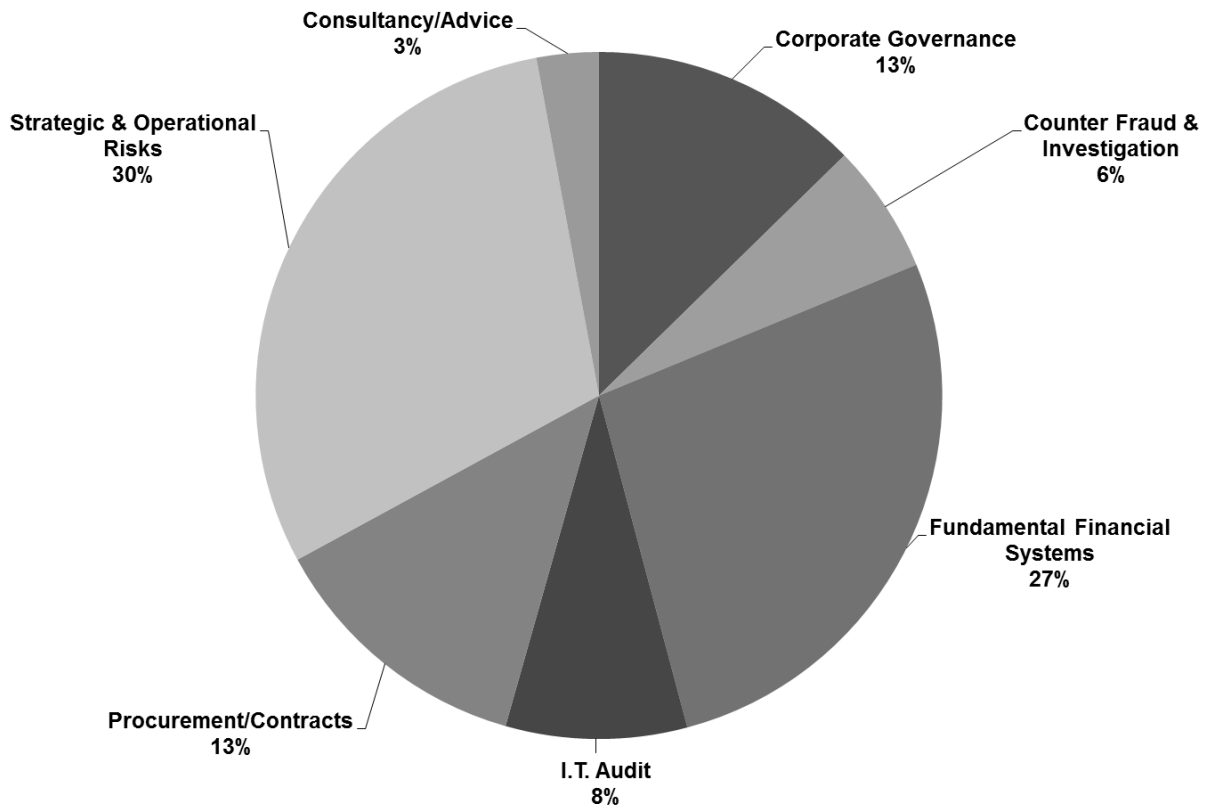
In order to provide a high level overview of the proposed Risk and Control Assurance Programme the pie charts below highlight the allocation of audit resources per:

- Functional service area; and
- Category of review.

**Percentage of audit days per functional area**



**Percentage of audit days per category of review**



The key points to note within the proposals are:

- There is a proportional split, based on risk, between each of the functional service areas to enable the provision of an audit opinion;
- Continued focus on corporate governance, key financial systems and strategic risks;
- Continued emphasis on procurement and contract management and monitoring arrangements; and
- Taking into consideration other assurance providers.

The detail supporting this overview is attached at Appendix 1 which shows:

- Audit activity per service area;
- Name of the audit activity;
- Reason for the audit i.e. as a result of RBIAP and link to the Council's Corporate Risk Register, statutory requirements etc;
- Outline scope of the review (please note that a detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is continually focused on the key risks and is undertaken within agreed time periods, to ensure our service adds value to the Council); and
- The priority of the audit i.e. priorities 1 and 2. The aim is to focus on priority 1 audits, with the priority 2 audits being reassessed in the eventuality of any new emerging risk areas highlighted where assurances may be required, or where additional fraud investigations/irregularities materialise.

## Council Wide

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Banks Automated Clearing System (BACS)	<ul style="list-style-type: none"> <li>Identified as part of RBIAP</li> <li>Assurance required by Audit and Standards Committee</li> </ul>	<p>The Bank Automated Clearing System (BACS) is a system in the United Kingdom for making payments directly from one bank account to another. There are two types of bank-to-bank payments: Direct Debits and Direct Credits.</p> <p>Direct Debits are typically used for taking regular or recurring payments such as household bills and Direct Credits are typically used for making regular payments such as salaries.</p> <p>This review will seek to determine whether the Council has effective arrangements in place for processing BACS bank-to-bank payments.</p>	Priority 1
Capital Programme	Identified as part of RBIAP	<p>The Council's Capital Programme over the next five years 2017/18-2020/21 will require circa £20m of investment (including financing). It is therefore vital that the programme is effectively managed from prioritisation of capital bids, approval to inception, through to completion.</p> <p>This review will seek to provide assurance that the Council has a robust governance framework in place for management of the Capital Programme.</p>	Priority 1

## Internal Audit Plan 2017/18

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Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Contract Management Framework	Identified as part of RBIAP Consultancy	<p>The Council has a number of key contracts, it is therefore essential that these are effectively managed to mitigate the Council's exposure to commercial, contractual and reputational risk through good contract management throughout the life of the contract.</p> <p>Internal Audit will provide professional support and advice in the development of a Contract Management Framework that aims to map out a consistent approach to Contract Management activities across Stroud District Council.</p>	<b>Priority 1</b>

## Internal Audit Plan 2017/18

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Gifts and Hospitality	Identified as part of RBIAP	<p>The public is entitled to expect the highest standards of conduct from all employees who work for local government. The 'Code of Conduct for Employees' require employees to register any gifts or hospitality in order to provide openness and transparency and protection for employees against any allegations of conflicts of interest or corruption in the minds of the public.</p> <p>Internal Audit conducted a review of compliance against the Code of Conduct for Employees as part of the 2016/17 Internal Audit Plan, the review highlighted that since 2012 the actual number of gifts and hospitality declarations has consistently fallen but it was not evident whether this was simply due to employees not being offered any gifts or hospitality, or a lack of awareness.</p> <p>This review will seek to determine the level of compliance with the Code through contacting a selection of key contractors to ascertain if any gifts or hospitality has been offered to employees and compare any information provided to the employee's declaration.</p>	<b>Priority 1</b>
Information Governance	Identified as part of RBIAP	<p>The Council has a huge amount of information, which is the lifeblood of the Council, and the foundation of all service provision. Like any other strategic asset, information must be effectively managed and protected throughout its lifecycle from creation, storage, use and disposal.</p> <p>This review will seek to determine whether the Council has effective governance arrangements in place for managing and securing its information.</p>	<b>Priority 1</b>



## Internal Audit Plan 2017/18

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Post Project Reviews	<ul style="list-style-type: none"> <li>Identified as part of RBIAP</li> <li>Assurance required by Audit and Standards Committee</li> </ul>	<p>Post project reviews are a very useful and powerful way of adding a continuous improvement mechanism to ensure that each succeeding project is more successful.</p> <p>Post project reviews typically involve the project team and key stakeholders meeting together and reviewing what went well and what improvement areas were identified during the project. The output is then fed back into future project management arrangements.</p> <p>This review will seek to determine whether the Council has a robust framework in place to ensure that post project reviews are undertaken for key projects/decisions.</p>	Priority 1
Procurement	<ul style="list-style-type: none"> <li>Identified as part of RBIAP</li> <li>Assurance required by Audit and Standards Committee</li> </ul>	<p>The Council undertakes a variety of procurement activities to help deliver services and to meet its key aims and objectives. Failure to operate a transparent process for procurement activity (coupled with any non-compliance with the requirements of the Public Contracts Regulations 2015) exposes the Council, Members and Officers to significant risks in the event that the contract award is subject to challenge.</p> <p>This audit will review a sample of procurement activities across the Council to evaluate the level of compliance with legislation and the Council's Constitution.</p>	Priority 1

## Internal Audit Plan 2017/18

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Members Allowances and Expenses	Identified as part of RBIAP	<p>Stroud District Council has 51 elected members representing constituents across 28 wards. Each member receives an annual basic allowance and when appropriate, an additional special responsibility allowance. The amount paid to members during 2015/16 was circa £324k and the budget for 16/17 is £333k.</p> <p>This audit will provide assurance that the payments made to individual members are in line with the approved members allowances and expenses scheme.</p>	<b>Priority 2</b>

### Finance

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Benefits	<ul style="list-style-type: none"> <li>Identified as part of RBIAP</li> <li>External Audit (KPMG) Joint Working Protocol</li> </ul>	<p>Housing Benefits and Council Tax Support is in excess of £31m per annum. The rules surrounding entitlement to Housing Benefit and Council Tax support are quite complex and any administrative errors has the potential to lead to under/overpayments.</p> <p>This review will seek to provide assurance that the parameters applicable to the 2017/18 year have been set correctly and that the internal procedures have been followed for verifying the parameters before they are implemented.</p>	<b>Priority 1</b>

## Internal Audit Plan 2017/18

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Budget Setting	Identified as part of RBIAP	<p>Budgeting is the process of setting financial goals, forecasting future financial resources and needs, monitoring and controlling income and expenditure.</p> <p>This audit will review the effectiveness of the revenue budget setting process to provide assurance that accurate and operationally reflective budgets are set at the start of each financial year which inform the Council's Medium Term Financial Plan.</p>	<b>Priority 1</b>
Cash and Bank	<ul style="list-style-type: none"> <li>• Identified as part of RBIAP</li> <li>• External Audit (KPMG) Joint Working Protocol</li> </ul>	<p>The Cash and Bank reconciliation and monitoring arrangements are a set of key controls, underpinning internal and external reporting. The Finance team is responsible for carrying out the monthly bank reconciliation, reconciling to the Council's Agresso (finance system) General Ledger.</p> <p>Through the joint working protocol between Internal Audit and KPMG, Cash to Bank is identified as being a key financial system for which the Chartered Institute of Public Finance and Accountancy (CIPFA) have defined a series of risk and control matrices.</p> <p>This audit will review the adequacy and effectiveness of the control environment for Cash and Bank financial transactions.</p>	<b>Priority 1</b>

## Internal Audit Plan 2017/18

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Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Council Tax	<ul style="list-style-type: none"><li>Identified as part of RBIAP</li><li>External Audit (KPMG) Joint Working Protocol</li></ul>	<p>Stroud District Council (SDC) collects Council Tax on behalf of local authorities that issue a precept e.g. Gloucestershire County Council and Gloucestershire Police and Crime Commissioner. Council tax requirements for 2016/17 were circa £68m, with SDC's share being circa £8m.</p> <p>This review will seek to provide assurance that Council Tax charges have been correctly calculated, appropriately authorised, and accurately transferred to the billing system.</p>	<b>Priority 1</b>

## Internal Audit Plan 2017/18

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
General Ledger	<ul style="list-style-type: none"> <li>Identified as part of RBIAP</li> <li>External Audit (KPMG) Joint Working Protocol</li> </ul>	<p>The Agresso General Ledger contains all the accounts for recording transactions relating to the Council's assets, liabilities, reserves, revenue, and expenses and is supported by feeder subsidiary systems (such as Northgate for Housing and Payroll, Civica Open Revenues for Council Tax, Business Rates and Housing Benefits, the Fixed Asset register and Treasury Management records).</p> <p>The General Ledger is a key financial reporting and financial transaction system that supports the annual financial statements. It is of vital importance that there is a sound General Ledger control environment and that the agreed systems and processes are operating effectively.</p> <p>In addition, Internal Audit and KPMG have an agreed working protocol that defines the principles for a managed audit approach in order for KPMG to place reliance on the work of Internal Audit where this is relevant to their work, particularly when appraising the controls operated by management over financial systems. This audit will consider and review the relevant General Ledger areas, as defined within the Joint Working Protocol.</p>	<b>Priority 1</b>

## Internal Audit Plan 2017/18

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Housing Revenue Account (HRA) Follow Up	<ul style="list-style-type: none"> <li>Identified as part of RBIAP</li> <li>Assurance required by Audit and Standards Committee</li> </ul>	<p>The Housing Revenue Account (HRA) sits within the Stroud District Council fund balances but is reported separately within the accounts. HRA outturns and budget updates are provided to the Housing Committee on a cyclical basis.</p> <p>At the end of April 2016 a new interim Principal Accountant (Financial Reporting) was tasked with reviewing the HRA accounts including Right to Buy (RTB) receipts and application of those receipts. During this review it was realised that there was a discrepancy between the information reported in respect of HRA balances to Members, specifically in respect of balances brought forward from 2014/15, and those reported in the 2014/15 Statement of Accounts, i.e. that the HRA balances were overstated by £909,000.</p> <p>Internal Audit investigated this issue and whilst no fraud or irregularity was identified, errors within published reports were confirmed and areas were identified which required improvements.</p> <p>This follow-up review is to provide assurance that reporting financial information is correct and consistent within published reports to members, specifically in respect of the Housing Revenue Account, by ensuring the recommendations from the original HRA investigation report have been implemented.</p>	<b>Priority 1</b>

## Internal Audit Plan 2017/18

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
National Non Domestic Rates (NNDR)	<ul style="list-style-type: none"> <li>Identified as part of RBIAP</li> <li>External Audit (KPMG) Joint Working Protocol</li> </ul>	<p>The total amount of National Non-Domestic rating income from the rates retention scheme for 2016/17 was £31m, of which Stroud District Council's share was £3m.</p> <p>This review will seek to provide assurance that appropriate notifications have been received advising of the NNDR multipliers and transitional relief rates for the current financial year and that multipliers and transitional relief rates have been accurately transferred to the billing system.</p>	<b>Priority 1</b>

# Internal Audit Plan 2017/18

## Development Services

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Community Infrastructure Levy	Identified as part of RBIAP	<p>Community Infrastructure Levy (CIL) is a charge levied on buildings and extensions to buildings according to their floor areas. Money raised from the development will help the Council pay towards district wide infrastructure priorities to ensure the District grows sustainably.</p> <p>Revisions to the CIL Regulation in 2014 introduced a range of technical amendments to improve the administration of the levy, these came into force in March 2015. Following consultation and member approval the Council intends to adopt a CIL charging schedule from April 2017.</p> <p>This review will seek to ensure that the Council has a robust control environment for the administration, management and monitoring of CIL charges.</p>	Priority 1
Licencing (Business Licenses)	Identified as part of RBIAP	<p>The Licensing Service supports the local economy by ensuring that businesses providing licensable services are regulated to protect the public or others from harm. Licences are generally subject to a fee and are designed to cover service costs.</p> <p>This audit will review the fee-setting arrangements to assess whether these are appropriate to cover the costs of service provision and are in compliance with legislative requirements.</p>	Priority 2



# Internal Audit Plan 2017/18

## Customer Services

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Multi Services Contract	<ul style="list-style-type: none"> <li>Identified as part of RBIAP</li> <li>Consultancy</li> </ul>	<p>The multi services contract provides for the provision of waste and recycling, street cleaning, grounds maintenance, fleet management and maintenance services. The cost of providing this service, in the first year of operation, as per the contract is circa £4.9m.</p> <p>Internal Audit will provide professional risk and control advice to support the development of a control framework to effectively manage and monitor the contract.</p>	Priority 1
Homelessness	Identified as part of RBIAP	<p>Stroud District Council has primary duties in dealing with homelessness (actual or threatened) under the Housing Act 1996, as amended by the Homelessness Act 2002 (Part VII).</p> <p>The homelessness legislation places a general duty on housing authorities to ensure that advice and information about homelessness, and preventing homelessness, is available to everyone in their district free of charge. The legislation also requires authorities to assist individuals and families who are homeless or threatened with homelessness. Homelessness applications have significantly increased between financial years 2015/16-2016/17, with the number of active cases currently at 25.</p> <p>This audit will review the effectiveness of the Council's arrangements for processing applications and monitoring homelessness cases.</p>	Priority 2

## Internal Audit Plan 2017/18

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Housing – Discretionary Payments	<ul style="list-style-type: none"> <li>Identified as part of RBIAP</li> <li>Assurance required by Audit and Standards Committee</li> </ul>	<p>Discretionary Payments are not an award of Housing Benefit and claimants do not have a statutory right to a payment. They may be awarded to Housing Benefit claimants who may need further financial help with their housing costs (rent, tenancy start up costs and moving costs), during periods of short term need. Funding during 2016/17 was circa £120k with approximately 162 applicants.</p> <p>This review will seek to provide assurance that the Council has a robust control framework in place for the award and administration of approved payments.</p>	<b>Priority 2</b>
The Pulse Dursley	Identified as part of RBIAP	<p>The Pulse Dursley, formerly known as Dursley Pool, is the new swimming pool, gym and studio Dursley. The Pulse offers a wide range of classes and activities for the local community, as well as public swimming sessions.</p> <p>This audit will review the effectiveness of the control environment to ensure that all income due has been collected.</p>	<b>Priority 2</b>

# Internal Audit Plan 2017/18

## Tenant and Corporate Services

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Brimscombe Port	<ul style="list-style-type: none"> <li>Identified as part of RBIAP</li> <li>Assurance required by Audit and Standards Committee</li> </ul>	<p>Brimscombe Port is a former inland port dating back to the 1780s. Following the decline of the canals as a mode of transport the port became redundant and was in-filled in the 1930s and latterly developed as an industrial site in the 1960s.</p> <p>The Council is promoting the development of this brown field site and following the successful bid, by the Council, to the Homes and Community Agency for £2m and £1m of capital monies, plus surplus income from the site, there is now in excess of £3m available to spend on the infrastructure work.</p> <p>This review will seek to determine whether the Council has effective project management arrangements in place for the delivery of this development.</p>	Priority 1
HRA Rent Debit 2017-18	<p>Identified as part of RBIAP</p> <p>External Audit (KPMG) Joint Working Protocol</p>	<p>The Council is the district's major provider of rental accommodation with a stock of 5,117 dwellings as at 31<sup>st</sup> March 2016. The value of Housing Rental Income is circa £22m (2015/16).</p> <p>This review will seek to ensure that the rental update for 2017-18 has been calculated correctly based on the revised rates agreed by the Council for all residential properties and that these have been correctly and accurately updated to the Northgate Housing Management System.</p>	Priority 1

## Internal Audit Plan 2017/18

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Right to Buy Scheme	<ul style="list-style-type: none"> <li>Identified as part of RBIAP</li> <li>Assurance required by Audit and Standards Committee</li> </ul>	<p>The Right to Buy scheme is a policy in the United Kingdom which gives secure tenants of councils and some housing associations the legal right to buy, at a discount, the home they are living in. The discounts are generous at up to £77,900, outside of London, depending on the length of tenancy and therefore inherently there is an increased risk of fraudulent applications being received.</p> <p>This review will seek to determine if there are stringent checks in place to reduce the risk of fraudulent applications to buy social housing being received and processed, thereby ensuring social housing properties remain in the ownership of the Council where appropriate.</p>	<p><b>Priority 1</b></p>

## Internal Audit Plan 2017/18

### ICT to include audits provided by ICT external auditors

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
ICT	<ul style="list-style-type: none"> <li>Identified as part of RBIAP</li> <li>Assurance required by Audit and Standards Committee</li> </ul>	<p>The ICT audits will be identified following the ICT audit needs assessment. The assessment will be compiled by the Internal Audit Service ICT audit specialists and will consider input from both council officers and External Audit.</p>	Priority 1
IT Disaster Recovery	<ul style="list-style-type: none"> <li>Identified as part of RBIAP</li> <li>Assurance required by Audit and Standards Committee</li> </ul>	<p>During 2016/17 Internal Audit provided professional support and advice for the development of a robust IT Disaster Recover (ITDR) framework, resulting in an action plan that identified a number of improvement areas.</p> <p>This review will seek to determine whether the agreed actions to progress the improvement areas are being taken forward or implemented as appropriate.</p>	Priority 1

## Internal Audit Plan 2017/18

### Counter Fraud

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Fraud Investigation / Detection	<ul style="list-style-type: none"> <li>To support the Annual Governance Statement</li> <li>Protect the Public Purse</li> </ul>	<p>Allocation to continue the development and implementation of the Council's Anti-Fraud and Corruption arrangements based on latest best practice.</p> <p>This also includes an allocation for increasing the profile and awareness of anti-fraud, conducting pro-active counter-fraud reviews and undertaking investigations as required.</p>	Priority 1
National Fraud Initiative (NFI)	<ul style="list-style-type: none"> <li>Statutory Requirement</li> <li>To support the Annual Governance Statement</li> </ul>	<p>To continue to co-ordinate activity as part of the NFI (a national data matching exercise that compares data/records i.e. payroll, licences, housing waiting list, single person discounts, creditors etc.) for a wide range of public services, including ensuring that matches are investigated promptly and thoroughly, and reporting of results.</p>	Priority 1

## Internal Audit Plan 2017/18

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Fraud Risk Management	<ul style="list-style-type: none"> <li>To support the Annual Governance Statement</li> <li>Informs the Risk Based Internal Audit Plan</li> </ul>	<p>The CIPFA Counter Fraud Centre has issued guidance on actions to be taken to 'Manage the Risk of Fraud and Corruption' within an organisation.</p> <p>This allocation is to continue to self assess against the criteria set out in the guidance and develop a fraud risk register in order to direct/prioritise our counter fraud and internal audit resources/activity accordingly.</p>	<b>Priority 1</b>

## Management Activity to Support the Audit Opinion

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Transformational Change	Supporting transformational change	Internal Audit to support the Council with major transformational change programmes / projects.	Priority 1
Annual Governance Statement (AGS)	Statutory Requirement	This allocation is to lead on the development and implementation of the governance assurance framework and to produce the 2017/18 AGS.	Priority 1
Audit and Standards Committee / Member / Officer and Chief Financial Officer Reporting	Management activity to support the audit opinion	This allocation covers Member reporting procedures, mainly to the Audit and Standards Committee, plan formulation and monitoring and regular reporting to and meeting with, the Chair and Vice Chair of the Audit and Standards Committee and the Chief Financial Officer.	Priority 1
Provision of Internal Control / General Advice	To support an effective control environment	This allocation allows auditors to facilitate the provision of risk and control advice which is regularly requested by officers within the Council.	Priority 1



## Internal Audit Plan 2017/18

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Quality Assurance and Improvement Programme (QAIP) includes the annual review of the effectiveness of Internal Audit and the external assessment	<ul style="list-style-type: none"> <li>• Statutory Requirement</li> <li>• To support the AGS</li> </ul>	<p>The Accounts and Audit Regulations 2015 states that Internal Audit should conform to 'proper practices' and it is advised that proper practice for internal audit is currently set out in the Public Sector Internal Audit Standards (PSIAS) 2016.</p> <p>This allocation is to undertake an annual self assessment and when required, commission and deliver an external quality assessment, against the new standards.</p> <p>All outcomes to be reported to the Audit and Standards Committee.</p>	Priority 1
External Working Groups	Activity to support the audit opinion	Attendance / work in relation to the Counties Chief Auditor Network (National Group), Midland Counties and Districts Chief Internal Auditors Group and the Fraud and ICT Groups to enable networking and to share good practice.	Priority 1
External Audit Liaison	Management activity to support the audit opinion	The External Auditor and the Chief Internal Auditor regularly meet to discuss plans and audit findings, to ensure that a "managed audit" approach is followed in relation to the provision of internal and external audit services.	Priority 1
Carry Forwards	Audit Activity outstanding	This allocation provides for the completion of various 2016/2017 audits which require finalising.	Priority 1

## Internal Audit Plan 2017/18

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Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Recommendation Monitoring	Activity to support the audit opinion	Whilst it is management's responsibility to manage the risks associated with their outcomes/objectives, this allocation enables Internal Audit to monitor management's progress with the implementation of high priority recommendations.	<b>Priority 1</b>
Internal Working Groups	Activity to support the audit opinion	Internal Audit is frequently asked to nominate representatives for working groups to advise on risk and control.	<b>Priority 2</b>

# Audit and Standards Committee Annual Report 2016-2017



# Contents

<b>Statement from the Chairman of the Audit and Standards Committee</b> .....	<b>2</b>
<b>Background</b> .....	<b>3</b>
<b>Membership and Meetings</b> .....	<b>4</b>
<b>Work Programme</b> .....	<b>4</b>
➤ Internal Audit Activity .....	5
➤ Activity relating to Treasury Management.....	6
➤ External Audit Issues .....	6
➤ Risk Management Activity .....	7
➤ Corporate Governance .....	7
➤ Other.....	7
<b>Training</b> .....	<b>8</b>
<b>Future Work</b> .....	<b>8</b>
<b>Conclusion</b> .....	<b>9</b>

## Statement from the Chairman of the Audit and Standards Committee

Effective corporate governance is a fundamental feature of any successful public sector organisation. The trend for strengthening governance arrangements has resulted in the joint Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authorities Chief Executives (SOLACE) good practice publication / guidance '*Delivering Good Governance in Local Government – 2016 Edition*'.

Being well managed and well governed are important attributes in helping the Council to improve performance and to reduce the risk of failing to achieve our objectives and providing good services to our community.

Audit Committees are widely recognised as a core component of effective governance, their key role is to independently oversee and assess the internal control environment, comprising governance, risk management and control and advise the Council on the adequacy and effectiveness of these arrangements.

In response to the above, the Council established an Audit and Standards Committee in September 2009 in line with CIPFA's guidance '*Audit Committees – Practical Guidance for Local Authorities and Police - 2013 Edition*'. The Committee's priorities are to maintain and improve our governance procedures and we are a major source of providing assurance on the Council's arrangements for managing risk, maintaining an effective control environment and reporting on internal and external audit functions and financial and non-financial performance. As Chairman, I also consider training a key priority for members in order for us to undertake our roles effectively.

The Committee undertakes a substantial range of activities and works closely with the Chief Financial Officer (Section 151 Officer) and both internal and external auditors, in achieving our aims and objectives. We have developed and implemented a work plan for the year to enable key tasks to be considered, undertaken and delivered and to summarise, through our work plan we have:

- provided independent assurance on the adequacy of the governance, risk management framework and associated control environment;
- provided independent scrutiny of the Council's financial and non financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and
- overseen the statutory financial reporting process.

In conclusion, the Committee has continued to make a positive contribution to the Council's overall governance and control arrangements, including risk management and is satisfied that the Council has maintained an adequate and effective internal control framework through the period covered by this report.

**Councillor Nigel Studdert-Kennedy**  
**Chairman of the Audit and Standards Committee**

## Background

Stroud District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. In discharging this overall responsibility, the Council is responsible for putting in place the proper arrangements for the governance of its affairs.

A sound corporate governance framework involves accountability to service users, stakeholders and the wider community, within which the Council takes decisions and leads and controls its functions to achieve stated objectives and priorities. It thereby provides an opportunity to demonstrate the positive elements of the Council's business and to promote public confidence. Audit Committees are widely recognised as a core component of effective governance.

The Audit and Standards Committee is responsible for overseeing the Council's corporate governance, audit and risk management arrangements. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement. The Committee's specific powers and duties are set out in Council's Constitution.

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance to local authorities to help ensure that Audit Committees are operating effectively<sup>1</sup>. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities. The key benefits to the Council of operating an effective Audit and Standards Committee are:

- Maintaining public confidence in the objectivity and fairness of financial and other reporting;
- Reinforcing the importance and independence of internal and external audit and any other similar review process;
- Providing a focus on financial reporting both during the year and at year end, leading to increased confidence in the objectivity and fairness of the financial governance arrangements operating within the Council;
- Assisting the co-ordination of sources of assurance and, in so doing, making management more accountable;
- Providing additional assurance through a process of independent and objective review, via the Internal Audit function;
- Raising awareness within the Council of the need for governance, including ethical governance, internal control and the implementation of audit recommendations; and
- Providing assurance on the adequacy of the Council's risk management arrangements, including the risk of fraud and irregularity.

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<sup>1</sup> CIPFA – Practical Guidance for Local Authorities and Police, 2013

## Membership and Meetings

The Committee has enjoyed the benefit of a reasonably settled membership over the last two years. This has helped to build and retain the expertise within the Committee, which has led to the Committee being able to demonstrate that they are operating within a best practice framework.

There are nine Members of the Audit and Standards Committee namely:

- Councillor Nigel Studdert-Kennedy (Chair)
- Councillor Rachel Curley (Vice-Chair)
- Councillor Martin Baxendale
- Councillor Stephen Davies
- Councillor Colin Fryer
- Councillor Keith Pearson
- Councillor Mark Reeves
- Councillor Tom Williams
- Councillor Penny Wride

During the 2016/17 Civic Year, the Audit and Standards Committee has met on five occasions, in accordance with its Programme of Work:

- 5<sup>th</sup> July 2016
- 22<sup>nd</sup> September 2016
- 22<sup>nd</sup> November 2016
- 7<sup>th</sup> February 2017
- 11<sup>th</sup> April 2017

The Committee is also supported by Council Officers, principally the Chief Financial Officer (S151 Officer), Monitoring Officer, Head of Audit Risk Assurance and the Council's External Auditors (KPMG).

## Work Programme

During this period, the Committee has assessed the adequacy and effectiveness of the Council's risk management arrangements, control environment and associated counter fraud arrangements through regular reports from officers, the internal auditors (Audit Risk Assurance) and the external auditors (KPMG).

The Committee has sought assurance that action has been taken, or is otherwise planned by management to address any risk related issues that have been identified by the auditors during this period. The Committee has also sought to ensure that effective relationships continue to be maintained between the internal and external auditors and between the auditors and management. The specific work undertaken by the Committee during 2016/2017 is set out below.

## Internal Audit Activity

With effect from May 2016, the Internal Audit service is provided by Audit Risk Assurance under a shared service agreement. The Committee has continued to monitor the work of Internal Audit and has:

- overseen the implementation of the new internal audit arrangements for the Council. This has included approving changes to the Internal Audit Charter and Code of Ethics to reflect the revised Public Sector Internal Audit Standards (PSIAS) 2016. These documents set out the role, responsibility, status and authority of internal audit within the Council;
- contributed towards, received and approved the Internal Audit Plan for 2016/17. The plan ensures that internal audit resources are prioritised towards those systems, processes and areas which are considered to be deemed high risk, or which contribute most to the achievement of the Council's corporate objectives;
- monitored the delivery of the annual Internal Audit Plan through regular update reports presented by the Head of Audit Risk Assurance;
- received, considered and monitored the results of internal audits performed and high risk activity identified, in respect of specific areas i.e. Housing Revenue Account (HRA) Balances, the Procurement Action Plan and Review of Council Tax and Business Rates Direct Debit payment issues and monitored the progress made by management, during the period, to address identified control weaknesses;
- considered the Council's overall counter fraud arrangements and response in the light of updated national guidance Fighting Fraud and Corruption Locally – The Local Government Counter Fraud and Corruption Strategy 2016 – 2019 which is supported by CIPFA Counter Fraud Centre and approved the revised Anti Fraud and Corruption Policy Statement and Strategy, Anti Bribery Policy and Anti Money Laundering Policy 2017-2019, which reflects this updated guidance;
- received updates on the outcomes of special investigations undertaken by Internal Audit, along with progress made in the investigation of queries arising as a result of the National Fraud Initiative (NFI) data matching exercise;
- considered the Internal Audit Annual Report of the Head of Audit Risk Assurance, which provided a satisfactory opinion on the effectiveness of the Council's internal control environment. The summary of the internal audit activity upon which the opinion was based provided the Committee with the necessary assurance that there is a generally sound system of internal control in place at the Council; and
- received and approved the Internal Audit Quality Assurance and Improvement Programme (QAIP). The QAIP is a programme of performance activity which helps to ensure internal audit work is conducted in accordance with the established professional standards (PSIAS). The standards require periodic self-assessments and an assessment by an external person every five years. The Chartered Institute of Internal Auditors (CIIA) (the professional body who sets internal audit standards for public bodies) assessment of Audit Risk Assurance concluded that the work of Internal Audit was in compliance with the required professional standards. The Committee therefore takes assurance that the internal audit practices meet the required standards and continued reliance can be placed on the internal audit arrangements operating within the Council.



## Activity relating to Treasury Management

During the year, the Audit and Standards Committee:

- approved the quarterly Treasury Management activity reports and received, considered and recommended to full Council for approval the Treasury Management Strategy, the Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2016/2017 and 2017/18. These reports set the Council's prudential indicators for 2016/17 – 2018/19 and the treasury strategy for these periods. This is a key area for the Committee to monitor and they continue to consider and recommend to full Council for approval amendments to the investment strategy in response to constantly changing market conditions.

## External Audit Issues

The External Audit service is provided by KPMG. The Committee has monitored the work of the Council's external auditors and has:

- considered and approved the External Audit Plan 2015/16 which sets out external audit's work to be undertaken on the accounting statements and to provide a value for money opinion. It reported on risks they have identified which would receive attention during the audit, the results of interim work, which did not reveal any material weaknesses, and the dates for the completion of the audit.
- considered the External Audit Report 2015/2016 i.e. 'Report to those charged with Governance' in accordance with the requirements of International Standard on Auditing 260 (ISA) which summarises the key findings arising from their audit work in relation to the Council's financial statements and work to support the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money (VFM) conclusion). The audit concluded with an unqualified opinion on the financial statements and VFM conclusion;
- considered and approved the Statement of Accounts for 2015/16 of the Council and received KPMG's audit opinion. The Deputy S151 Officer together with the Chairman of the Committee signed a letter of representation on behalf of the Committee and Council to KPMG, to enable the 'unqualified' opinion to be issued;
- considered and accepted the Annual Audit Letter 2015/16. This letter summarises the outcome from audit work at the Council during this period.
- received and considered the Annual Report on grant claims and returns 2015/16. This report summarises the results of the work undertaken on the Council's 2015/2016 grant claims and returns; and
- received and considered regular external audit progress reports.

## Risk Management Activity

During the year the Committee has:

- considered the self assessment of risk management arrangements operating within the Council against ISO31000 Risk Management – Principles and Guidelines, to provide independent assurance on the adequacy of the Council's risk management framework and is currently monitoring the progress of the actions identified to further enhance these arrangements, which includes a refresh and reaffirmation of the Strategy; and
- received regular risk management update reports (including the review of the corporate risk register) and being presented with the actions taken by the Council to identify and address corporate risks. The Committee recognised that the corporate risk register required further review and enhancement, which has been now been included as an action within the risk management improvement plan.

## Corporate Governance

In relation to corporate governance the Committee:

- considered and approved the Council's 2015/2016 Annual Governance Statement. The Committee also reviewed the progress made by management to address the significant issues identified in the 2015/16 Annual Governance Statement Improvement Plan;
- has been briefed on the revised Annual Governance Statement assurance framework which was implemented during the latter part of 2016/2017, the outcomes will inform the Annual Governance Statement 2016/2017;
- has been briefed on the revised Council's Code of Corporate Governance which reflects the new principles of good governance as per CIPFA/ SOLACE Delivering Good Governance in Local Government 2016 Edition; and
- considered the standards issues during 2015/2016 relating to the Code of Conduct and reviewed the current Investigations Procedure.

## Other

In addition, the Committee:

- continued to monitor and accept the achievements against the Procurement Action Plan and consider the actions required to further improve the Council's performance and contract management arrangements; and
- Considered the options for the future appointment of the Council's external auditors. The Council is required to appoint new external auditors by 31 December 2017 in time for the audit of the 2018/19 accounts. The options include the local appointment of auditors with the process overseen by an independent auditor panel, a joint appointment with one or more other councils or appointment via a sector led body set up by the Local Government Association (LGA) for this purpose. The Committee expressed clear support for option of using the sector led body as there would be economies of scale and improved transparency.

## Training

The following training was made available to Members of the Audit and Standards Committee in 2016/17 to support the Committee in discharging its responsibilities:

- Treasury Management (provided by Council's treasury advisors – all Councillors invited) - two sessions: July 2016 and January 2017;
- Audit Committee Effectiveness: Knowing the Ropes (provided by Grant Thornton) - July 2016;
- Statement of Accounts - September 2016;
- Risk Based Internal Audit Planning Workshop - October 2016;
- Housing Revenue Account (HRA) – (open to all Councillors) - December 2016; and
- Finance (open to all Councillors) - December 2016.

## Future Work

During 2017/18, the Audit and Standards Committee will continue with the existing aim of being an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.

In particular, they will continue to support the work of Internal and External Audit and ensure appropriate responses are given to their recommendations, continue to monitor the implementation of the Procurement Action Plan and the effectiveness of the procurement arrangements operating across the Council, the HRA and Direct Debit issues and any actions arising from the Annual Governance Statement action plan 2016/2017, to ensure the Council continues to adopt the latest good practice.

In addition, with risk management being a key contributor to good governance the Committee will be seeking assurance that the risk management improvement plan is implemented and they will look to Internal Audit to provide the independent assurance that risk continues to be embedded into the Council's key business activities.

## Conclusion

The Audit and Standards Committee has had a successful year in providing the Council with assurances on the strength of its governance and stewardship arrangements and in challenging those arrangements.

The Committee's work programme is a dynamic programme and will continue to be reviewed to ensure the Committee maximises its contribution to the governance and control framework at the same time managing agendas to ensure that all meetings are focused on the key issues.

Details of all reports as noted within this report can be found at <https://www.stroud.gov.uk/council/meetings/audit-standards-committee>.