

23 June 2017

AUDIT AND STANDARDS COMMITTEE

A meeting of the Audit and Standards Committee will be held on **TUESDAY 4 JULY 2017** in the Council Chamber, Ebley Mill, Ebley Wharf, Stroud at **7.00 pm.**



David Hagg
Chief Executive

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

AGENDA

1. **APOLOGIES**
To receive apologies for absence.
2. **DECLARATIONS OF INTEREST**
To receive declarations of interest.
3. **MINUTES**
To approve the minutes of the meeting held on 7 February 2017.
4. **PUBLIC QUESTION TIME**
The Chair of Committee will answer questions from members of the public submitted in accordance with the Council's procedures.
DEADLINE FOR RECEIPT OF QUESTIONS
Noon on THURSDAY 29 JUNE 2017.
Questions must be submitted in writing to the Chief Executive, Democratic Services, Ebley Mill, Ebley Wharf, Stroud and sent by post or by Email:
democratic.services@stroud.gov.uk.
5. **WORK PROGRAMME**
To consider the work programme.

6. **PROCUREMENT REVIEW 2017/18**
To consider the actions required to further improve the Council's performance in relation to procurement and contract management.
7. **ANNUAL REPORT ON INTERNAL AUDIT ACTIVITY 2016/17**
To provide the Committee with an annual report on Internal Audit Activity.
8. **DRAFT ANNUAL GOVERNANCE STATEMENT (AGS) 2016/17**
To summarise the Council's corporate governance arrangements in place during 2016/17.
9. **STATEMENT OF ACCOUNTS 2016/17**
To report the headlines from the Statement of Accounts for 2016/2017 and any key issues.
10. **ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2016/2017**
To approve the treasury management activity annual report for 2016/2017 and the actual Prudential Indicators.
11. **MEMBERS' QUESTIONS**
See Agenda Item 4 for deadline for submission.

Members of Audit and Standards Committee

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

AUDIT AND STANDARDS COMMITTEE

11 April 2017

7.00 pm – 8.10 pm

Council Chamber, Ebley Mill, Stroud

Minutes

Membership

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

A = Absent P = Present

Officers in attendance

Head of Audit Risk Assurance	Legal Services Manager & Monitoring Officer
Accountancy Manager	Principal Procurement Officer
Community & Facilities Manager	Democratic Services Officer

Others in attendance

Darren Gilbert, Director of KPMG (External Auditors).

AC.049

APOLOGIES

Apologies for absence had been received from Councillors Rachel Curley and Mark Reeves.

AC.050

DECLARATIONS OF INTEREST

There were none.

AC.051

MINUTES

RESOLVED

That the Minutes of the meeting held on 7 February 2017, are approved as a correct record.

AC.052

PUBLIC QUESTION TIME

There were none.

AC.053 **WORK PROGRAMME**

The Chair provided a verbal update on a revised work programme that would be circulated to committee by email. Members discussed topics that they would like to be included on the programme and it was

- RESOLVED**
- a) **To agree the revised work programme.**
 - b) **To receive a Members' Information Sheet providing an update on Brimscombe Port (including the skate park) within a month.**
 - c) **At a future date to receive more information on ICT.**

AC.054 **ANTI FRAUD AND CORRUPTION POLICY STATEMENT AND STRATEGY (INCLUDING ANTI BRIBERY POLICY AND ANTI MONEY LAUNDERING POLICY) 2017-2019**

The Head of Audit Risk Assurance (ARA) (Chief Internal Auditor) outlined the above report and also confirmed that all officers would receive a presentation at June's Proud of Stroud to gain an understanding of the reporting requirements. An assurance was given that allegations would be given immediate priority by herself, the Monitoring Officer and if necessary, the Police who may also need to become involved.

- RESOLVED** **To approve the Anti Fraud and Corruption Policy Statement and Strategy (including Anti Bribery Policy and Anti Money Laundering Policy) 2017-2019.**

AC.055 **RISK MANAGEMENT POLICY 2017-2020**

The Legal Services Manager and Monitoring Officer confirmed that a thorough review had been carried out of risk management and the risk register. A toolkit would be used to enable for more effective risk management which would prove very useful when difficult decisions had to be made in the future.

- RESOLVED** **To adopt the Risk Management Policy set out in Appendix A.**

AC.056 **INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016-17**

The Head of Audit Risk Assurance (ARA) (Chief Internal Auditor) highlighted two particular areas within the report, off street parking and the HRA balances. Both areas of work had made significant improvements. The financial viability of projects which were the responsibility of other committees was also discussed. The management of the Merrywalks off-street parking would be undertaken in another review.

- RESOLVED**
- a) **To accept the progress against the Internal Audit Plan 2016-17; and**
 - b) **To accept the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date.**

AC.057 **RISK BASED INTERNAL AUDIT PLAN 2017-18**

The Head of Audit Risk Assurance (ARA) (Chief Internal Auditor) outlined the above report. Concerns were raised about the consistency in decision making by committees. Assurances were given that a business case had been put forward for all projects within the Capital Programme and these would be carefully monitored.

RESOLVED **To approve the Annual Risk Based Internal Audit Plan 2017-18 as detailed in Appendix A.**

AC.058 **AUDIT AND STANDARDS COMMITTEE ANNUAL REPORT 2016-17**

The Head of Audit Risk Assurance (ARA) (Chief Internal Auditor) outlined the above report and confirmed that a review of the HRA would be included in a report at September's meeting.

RESOLVED **To agree the Audit and Standards Committee Annual Report 2016-17.**

RECOMMENDED TO COUNCIL **To approve the Annual Report.**

AC.059 **EXTERNAL AUDIT PLAN 2016-17**

Darren Gilbert from KPMG outlined the changes to the Code of Practice on Local Authority Accounting in 2016-17 which would mainly result in the presentation of the accounts.

RESOLVED **To note the plan.**

AC.060 **MEMBER QUESTIONS**

There were none.

The meeting closed at 8.10 pm.

Chair

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

4 JULY 2017

5

WORK PROGRAMME

Proposed Meeting Date	Report Description	Responsible Officer / Member
12 Sept 2017	Annual Code of Conduct / Standards Update (this may be via an Information Sheet if no decision is required)	Legal Services Manager
	External Audit Report 2016/17	KPMG
	2016/17 Statement of Accounts	Section 151 Officer
	Internal Audit Activity Progress Report 17/18 (to include HRA Balances Follow up Review)	Chief Internal Auditor
	Treasury Management Qtr 1 2017/18	Principal Accountant
28 Nov 2017	Partnership Update	Section 151 Officer / Chief Internal Auditor
	Annual Audit Letter	KPMG
	Internal Audit Activity Progress Report 2017/18	Chief Internal Auditor
	Treasury Management Half Year Review	Principal Accountant
6 Feb 2018	Annual Summary of Certification of Grant Claims and Returns 2016/17	KPMG
	Annual Governance Statement 2016/17 Improvement Plan	Chief Internal Auditor
	Treasury Management Activity 2017/18	Principal Accountant
	Treasury Management, Annual Investment, and MRP Strategy 2018/19	Principal Accountant
	Internal Audit Activity Progress Report 2017/18	Chief Internal Auditor
10 Apr 2018	External Audit Plan 2017/18	KPMG
	Internal Audit Activity Progress Report 2017/18	Chief Internal Auditor
	Internal Audit Plan 2018/19	Chief Internal Auditor
	Annual Report of the Audit and Standards Committee (prepared by the Chairman) for agreement prior to presentation to Council	Chair

Information sheets relevant to the Committee

Date sent & (Ref No)	Topic
1 June 2017 SR-2017/18-001	ICT Infrastructure Investment Plan 2017/18 to 2019/20

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

4 JULY 2017

6

Report Title	PROCUREMENT REVIEW 2017/18
Purpose of Report	To consider the actions required to further improve the Council's performance in relation to procurement and contract management.
Decision(s)	The Committee RECOMMENDS TO COUNCIL that the thresholds in the Contract and Procurement Procedure Rules be amended as outlined in the Report at paragraphs 2.3 and 2.4.
Financial Implications and Risk Assessment	<p>There are no financial implications arising directly from this report.</p> <p>The Council's Financial Regulations will be reviewed in the light of the proposed changes to the Contract and Procurement Procedure Rules (CPPRs) to ensure limits around procurement activity and budget approval and virement authorisation remain consistent.</p> <p>Paragraphs 3.2 and 3.3 highlight the work undertaken on spend consolidation to date. The MTFP, as approved by Council in February 2017, assumed that full year savings of a minimum of £50k would be achieved as a result of this review.</p> <p>David Stanley – Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk</p> <p>By addressing weaknesses in the use and management of procurement and contract management the risk of legal challenge from suppliers is being reduced, and the council can demonstrate it is achieving value for money.</p>
Legal Implications	<p>None beyond those set out in the report.</p> <p>Karen Trickey, Legal Services Manager and Monitoring Officer Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk</p>
Report Author	<p>Sarah Turner, Principal Procurement Officer Tel: 01453 754346 Email: sarah.turner@stroud.gov.uk</p>
Performance Management Follow Up	Further information sheets will be provided to Audit & Standards Committee to update them on progress on delivering the Procurement Action Plan 2017/18; and any efficiency in processes and resources resulting from these actions.

1. Background

- 1.1 The Audit and Standards Committee has been monitoring the Council's performance in relation to procurement and contract management over a number of years. An update on steps taken in recent months has previously been provided in the Information Sheet dated 27 March 2017 sent to all Members - [A&S Committee - Information Sheet - March 2017](#).
- 1.2 This report outlines (i) changes proposed to the Council's existing rules and (ii) the actions proposed to continuously improve the procurement processes and as a result, secure better 'value for money' services.

2. Changes to the CPPRs

- 2.1 The Contract and Procurement Procedure Rules ("CPPR") were fundamentally redrafted in July 2015. A review was carried out in the early part of this year following the transfer of procurement and risk management to the Legal Services Team in February. Responsibilities previously undertaken by the Strategic Head of Finance and Business Services transferred to the Legal Services Manager and have already been implemented and the CPPRs updated accordingly. The procurement plan form and the exemption form, which currently require officers to duplicate information and authorisations needed from relevant heads of service, have also been updated and combined to improve the efficiency of the procurement process.
- 2.2 Changes to the CPPRs which require Committee and Council approval have also been identified in the light of practical experience of the application of the rules over the last two years (see paragraphs 2.3 – 2.4 below). These proposed amendments will further streamline the procurement procedures without in any way prejudicing the checks and balances which are in place to avoid breaches of the law and importantly to facilitate the awarding of contracts which provide best value for money.
- 2.3 It has become apparent that some of the thresholds for authorisation for procurement activity to proceed and / or the exemptions to the existing rules are unduly onerous. Currently, all proposed exemptions to the current rules no matter the value, must be approved by the Legal Services Manager. This is despite the fact that Strategic Heads or Heads of Service have to previously check and approve the letting of contracts within their teams in any event. It is proposed that the Legal Services Manager only be required to review and approve exceptions to the rules for contracts with an estimated value of £25,000 or above. (It should be noted that this threshold is still significantly below the statutory threshold for European procurement procedures and is consistent with the government's requirement that all contracts of £25,000 or above be advertised on the Cabinet Office's Contracts Finder). Importantly, specialist advice will continue to be provided by the procurement officers on the application of any exemptions and the Legal Services Manager will be consulted should either of the procurement officers within her team have any concerns. For audit purposes and for periodic checking of the approvals given, signed approval forms will continue to be submitted to the procurement officers for retention in a central record for at least three years.
- 2.4 It is also proposed that the threshold to follow formal tendering procedures be increased from £50,000 to £75,000; and that for contracts from £5,000 up to £75,000 officers must be able to demonstrate value for money by obtaining at least three written quotations from suppliers using the South West procurement

portal. This increase is considered appropriate for the Council although it is not uncommon for local authorities to have higher thresholds such as £100,000.

3. Procurement Action Plan 2017/18

- 3.1 Over the last two years, in summary, the priority for the Council in terms of procurement has been largely to secure compliance with legal requirements when letting contracts. In terms of moving forward, it is proposed that attention is now directed by the procurement officers to contract management to ensure that services are always effectively monitored to secure delivery of the best value services. This has been the subject of one of the topics covered within the recent training and has highlighted the benefits of developing relevant corporate guidance based upon internal and external best practice and external guidance. Contract management information, including contract performance indicators, on market best practice has been researched and support from the Audit Shared Service is to be provided towards the end of 2017.
- 3.2 A further procurement plan priority for the Council is to consolidate corporate spend on areas including agency, consultancy, printing, postage and marketing spend. In respect to agency, currently the average annual spend is £860,566, spent by the Council on such services over 5 years. It is hoped that significant savings in region of 5 – 10%, £43,000 - £86,000 can be made by using an existing framework agreement, the procurement team having been working with Human Resources to assess the merit of using such. Meetings have been held with framework suppliers to determine which type of service will provide the best value option for the Council. In the meantime, the Council will continue to use consultants procured through service areas on an ad hoc basis when necessary and make use of framework agreements as appropriate, details of which are now available on the Council's Hub.
- 3.3 In respect to corporate spending in 2016/17 on print, postage and marketing currently such services cost the Council in the region of £572,000. Work has started on producing an options appraisal to identify potential and significant areas of savings by consolidating spending across these areas.
- 3.4 Other areas of work involved in overseeing Council procurement, which are being undertaken in 2017/18 are consistent with the LGA's National Procurement Strategy (NPS) and also the Council's own [procurement strategy](#). Having assessed the Council's procedures and practices in recent months against the NPS standards, it is reassuring that the actions which the Council has taken over the last two years and is proposing to undertake are consistent with the themes promoted by the NPS, namely that in effective procurement, local authorities should (i) secure savings (ii) support local economies (iii) provide leadership and (iv) promote service modernisation. The following further examples of the work which is continuing to be undertaken by the procurement officers, also illustrate this.
- 3.5 The Council is working with the SW Procurement Board which comprises other authorities in the south west. In working with the Board the Council is extensively involved in identifying savings in the area of statutory advertising/notices which currently the Council spends approximately £15,000 per annum. In addition, work is being undertaken on 'social value', in accordance with the Council's duty to procure services in a manner which will improve the economic, social and environmental well being of the district.
- 3.6 As part of the team's annual spend analysis, in 2016/17 total expenditure on Council contracts amounted to approximately £35m. Of that approximately

£12m were local suppliers (i.e. had GL post codes). Feedback from local suppliers has identified some benefit in advertising contract opportunities on the Council's website and directing particularly smaller local suppliers to the SW Portal which they may not be registered with. Further work is being undertaken with suppliers to seek to reduce where practical for both contracting parties, the number of invoices submitted to ensure that the corporate cost involved in for invoice processing (currently estimated to be account for approximately 0.3 hours per invoice of which there are 13040 per year) is reduced.

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

4 JULY 2017

7

Report Title	ANNUAL REPORT ON INTERNAL AUDIT ACTIVITY 2016/17
Purpose of Report	To provide the Committee with an annual report on Internal Audit Activity which fully meets the Chief Internal Auditor's annual reporting requirements, as set out in the Public Sector Internal Auditing Standards (PSIAS) 2017.
Decisions(s)	The Committee is asked to RESOLVE to: <ul style="list-style-type: none"> • Assess, from the findings set out in this Internal Audit Annual Report, whether it can take reasonable assurance that the internal control environment, comprising risk management, control and governance is operating effectively; • Request senior management attendance at the next meeting of the Committee to provide an update on the actions taken in relation to the recommendations made in the ICT Business Processes limited assurance report; and • Note that the performance of Internal Audit meets the required standards.
Consultation and Feedback	The report was discussed at Corporate Team on 14 th June 2017.
Financial Implications and Risk Assessment	There are no financial implications arising from the report. David Stanley, Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk Risk Assessment: Failure to deliver an effective Internal Audit service will prevent an independent, objective assurance opinion from being provided to those charged with governance that the key risks associated with the achievement of the Council's objectives are being adequately controlled.

Legal Implications	<p>The report is largely provided for information and general assurance as to the arrangements in place. Any services which are proposed to be provided on an on-going basis (e.g. fraud investigations to assist the Tenant Services and Revenue and Benefits Teams) which are in addition to the previously approved programme of audit work for 2017/18 will be subject to approval by the relevant Strategic Head.</p> <p>Karen Trickey, Legal Services Manager and Monitoring Officer Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk</p>
Report Author	<p>Theresa Mortimer Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754111 Email: theresa.mortimer@stroud.gov.uk</p>
Options	<p>There are no alternative options that are relevant to this matter.</p>
Performance Management Follow Up	<p>The Council's Internal Audit Plan for 2017/18 was approved by the Audit and Standards Committee on 11th April 2017. Achievement against the Plan will be regularly reported to the Audit and Standards Committee via the Internal Audit Plan Monitoring Reports for 2017/18.</p>
Background Papers/ Appendices	<p>Appendix 1 – Annual Report on Internal Audit Activity 2016/17 Appendix 2 – Summary Activity Progress Report 2016/17 Appendix 3 – BACS Direct Debit Report</p> <p>Background papers:</p> <ul style="list-style-type: none"> ➤ Accounts and Audit Regulations 2015; ➤ Public Sector Internal Audit Standards (PSIAS) 2017; ➤ CIPFA Local Government Application Note for the UK PSIAS; and ➤ Audit and Standards Committee's Terms of Reference.

1.0 Background

- 1.1 The Accounts and Audit Regulations 2015 state 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’. During 2016/17, Internal Audit work was carried out in accordance with the Public Sector Internal Audit Standards (PSIAS) 2017 and the CIPFA Local Government Application Note for the UK PSIAS.
- 1.2 The PSIAS define internal audit as ‘an independent objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.
- 1.3 To achieve full effectiveness, the scope of the internal audit function should provide an unrestricted range of coverage of the organisation’s operations and the internal audit function should have sufficient authority to access such records, assets and personnel as are necessary for the proper fulfilment of responsibilities. These access rights are specified in the Internal Audit Charter and Code of Ethics, which have been approved by Members.
- 1.4 The PSIAS requires the Chief Internal Auditor to ‘provide a written report to those charged with governance timed to support the Annual Governance Statement’. The content of the report is prescribed by the PSIAS which specifically requires Internal Audit to:
- Provide an opinion on the overall adequacy and effectiveness of the organisation’s internal control environment and disclose any qualifications to that opinion, together with the reasons for the qualification;
 - Compare the actual work undertaken with the planned work, and present a summary of the audit activity undertaken from which the opinion was derived, drawing attention to any issues of particular relevance;
 - Summarise the performance of the Internal Audit function against its performance measures and targets; and
 - Comment on compliance with the PSIAS.
- 1.5 A separate report containing the Annual Governance Statement is included on the agenda for the Audit and Standards Committee on 4th July 2017.

Annual report on Internal Audit Activity

2016-2017



Audit and Standards Committee
4 July 2017



Agenda Item 7
Appendix 1

(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 (PSIAS) or guidance'.

The standards define the way in which the Internal Audit Service should be established and undertakes its functions. The Council's 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 standards also require that an independent and objective opinion is given on the overall adequacy and effectiveness of the control environment, comprising risk management, control and governance, from the work undertaken by the Internal Audit Service.

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

(2) Responsibilities

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements.

Internal Audit plays a key role in providing independent assurance and challenge, advising the organisation that satisfactory 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 PSIAS is that the Chief Internal Auditor should provide an annual report to those charged with governance, to support the Annual Governance Statement. The content of the report is prescribed by the PSIAS which specifically requires Internal Audit to:

- Provide an opinion on the overall adequacy and effectiveness of the organisation's internal control environment and disclose any qualifications to that opinion, together with the reasons for the qualification;
- Compare the actual work undertaken with the planned work, and present a summary of the audit activity undertaken from which the opinion was derived, drawing attention to any issues of particular relevance;
- Summarise the performance of the Internal Audit function against its performance measures and targets; and
- Comment on compliance with the PSIAS.

When considering this report, the Committee may also wish to have regard to the quarterly interim Internal Audit progress reports presented to the Committee during 2016/2017 and the reports on Risk Management Activity.

(4) Internal Audit's Opinion on the Council's Internal Control Environment

In providing our opinion it should be noted that assurance can never be absolute. The most that Internal Audit can provide is a reasonable assurance that there are no major weaknesses in risk management arrangements, control processes and governance. The matters raised in this report and our quarterly monitoring reports, are only those that were identified during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that may exist or represent all of the improvements required.

Chief Internal Auditor's Opinion

I am satisfied that, based on the internal audit activity undertaken during 2016/17 and management's actions taken in response to that activity, enhanced by the work of other external review agencies, sufficient evidence is available to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of Stroud District Council's overall internal control environment.

In my opinion, for the 12 months ended 31 March 2017, Stroud District Council has a **satisfactory** overall control environment, to enable the achievement of the Council's outcomes and objectives.

This opinion will feed into the Annual Governance Statement which will be published alongside the Annual Statement of Accounts.

(4a) Scope of the Internal Audit Opinion

In arriving at our opinion, we have taken into account:

- The results of all internal audit activity undertaken during the year ended 31st March 2017 and whether our high and medium priority recommendations have been accepted by management and, if not, the consequent risk;
- The effects of any material changes in the organisation's risk profile, objectives or activities;
- Matters arising from internal audit quarterly progress reports or other assurance providers to the Audit and Standards Committee;
- Whether or not any limitations have been placed on the scope of internal audit activity; and
- Whether there have been any resource constraints imposed on internal audit which may have impacted on our ability to meet the full internal audit needs of the organisation.

(4b) Limitations to the scope of our activity

There have been no limitations to the scope of our activity or resource constraints imposed on internal audit which have impacted on our ability to meet the full internal audit needs of the Council. Whilst the core Internal Audit service is provided by the Audit Risk Assurance Shared Service (effective from 1st June 2015), during 2016/2017, the Chief Internal Auditor has:

- Commissioned external specialist ICT audit via Warwickshire County Council's Internal Audit Framework Agreement;
- Set up joint working arrangements in relation to Internal Audit and Risk Management with the Chief Internal Auditor at Warwickshire and Worcestershire County Council and Stratford District Council;
- Been a member of Counties Chief Auditors' Network (CCAN) and the District Council's Chief Auditors Network to enable the sharing of good practice;
- Entered into a Service Level Agreement with Gloucestershire NHS Counter Fraud Service to provide support with investigations; and
- Worked with Gloucestershire's Counter Fraud Hub to review the options available to the Shared Service in respect of Counter Fraud support.

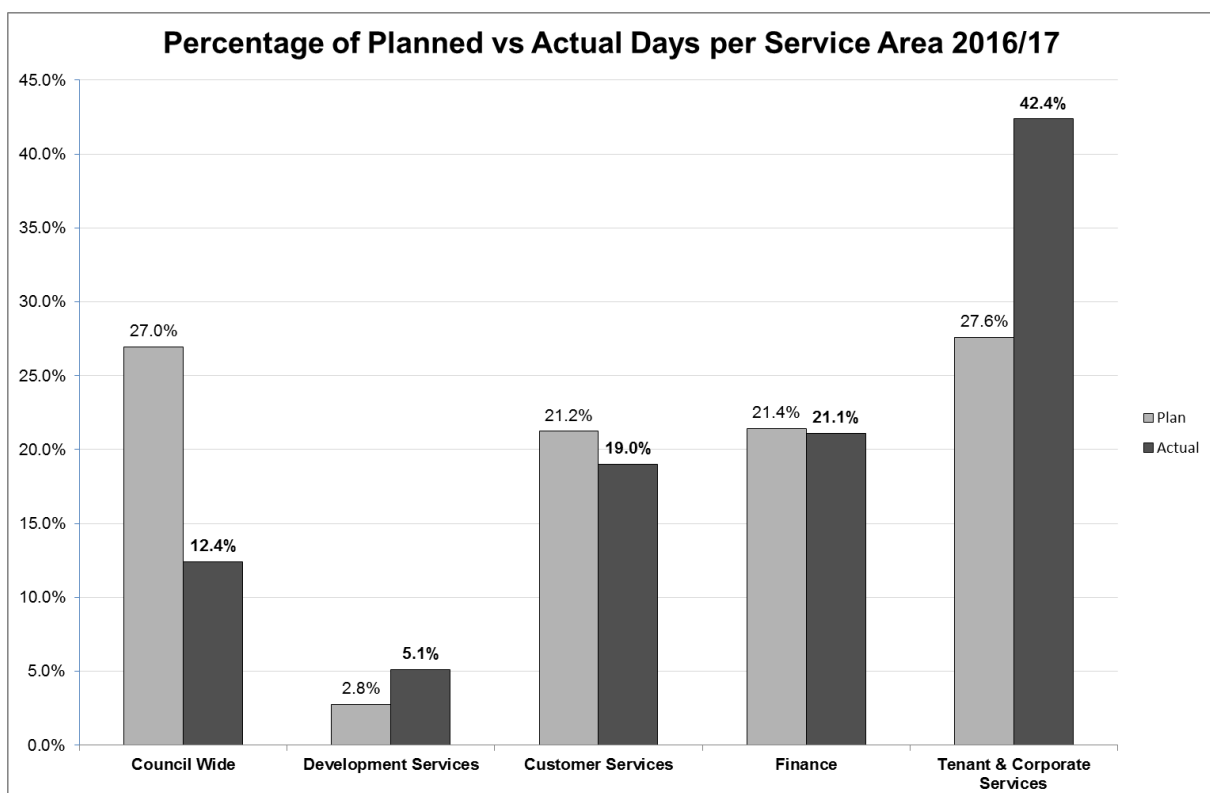
(5) Summary of Internal Audit Activity undertaken compared to that planned

The underlying principle to the 2016/2017 plan is risk and as such, audit resources were directed to areas which represented 'in year risk'. Variations to the plan are required if the plan is to adequately reflect the ongoing changing risk profile of the Council.

Since the original risk based plan was approved in April 2016 by the Audit and Standards Committee, a number of additional audit and consultancy activities have proved necessary and some of the original planned audits have been deferred into the 2017/18 Internal Audit Plan (based on appropriate client request and to ensure the audit adds value). Plan changes are detailed in **Appendix 2** (the Summary Activity Progress Report 2016/17).

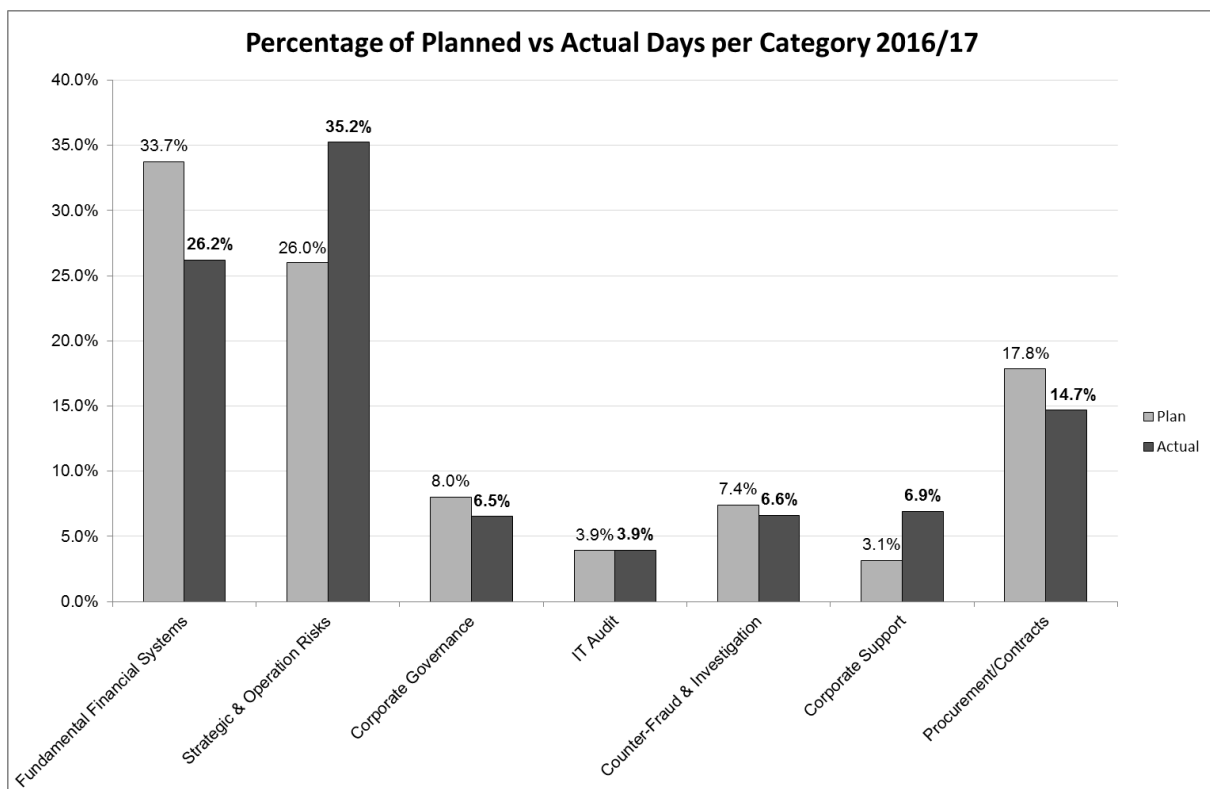
The net effect is that although the work undertaken was slightly different to that originally planned we are able to report that we achieved **93%** of the overall revised plan 2016/17, against a target of 85%.

The bar charts below summarise the percentages of planned audits per service area (i.e. Finance, Development Services, Customer Services, Tenant and Corporate Services etc.) and category of activity (i.e. fundamental financial systems, corporate governance etc.) compared with the percentage of actual audits completed.



Example rationale for the variance between 2016/17 planned and actual days per service area include (but are not exclusive to):

- New activity requests:
 - Housing Revenue Account (HRA) Balances Consultancy Review (Finance) plus three follow up reviews.
- In agreement with the client the following audits were deferred into the 2017/18 Plan:
 - Document Retention Policy (Joint review with Legal Services) (Corporate) – considered to be included as part of the Information Management review 2017/18.
 - Procurement consultancy input (Corporate) to be tailored to a procurement audit within the 2017/18 Plan.
 - Multi Services Contract (Customer Services).
 - Dursley Pool – Direct Debits (Customer Services).
 - Electoral Service (Tenant and Corporate Services).
- Audit activity where actual days were in excess of those originally budgeted, due to the findings and outcomes of the audit work e.g. the following Tenants and Corporate Service reviews: Complaints Process – Tenant Services, Health and Safety – Housing Stock and Corporate Assets, Sheltered Housing Scheme.



(6) Summary of Internal Audit Activity undertaken which informed our opinion

The schedule provided at **Appendix 1** provides the summary of 2016/17 audits which have not previously been reported to the Audit and Standards Committee, including, one limited assurance audit opinion on control.

The schedule provided at **Appendix 2** contains a list of all of the audit activity undertaken during 2016/2017, 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.

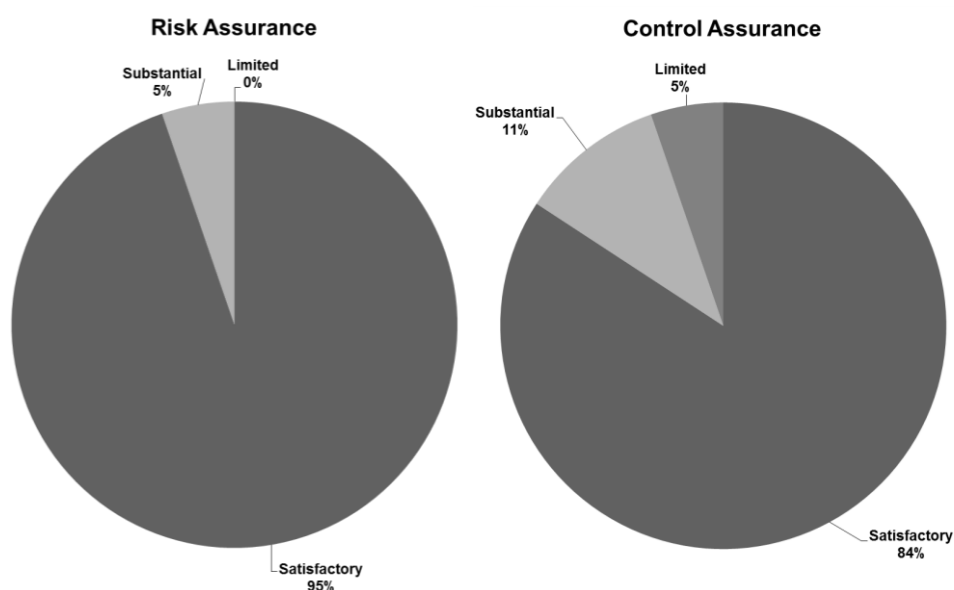
Assurance levels	Risk Identification Maturity	Control Environment
Substantial	Risk Managed Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other services, finance, reputation, legal, the environment client/customer/partners,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

Appendix 3 confirms the audit coverage and outcomes from the Direct Debit review 2017/18. Due to being part of the 2017/18 Internal Audit Plan, the results are not included within **Appendix 2** or the 2016/17 audit statistics quoted within this report.

(6a) Internal Audit Assurance Opinions on Risk and Control

The pie charts provided below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited. It is pleasing to report that the Council is showing that **95%** of the activities reviewed have received a **substantial (11%)** or **satisfactory (84%)** opinion on control. Whilst **5%** of the opinions on control are limited, this may be related to transformational change, continued focusing our activity on the key risks of the Council and specific requests from Strategic Heads, who are asking for areas to be reviewed where issues have arisen or where independent assurance is required.

Risk and Control Opinions 2016/17



(6b) 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.

(6c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During 2016/2017, one limited opinion on control was provided. This related to:

Audited Service Area	Date reported to Audit and Standards Committee
ICT Business Processes	4 th July 2017

(6d) Satisfactory Control Assurance Opinions

Where audit activity records that a satisfactory assurance opinion on control has been provided where recommendations have been made to reflect some improvements in control, the Audit and Standards Committee and Corporate Team can take assurance that improvement actions have been agreed with management to address these.

(6e) Internal Audit recommendations made to enhance the control environment

Year	Total No. of high priority recs.	% of high priority recs. accepted by management	Total No. of medium priority recs.	% of medium priority recs. accepted by management	Total No. of recs. made
2016/17	24	100%	67	100%	91

The Audit and Standards Committee and Corporate Team 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.

(6f) Risk Assurance Opinions

During 2016/17, 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.

(6g) Internal Audit's Review of Risk Management

During 2016/2017, **100%** of the audited areas rated the effectiveness of risk management arrangements as **substantial (5%) or satisfactory (95%)** with **0%** obtaining a limited assurance opinion. This evidences that risk management continues to be further embedded into the Council's business activities.

Internal Audit also undertake, on a rotational basis, specific reviews purely on the effectiveness of risk management arrangements, operating across all service areas, looking at the Strategic and Operational Performance/Business Plans and associated Risk Registers, to ensure that actions recorded to mitigate risks are in place and operating as intended.

The assurance statements obtained from all Strategic Heads and Service Managers across the Council (when formulating the Annual Governance Statement), provided reasonable assurance that management apply the Council's Risk Management Strategy and principles within their service areas. This together with our own assessment, supported by the self assessment undertaken against the international standard on risk management - ISO 31000 and the refresh of the Risk Management Policy Statement and Strategy, have led Internal Audit to conclude that the risk management arrangements within the Council are effective.

(6h) Stroud District Council's Corporate Governance Arrangements

The Council is required by the Accounts and Audit Regulations 2015 to prepare and publish an Annual Governance Statement. The Annual Governance Statement is signed by the Leader, Chief Executive and the Chief Financial Officer and must accompany the Annual Statement of Accounts.

In April 2016, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authorities Chief Executives (SOLACE) published 'Delivering Good Governance in Local Government: Framework 2016' and this applies to annual governance statements prepared for the 2016/2017 financial year. Guidance notes were also published to assist Council Leaders and Chief Executives in reviewing and testing their governance arrangements against the revised seven principles for good governance.

The key focus of the framework is on sustainability – economic, social and environmental and the need to focus on the longer term and the impact actions may have on future generations.

Internal Audit therefore:

- Reviewed the existing governance arrangements against the principles set out in the Framework;
- Developed and implemented a refreshed local Code of Corporate Governance, based on the new principles and guidance, including an assurance framework for ensuring ongoing effectiveness; and
- Will report publically, via the Annual Governance Statement on compliance with the code on an annual basis, how the council has monitored the effectiveness of the governance arrangements operating in the year and on planned improvement areas.

(7) Summary of additional Internal Audit Activity

(7a) Special Investigations/Counter Fraud Activities

During 2016/17 (1st April 2016 to 31st 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.

This case and paperwork has now been passed to Stroud District Council's Legal Services for consideration.

In addition, Internal Audit had been notified that a potential scam involving an overpayment to the Council and subsequent refund request, had 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.

Monitoring and Review

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 was approved by the Audit and Standards Committee on 11th April 2017.

As part of the counter fraud awareness communications plan, Internal Audit will be presenting and promoting the revised Policies and Strategy to staff at the Proud of Stroud sessions on 20th and 22nd June 2017.

Serious and Organised Crime Strategic partnership led by Gloucestershire Police

The Chief Internal Auditor is a member of the Serious and Organised Crime Strategic Partnership (SOCSP) formally known as the Joint Policing Panel for Serious and Organised Crime (JPPSOC) to discuss the local multi agency approach to tackling crime/fraud. There is a clear direction from central government that a 'whole government approach' is required, with the co-ordination of the Police, statutory partners and the community and voluntary sector. It is the intention that this partnership is to set the context of Serious and Organised Crime within Gloucestershire and then mobilise the network of local partners to work together with a strong emphasis on a preventative, early intervention approach.

(7b) Stroud District Council's participation in Gloucestershire's Counter Fraud Unit (Fraud Hub)

National Context

In 2011, the Cabinet Office Counter Fraud Taskforce issued a report on 'Illuminating Public Sector Fraud' which outlined four strategic priorities:

- Collaboration;
- Assessment of Risk;
- Prevention; and
- Zero Tolerance.

'The scale of fraud against Local Government is extensive and hard to quantify with precision. Fraud costs UK public services an estimated £21 billion per year, of which £2.1 billion is the estimated cost to Local Government. A further £14 billion is lost to tax fraud and vehicle excise fraud and £1.9 billion to benefit and tax credit fraud. Reducing this is now a major priority across all areas of government.' Cabinet Office 2016.

The National Fraud Authority and the Audit Commission have closed. However fraudsters are becoming increasingly sophisticated. All public service organisations are more vulnerable than ever to criminal activity.

Although resources remain stretched, the reduction of fraud within the public sector is a priority and is reflected by the CIPFA Counter Fraud Centre which was launched in 2014 to lead and coordinate the fight against fraud and corruption across local and central government.

Local Context

In 2013/2014, the Government announced that Local Authority responsibility for the investigation of benefit fraud was to be transferred, with the counter fraud investigation staff, to the Department for Work and Pensions. In February 2015, Audit Cotswolds successfully bid for £403,000 funding from the Department of Communities and Local Government (DCLG) on behalf of the Local Authorities in Gloucestershire and West Oxfordshire District Council to accelerate the development of a dedicated Counter Fraud Unit (the unit).

The funding was a one off payment to explore the feasibility of a Gloucestershire and West Oxfordshire Counter Fraud Unit that is able to use data matching to gather intelligence and provide skilled investigators to help counter all forms of fraud against the Councils and Social Housing Providers in the region.

The bid set out a phased approach. The unit's first objective was to counter fraud through better intelligence and enhanced proactive partnership working in Gloucestershire and West Oxfordshire District Council with the aspiration to create a 'Gloucestershire Hub'.

It built on the existing three authority partnerships (i.e. Cotswold District Council, West Oxfordshire District Council and Cheltenham Borough Council) and introduced other partners namely: Tewkesbury Borough and Gloucester City Council, Stroud and Forest of Dean District Council, Gloucestershire County Council, plus Cheltenham Borough Homes Ltd and in time, other registered social landlords.

The second phase of the project links the Gloucestershire Hub to other Hubs (Oxfordshire) through data sharing activity.

Feasibility studies have been undertaken in financial years 2015/16 and 2016/17 to show that the unit generated revenue and provided risk assurance. In addition, the unit has identified further areas of savings and loss avoidance, thereby adding value for all partners. The work included such legal documentation as data sharing and access agreements that enabled the feasibility studies to be undertaken and investigations to be conducted legally.

The S151 Officers oversee the project in terms of governance, which includes the unit's objectives, rationale and the development of the business case.

Given their responsibility regarding counter fraud activity within their own organisations and the need to achieve value for money they will also be reviewing the business case from an individual organisation perspective.

Proposed Project Outcomes

- Produce real and demonstrable savings for partners from intelligence based counter fraud activity;
- Pursue criminals with an effective, self-sufficient and robust fraud investigation team, which can operate locally with partners or with third parties and other public bodies;
- Continue to operate and adapt to any reorganisation, restructure or political change;
- Fight local fraud by matching datasets across all demographics; and
- Fight regional fraud by legally exchanging data.

Feasibility Studies

It was agreed by partners that to evidence the financial aspect of the business case, the unit would need to complete some pilot work to develop an evidence base of the value of investing in the hub. Initial pilot work was undertaken for Cotswold District Council, West Oxfordshire District Council and Cheltenham Borough Council. More recently, work has also been/or due to be carried out for Stroud District Council, Cheltenham Borough Homes, Gloucester City Council and Gloucestershire County Council.

All counter fraud activity undertaken by the Fraud Hub will be agreed with the relevant Service Managers, S151 Officer and overseen by the Chief Internal Auditor.

(7c) Local Government Transparency Code 2015

Introduction

This Code is issued to meet the Government's desire to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services. Transparency is the foundation of local accountability and the key that gives people the tools and information they need to enable them to play a bigger role in society. The availability of data can also open new markets for local business, the voluntary and community sectors and social enterprises to run services or manage public assets.

Detecting and preventing fraud (taken from Annex B of code)

Tackling fraud is an integral part of ensuring that tax-payers money is used to protect resources for frontline services. The cost of fraud to local government is estimated at £2.1 billion a year. This is money that can be better used to support the delivery of front line services and make savings for local tax payers.

A culture of transparency should strengthen counter-fraud controls. The Code makes it clear that fraud can thrive where decisions are not open to scrutiny and details of spending, contracts and service provision are hidden from view. Greater transparency, and the provisions in this Code, can help combat fraud.

Local authorities must annually publish the following information about their counter fraud work ¹ (as detailed for Stroud District Council) in the table below:

Council wide fraud and irregularity activity relating to 2016/2017 including Internal Audit activity

Question	Stroud District Council Response
Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.	One currently pending/under investigation.
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud.	One
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists.	The Council has access to 2.45 FTE fraud investigators and the Gloucestershire Fraud Hub, as part of the Internal Audit shared service arrangement with Gloucestershire County Council and Gloucester City Council.

¹ (The definition of fraud is as set out by the Audit Commission in Protecting the Public Purse).

Total amount spent by the authority on the investigation and prosecution of fraud.	Approximately £600 in staff time from ARA. Approximately £1,691 in SDC staff time.
Total number of fraud cases investigated.	One currently pending/under investigation.

In addition to the above, it is recommended that local authorities should go further than the minimum publication requirements set out above (as detailed for Stroud District Council) in the table below.

Question	Stroud District Council Response
Total number of cases of irregularity investigated.	One
Total number of occasions on which a) fraud and b) irregularity was identified.	(a) One currently under investigation.
Total monetary value of a) the fraud and b) the irregularity that was detected.	To be confirmed on completion of investigation.
Total monetary value of a) the fraud and b) the irregularity that was recovered	Nil at present.

Full details about the code and its requirements can be found at:

<https://www.gov.uk/government/publications/local-government-transparency-code-2015>

(8) Internal Audit Effectiveness

The Accounts and Audit Regulations 2015 require '*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*'. This process is also part of the wider annual review of the effectiveness of the internal control system, and significantly contributes towards the overall controls assurance gathering processes and ultimately the publication of the Annual Governance Statement.

The Accounts and Audit Regulations 2015 also state that internal audit should conform to the Public Sector Internal Audit Standards (PSIAS) 2017.

Public Sector Internal Audit Standards (PSIAS)

These standards have four key objectives:

- Define the nature of internal auditing within the UK public sector;
- Set basic principles for carrying out internal audit in the UK public sector;
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The Internal Audit Charter and Code of Ethics reflect the requirements of the standards.

External Assessment of the effectiveness of Internal Audit

The last External Quality Assessment (an independent assessment of the effectiveness of an internal audit function which should take place at least every five years) was completed within 2015/16 of the Gloucestershire County Council internal audit service.

The review was undertaken during May 2015 by the Chartered Institute of Internal Auditors and included a review of the team's conformance to the International Professional Practice Framework (IPPF) as reflected in the PSIAS, benchmarking the function's activities against best practice and assessing the impact of internal audit on the organisation. There are 56 fundamental principles to achieve with more than 150 points of recommended practice in the IPPF. The independent assessment identified 100% conformance.

The Chartered Institute of Internal Auditors stated: *'It is our view that (the Council's) internal audit function conforms to all 56 principles. This is excellent performance given the breadth of the IPPF and the challenges facing the function'*.

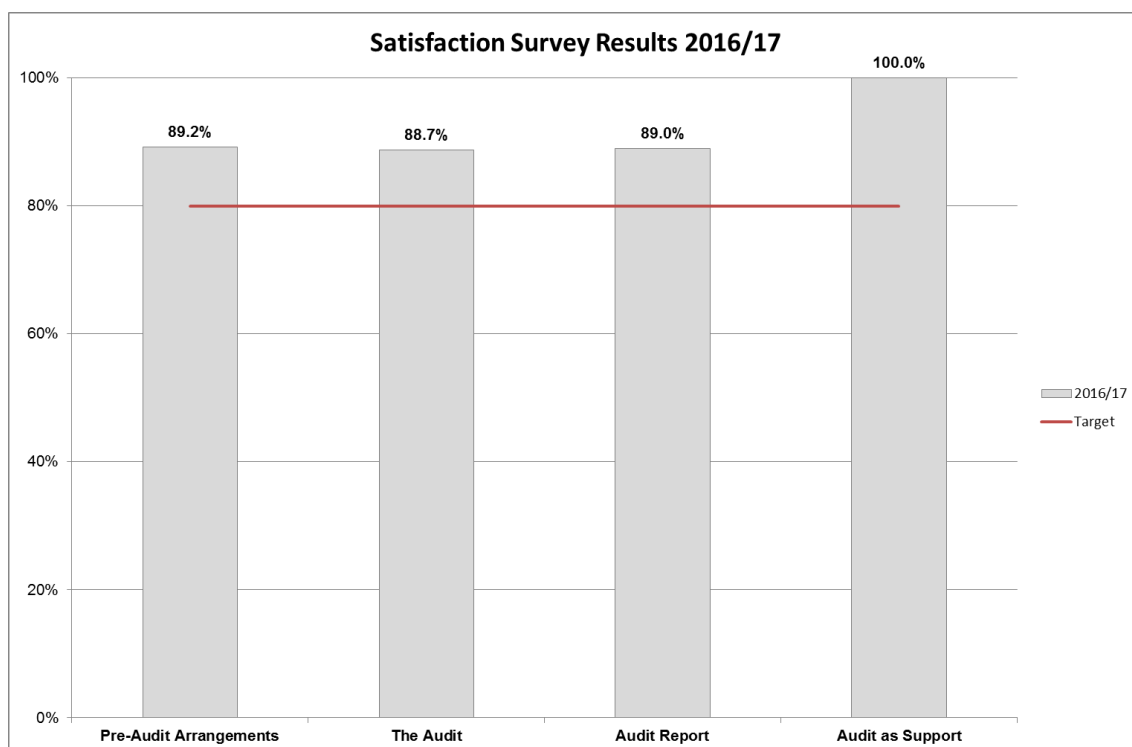
The internal audit shared service applies consistent systems and processes, which supports compliance across the Audit Risk Assurance Shared Service partners.

During 2016/17 the Chief Internal Auditor assessed Internal Audit's performance against the Internal Audit's Quality Assurance and Improvement Programme (QAIP) as required by the PSIAS. The QAIP confirmed compliance against the PSIAS and highlighted opportunities for further service improvement.

Internal Assessment - Customer Satisfaction Survey results 2016/17

At the close of each audit review a customer satisfaction questionnaire is sent out to the Strategic Head, Service Manager or nominated officer. The aim of the questionnaire is to gauge satisfaction of the service provided such as timeliness, quality and professionalism. Customers are asked to rate the service between excellent, good, fair and poor.

A target of 80% was set where overall, audit was assessed as good or better. The latest results as summarised below, shows that the target has been exceeded, with the score of **100%** reflecting Internal Audit as being a positive support to their service.



In addition, the following positive comments have been received from our customers:

- *'We were able to discuss and agree a way forward which was beneficial for the service. Whilst we took a slight detour from the original scope the recommendations are appropriate and will help minimise risk during our annual billing exercise'.*

- *'The appreciation of the time pressures my team and I were under was of the highest level, the auditor was very mindful of deadlines and worked round us while still ensuring we were all able to complete our tasks. Also the friendly nature with which the auditor conducted herself was really appreciated by us and I cannot speak highly enough about her'.*
- *'The open and honest interaction between the auditor and the officers involved'.*
- *'Regular communication and constructive approach'.*
- *'Feedback on Radon was particularly helpful as we weren't aware of all the issues raised'.*
- *'The ability to discuss the issues of concern and provide further background information to support the audit'.*
- *'The auditor was very approachable and was keen to get a balanced view of the service in light of where we are and what we are doing moving forward'.*
- *'I have been given great support throughout the process and have appreciated all the feedback on where we can improve'.*
- *'Fully engaged and supportive approach'.*
- *"The auditor was very accommodating bearing in mind the difficult situation the service was in at the time and the understanding and the patience shown by the auditor'.*

Lessons Learned from customer feedback and actions taken by Internal Audit

The Chief Internal Auditor reviews all client feedback survey forms and where a less than good rating has been provided by the client, a discussion is held with the both the relevant auditor and the manager to establish the rationale behind the rating and where appropriate actions are taken to address any issues highlighted.

The following specific feedback for improvement of audit approach has been received within 2016/17:

- We have discussed looking at specific risk areas rather than the audit concentrating on something that would have been audited last year and every year before that.
- More recognition of history and more focus on improvements moving forward than righting things retrospectively.

The development comments have been noted and will be actioned within the Internal Audit Plan 2017/18.

Over the year, improvement areas include, shorter, more focused internal audit reports, enhanced opening meetings i.e. to provide more information on the role of internal audit, the audit process and approach, ensure we fully consider the risk and the subsequent proportionality of the recommended controls to manage them, provide where possible more indication of when audit reviews will take place and a timelier turnaround of these reviews.

Completed Internal Audit Activity during the period April – June 2017**Summary of Limited Assurance Opinions on Control****Service Area: Corporate/Finance and Business****Audit Activity: ICT Business Processes****Background**

A scheme was launched by the UK Government in June 2014 which aims to guide organisations how to protect their essential processes. The scheme provides a set of controls that organisations should implement to achieve compliance against which they can be certified.

Scope

The scope of this internal audit considered the Council's position against the guidance as at October 2016, encompassing the following areas:

- Firewall security;
- Secure configuration;
- Penetration testing and internal vulnerability scanning;
- Malware and virus protection;
- Patch management;
- Superuser access rights; and
- Social engineering.

Risk Assurance - Satisfactory**Control Assurance - Limited****Key findings**

The internal audit identified a number of areas of good practice applied by the Council, including:

- Documented and comprehensive information security policy guidelines;
- Deployment of a secure firewall infrastructure;

- Intrusion prevention system;
- Network monitoring software;
- Comprehensive Email scanning;
- Proxy Server restrictions on user internet access;
- A programme of external penetration tests;
- Installation of antivirus software across all PCs and Servers; and
- The utilisation of an automated patch management utility.

The audit also identified a number of observations where an improvement in processes may be considered and actioned:

- Review Active Directory accounts (***) and key applications;
- User accounts assigned additional rights;
- Review redundant services;
- Automate and schedule the updates of devices;
- Automate and schedule the updates of software (***); and
- Review access rights (***) for specialist staff.

***: Control observation made, where the position at the point of audit was confirmed as within the Council's risk appetite. See management actions section.

Conclusions

Controls are in place at the Council, however these could be strengthened through consideration and implementation of the report recommendations (seven in total) to improve the level of compliance with UK Government guidelines.

Management Actions

Management have responded positively to the Internal Audit recommendations made - accepting four fully and confirming management decision (including risk assessment and risk appetite) and/or reliance on mitigating controls for the remaining three. Implementation of the four agreed recommendations will strengthen controls at the Council and improve levels of compliance with the Government's Scheme.

Summary of Satisfactory Assurance Opinions on Control

Service Area: Customer Services

Audit Activity: Benefits Part 2

Background

Stroud District Council expenditure on Housing Benefits and Council Tax Support is approximately £30m for 2016-17. The rules surrounding entitlement to Housing Benefit and Council Tax Support are complex and any administrative errors have the potential to lead to under / over payments.

The Council maintains records of all Housing Benefits and Council Tax Support claims and claimant information on the Benefits system (Civica Open Revenues System).

Under the Welfare Reform Act the Department of Work and Pensions (DWP) created a national fraud investigation unit, the Single Fraud Investigation Services (SFIS), which investigates all cases of welfare benefit fraud. As a result the Council, which was previously responsible for investigating Housing Benefit fraud, relinquished accountability for this activity on 1st March 2015 to the DWP.

Scope

The objectives of the audit, which covered the 2016-17 financial year, were to provide assurance on the following:

- All key control reconciliations have been correctly completed in a timely manner and subject to management review and approval;
- Exception / management reports have been promptly produced and exceptions investigated and cleared in a timely manner;
- Correct and authorised payments are made to third parties; and
- There are adequate fraud prevention and detection methods operating and staff are fully aware and comply with them.

The following areas were excluded from the scope of the review: Claims assessment and calculation; and overpayments and the recovery and write-off processes.

Civica Open Revenue systems access controls were reviewed as part of the 2016-17 audit of Council Tax. The Benefits internal audit did not duplicate this audit area.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key findings

- The three key control reconciliations undertaken to confirm the completeness and accuracy of the Benefits system to Council Tax, Housing Rents and Finance system records, for the period April 2016 to February 2017, were successfully completed on a regular basis by the Technical Benefits Officer. However, there was a lack of independent review and approval of the Council Tax and Housing Rents systems reconciliations to confirm they had been promptly and correctly completed.
- Claimant exceptions and work queues are regularly managed and monitored by the Senior Benefit Officers and Revenue and Benefits Manager.
- Updates for changes to claimant circumstances from the DWP were found by Internal Audit to be uploaded promptly to the Benefits system.
- Revenue and Benefits operate a number of measures to prevent and detect claimant errors and fraud, e.g. verification of claims to supporting documents, external data matching, etc, although it has not applied Risk-Based Verification (RBV) as recommended by the DWP. RBV allows for more intensive verification activity to be focussed on claims more prone to fraud and error.
- Revenue and Benefits applied for and received funding of approximately £14k from the DWP Fraud and Reduction Scheme (FERIS) 2016-17 Maintenance Fund, to purchase an E-Benefits and E-Circular module. The module was purchased in 2015-16 but further work is still required by IT for it to become operational.
- The contact details for reporting Housing Benefit fraud is published on the Council's website, but it is not easily accessible or prominent. In addition there are no specific contact details for the reporting of suspected Council Tax Support fraud, which the Council is still responsible for investigating.
- Where the Revenue and Benefits Manager or Senior Benefits Officer are made aware by staff of a potential conflict of interest they may have with a claim, appropriate systems access restrictions are applied. However, staff are not annually requested to provide a formal declaration of any beneficial or conflict of interests that they may have with a claimant.

- There is appropriate separation of duties between payment creation, approval and processing functions within the payment process to external landlords, agents and claimants. However, Finance does not perform any checks to confirm that the Housing Benefit payments have been correctly authorised before releasing the payments. The Accountancy Manager has agreed to rectify this issue after Internal Audit brought this to his attention.
- Of the two high and two medium priority recommendations raised in the 2015-16 Benefits audit all had been implemented, with the exception of one high priority recommendation relating to the independent review of the key financial control reconciliations. This recommendation, that had not been fully implemented, has been reiterated.

Conclusions

Revenues staff involved in performing the Benefits operation are very experienced in the processes and systems. 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 Benefit controls were being effectively operated, although some improvements were required around the reporting and detection of potential fraudulent claims. Audit recommendation themes include:

- Independent review of key financial control reconciliations;
- Update of the Council's web site pages to clearly highlight the types and implications of fraud, the Council's commitment to it's detection and prevention, and contact details for reporting fraud;
- Formal completion and review of an annual declaration of interest by Benefits staff, for accounts where they may have a beneficial interest; and
- Review of potential data matching improvements, to support ongoing service delivery and fraud detection.

The Revenue and Benefits Manager will have an opportunity, following the introduction of Universal Credit in October 2017, to fully review the current processes and controls and to refocus them, taking into account RBV and limited staff resources, by applying different levels of checks and verification according to the risk associated with a claim. An audit recommendation has been raised to reflect this.

Management Actions

Internal Audit has raised six medium priority recommendations that are aimed at further strengthening the internal control environment. All have been accepted in full.

Service Area: Finance

Audit Activity: Creditors

Background

The Council's creditors (Accounts Payable) function is maintained in-house by Financial Services. The objective of the Accounts Payable function is to pay valid supplier invoices in respect of goods or services received within agreed payment terms. In 2015/16 creditors were responsible for £59.6m of payments, it is therefore important to have robust and effective controls.

Scope

The objective of this audit was to provide assurance on the adequacy and effectiveness of the creditors internal controls, processes and records in place to mitigate risks in the following areas:

- Documented policies and procedures are in place to direct the process, and are subject to regular review;
- System access is restricted to relevant, authorised personnel, and is controlled by adequate password requirements and user permissions;
- New supplier set-ups and changes to supplier details are authorised and subject to appropriate verification checks;
- There is a separation of duties between the requisitioning of goods and services and subsequent payments;
- Purchase orders are correctly authorised by budget holders, with amounts coded to the relevant cost centre and account code;
- Invoices are matched to official orders and goods received notes, with further authorisation required if the invoice amount is outside of tolerance;
- Payment runs are subject to review for duplicate payments and approval by senior officers; and

- Regular reconciliations are carried out between the purchase ledger module and the general ledger control account.

The audit scope also included review of the creditors relevant recommendation and management response from the KPMG (external audit) ISA260 report 2015/16, to determine the Council's position at the point of internal audit.

Risk Assurance - Satisfactory

Control Assurance - Satisfactory

Key findings

The Council has completed an initial 'Systems Thinking' review of the processing and payment of invoices within 2016. The recommendations from the review included the requirements for:

- Purchase orders to be raised for all invoices where possible, with some acknowledged exceptions; and
- Financial Services to enforce purchase order compliance (following a transitional period).

Management decision has been made to delay roll out of the 'Systems Thinking' review recommendations until implementation of the Agresso Financial Management System (FMS) upgrade project, which is planned for quarter 2 2017/18. Following Agresso FMS upgrade, the Financial Services team plan to re-review the 'Systems Thinking' recommendations (to ensure they remain relevant and applicable to the upgraded system) and confirm a communications plan prior to roll out of the changes to the creditors process.

Officers have confirmed that no creditors process or control changes have been actioned within 2016/17, due to the Agresso FMS upgrade and subsequent planned actions. Internal Audit review has confirmed that the themes of significant amounts of invoices being raised without purchase orders or with retrospective orders have continued within 2016/17.

Therefore the KPMG ISA 260 2015/16 creditors recommendation 'Management should follow up on the (creditors) items identified and consider whether process changes or additional training/education is required regarding purchase orders' is in progress at the point of internal audit and there is a planned approach in place for its further action.

Other findings from the internal audit include:

- User access to the Agresso FMS creditors module was confirmed as

appropriate at the point of audit;

- Segregation of duties between requisitioning, invoice checking and authorisation and payment authorisation was confirmed as in place, appropriate and controlled;
- Audit sampled reconciliations were appropriately carried out between the creditor and general ledgers;
- Review of duplicate payment reports is completed, appropriate and payment runs are approved by senior officers;
- Formal documented policies and procedures are not maintained for the creditors function (recommendation raised); and
- Control checks are not performed within the Financial Services creditors team to independently verify new suppliers or changes in supplier bank details (two recommendations raised).

Conclusions

Internal Audit has identified weaknesses in some creditors key controls and acknowledge that the creditors control framework requires strengthening.

The Council has a defined plan of action to re-review and implement the creditors 'Systems Thinking' outcomes and recommendations, following the planned Agresso FMS upgrade within 2017/18. Therefore this audit report does not re-raise relevant recommendations, due to the Council planned action (confirming risk awareness and targeted control improvement) in place.

Management Actions

Management have responded positively to the three Internal Audit recommendations made. Including the agreement to improve guidance available to service users, to ensure that current roles and responsibilities are re-affirmed and to support the appropriate completion of control checks.

Service Area: Tenant and Corporate Services

Audit Activity: Housing Rents

Background

Stroud District Council tenants pay their rent using a variety of methods including cash, direct debit and giro and these payments are recorded within the Civica Payments System. On a daily basis (Tuesday to Saturday) this payment information is sent to the Agresso Financial Management System, saved as batch files onto the server for the Northgate Housing Management System to process, and incorrect payments, i.e. with an invalid payment reference, posted to the General Ledger suspense account.

Scope

The review sought to provide:

- Assurance that there is a regular reconciliation between the Civica Payments System (cash receipting) and the Northgate Housing Management System (rents);
- Confirmation that there is a periodic reconciliation of the Agresso Financial Management System (general ledger) with the Northgate Housing Management System; and
- Verification that there are adequate procedures for the identification and monitoring of rent arrears.

Risk Assurance - Satisfactory

Control Assurance - Satisfactory

Key findings

Reconciliation of the cash receipting system and rents system

- During the Internal Audit testing period the Civica Payments System (Civica) regularly and accurately saved payment batch files onto the Stroud District Council server.
- The Income Management Team then has a process to verify payment information from the Northgate Housing Management System (Northgate), and reconciling on a 'Control Sheet' with the Civica payment batch files.

- Although payments are regularly recorded on the 'Control Sheet', at the point of audit the reconciliation of the extract payment information from Northgate with Civica had not been completed since early December 2016. An audit recommendation has been raised to support improvement of the reconciliation approach (including confirmation of control ownership, timeliness, and audit trail).

Reconciliation of the general ledger and rents system

- On a monthly basis the Finance Senior Accounting Technician reconciles the rent payments sent to the Agresso Financial Management System (Agresso) by Civica, with the rent payments in Northgate. The Internal Audit review found this to have taken place as expected between September 2016 and January 2017.
- The Senior Accounting Technician reconciles the two sets of payments and documents where there are unmatched items i.e. where there is a payment on Agresso but not on Northgate and vice versa. During the Internal Audit testing period the reconciliation process was confirmed as complete and accurate.

Procedures for the identification and monitoring of tenant rent arrears

- The Income Management Team identifies and manages current and former tenants rent arrears. Income Management Officers have an informal annual target of reducing rent arrears by 5%. Internal Audit found that the value of current tenant rent arrears has decreased from £475,190 on 16th May 2016 to £431,899 on 9th January 2017.
- The Income Team Administrator produces a fortnightly report that identifies tenants with rent arrears. During the Internal Audit testing period the report was found to be an accurate reflection of tenant rent arrears held in Northgate.
- Audit testing of former tenant arrears monitoring identified that the monitoring report was incomplete for one arrears case (which had not been actively pursued within 2016/17), due to inaccurate system report parameters. Audit recommendation has been raised to ensure the Northgate former tenant arrears full population is captured within the arrears monitoring process.

Conclusions

Audit testing confirmed that there is a regular and accurate reconciliation of the Agresso Financial Management system with the Northgate Housing Management System. The monitoring of current tenant rent arrears is regular and has resulted in a reduction of current tenant rent arrears within the year.

Audit recommendations have been raised for both former tenant arrears monitoring and the reconciliation between the cash receipting system and the rents system, to further strengthen Housing Rents controls.

Management Actions

Management have responded positively to the two medium priority recommendations made.

Summary of Substantial Assurance Opinions on Control

Service Area: Tenant and Corporate Services

Audit Activity: Housing Revenue Account (HRA) Rent Debit 2017/18

Background

On 9th February 2017 the Council approved a decrease in social and affordable rents for 2017/18 by 1%, in accordance with Government legislation. Shared Ownership rents would increase as agreed in the tenant's contract. Finance calculates the new rent amounts for the forthcoming year after reconciling the number of properties on the Finance spreadsheet with the Northgate Housing Management System. The revised rents are then passed to the System Team for verification and then onto ICT for uploading to the Northgate Housing Management System.

Scope

The audit review sought to provide:

- Confirmation that there is a reconciliation of the Finance spreadsheet that records social housing and shared ownership properties with the Tenant Services computer systems to ensure that all rented properties are identified and selected for the rent change;
- Verification that the rent change had been correctly calculated by Finance for

all properties; and

- Assurance that the rent changes are accurately uploaded to the Northgate Housing Management System.

Risk Assurance - Satisfactory

Control Assurance - Substantial

Key findings

The risks associated with the HRA Rent Debit reconciliations and calculations have not been formally recognised in the corporate system for recording risks, Excelsis.

The property information held by Finance is updated throughout the year when properties are built, sold or demolished. During the annual Rent Debit process this property information is reconciled with the Northgate Housing Management System, to ensure all properties due a rent change are identified. Internal Audit found that this reconciliation process was accurate. The 1% decrease in rent charges for non shared ownership properties was correctly calculated by Finance.

Once the reconciliation and rent changes were completed by Finance, the information was sent to the Systems Team who updated the files with recent property changes before sending to ICT.

ICT reconciled the rent change files with the Northgate Housing Management System and resolved anomalies with the Systems Team before uploading to the Northgate Housing Management System. To reduce costs and improve efficiency the Systems Team used the iMail service to produce and post the tenant letters.

Conclusions

Audit testing confirmed that there is a control framework in place for the reconciliation of properties and the calculation of rent changes. Further enhancement recommendations have been raised to further strengthen the control environment in respect of:

- The management of risk around the HRA Rent Debit reconciliations and calculations;
- Properties with a combined service charge and rent to have these charges separated to ensure rent changes are not incorrectly calculated; and
- Reconciliations and calculations to be independently verified for accuracy.

Management Actions

Management have responded positively to these enhancement recommendations.

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	ICT Business Processes	High	Final Report Issued	Satisfactory	Limited	04/07/2017	
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	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	Final Report Issued	Satisfactory	Satisfactory	04/07/2017	
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	Final Report Issued	Satisfactory	Satisfactory	04/07/2017	KPMG Joint Working Protocol
Finance	Network Access Controls	High	Draft Report Issued				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	Final Report Issued	Satisfactory	Satisfactory	04/07/2017	KPMG Joint Working Protocol
Tenant & Corporate Services	LGPS Regulations 2014	High	Draft Report Issued				
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	Final Report Issued	Satisfactory	Substantial	04/07/2017	
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

Completed Internal Audit Activity during the period April – June 2017

BACS Direct Debit Report

Service Area: Council Wide

Audit Activity: Banks Automated Clearing System (BACS)

Background

BACS is an electronic system used 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.

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, supplier payments, etc. These payments normally take three working days to clear through the system before they become available in the beneficiary's bank account.

Approximately 65k Direct Debit transactions with a total value of £12m and 11k Direct Credit transactions totalling £15m were processed during the three months to March 2017.

In December 2016, an issue occurred that resulted in the Council Tax and National Non-Domestic Rates Direct (NNDR) Debits that were due to be collected on 28th of the month and the 1st of the following month being incorrectly collected earlier than the agreed due date from residents and business customers. An investigation into the cause of the issue was performed by the Revenue and Benefits Manager and a report produced, in conjunction with the Strategic Head (Customer Services), on 24th January 2017, which included an improvement plan detailing six actions to prevent such an issue occurring in the future.

Scope

The audit was undertaken to provide assurance that:

- The agreed improvement / action plan for Direct Debits had been fully implemented where appropriate and that the new arrangements are being complied with; and
- The arrangements for Direct Credit processing are effective and ensure payments are correctly processed and transmitted on / by the due date.

A review of the Direct Credit Elections process was not undertaken due to the

current work pressures in this Service area.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key findings

Six actions were raised in the Direct Debits improvement / action plan to improve the control environment and mitigate against the risk of incorrect processing. The results of the Internal Audit review highlighted that:

Action 1: The Direct Debit procedure guidance notes have not been fully documented and process clearly defined. This includes a separation of tasks where one person will undertake the processing within Civica and a second person checks and sign off the final file within Experian. To be shared and adapted by each other service transmitting BACS files.

Proposed completion date: Completed.

Finding: Direct Debit procedure guidance notes have been fully documented and the process clearly defined, although Internal Audit has recommended further enhancements to emphasise the key elements of the process and make clear officer responsibilities.

Action 2: There will be additional training undertaken for all staff with the responsibility for processing Direct Debits. This will include additional revenue staff being trained for contingency.

Proposed completion date: 31st January 2017, completed in Revenue.

Finding: Additional training has been provided to all appropriate staff by Finance and nominated Service area officers.

Action 3: Internal protocols and robust controls are implemented, including having user group meetings.

Proposed completion date: 31st January 2017.

Finding: There is appropriate separation of duties (system enforced or manual observance) between creating the Direct Debit file in the source system and upload and transmission of the file to the BACS system.

A review by Internal Audit of completed Request for Direct Debit Transmission

schedules for the period January to March 2017 highlighted that the schedules for housing rent, Council Tax and NNDR Direct Debits did not provide for authorisation to process the files and The Pulse Direct Debit files were not correctly authorised in accordance with Financial Regulations.

The Accountancy Manager, who is also the acting Section 151 Officer, is currently in the process of reviewing a proposed list of Direct Debit authorisers from Revenue and Benefits, Tenant Services and The Pulse to ensure compliance with Financial Regulations and to improve the control environment.

The 'long stop' control check to confirm the processing date, total number and value of transactions for the Direct Debit file in the BACS system is either not being performed, performed promptly or there is a lack of documentary evidence of the control check.

A Direct Debit user group, which meets quarterly, was set-up in February 2017 to manage and discuss the actions and any issues.

Action 4: A Business Continuity Plan is developed to include all stakeholders (including the banks procedures / requirements) to ensure that the relevant staff are available should such an incident occur in the future, particularly over high risk collection periods such as bank holidays and summer holidays.

Proposed completion date: 10th February 2017.

Finding: A Business Continuity Plan has not, as at 17th May 2017, been developed and formally documented to effectively manage for a similar Direct Debit incident if it occurs in the future.

Action 5: An Internal Audit review is undertaken during 2017-18 to provide the relevant assurances that the Improvement Plan has been addressed and implemented.

Proposed completion date: 31st May 2017.

Finding: The Internal Audit review to provide assurance that the improvement plan has been addressed and implemented was completed by 31st May 2017. The outcomes of the review will be presented to the Audit and Standards Committee on the 4th July 2017.

Action 6: Automate the Direct Debit process to try and remove some of the human element of key data entry, to include initial feasibility review of project and cost.

Proposed completion date: 28th February 2017.

Finding: Finance has determined that the costs of automating the Direct Debit process will outweigh the benefits and therefore the action is not being progressed.

Additional Findings

During the review Internal Audit established that there is currently only one operational BACSTEL unit, which enables the secure transmission of Direct Debit and Direct Credit files from the Experian Payment Gateway system to the BACS system. A second BACSTEL unit is currently located at The Pulse, but it has not yet been configured by ICT or Experian (requests have been made from Finance to ICT). Therefore the Council is currently exposed to the risk that Direct Debit and Credit files may not be transmitted if a serious issue were to affect the one operational unit.

Internal Audit tests on a random sample of 20 Direct Credit files confirmed that the files were correctly authorised, checked and processed. However, as with the Direct Debit files there was a lack of documentary evidence to confirm appropriate checks had been undertaken to confirm that the Direct Credit files accepted by the BACS system were correct.

Conclusions

Progress has been made on implementing the actions emanating from the improvement / action plan, although one of the actions has been superseded (automation of the Direct Debit process) and one action (business continuity arrangements) still remains outstanding.

To avoid a similar incident that occurred over the 2016 Christmas shut down period, strict adherence to separation of duties between the creation of these transaction files from the source system, authorisation and the upload and transmission to the BACS system must be strictly complied with. In addition, the officer authorising the Direct Debit file and separately the officer performing the upload and transmission function are fully aware of their responsibilities and they correctly perform the appropriate checks.

For the period of the audit review (January to April 2017) Internal Audit was able to confirm that there was separation of duties and the Direct Debit files were correctly processed.

The back-up arrangements for the BACSTEL unit did not form part of the improvement / action plan, but it is important that the identified issue is promptly addressed or the risk formally accepted.

Management Actions

Internal Audit has raised one high and two medium priority recommendations that are aimed at further enhancing the current process and controls and ensuring that outstanding business continuity arrangements are promptly addressed; these have been accepted in full.

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

4 JULY 2017

8

Report Title	DRAFT ANNUAL GOVERNANCE STATEMENT (AGS) 2016/17
Purpose of Report	To summarise Stroud District Council's corporate governance arrangements in place during 2016/2017, via the publication of an AGS, (to be signed by the Leader and the Chief Executive), supported by a revised Local Code of Corporate Governance 2016/2017, which is in accordance with the requirements of the Local Government Act 1999, the Accounts and Audit Regulations 2015 and the revised Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authorities Chief Executives (SOLACE) guidance – Delivering Good Governance in Local Government Framework 2016.
Decision(s)	Audit and Standards Committee is asked to RESOLVE that the AGS 2016/17 (including the actions planned by the Council to further enhance good governance arrangements), as set out in Appendix A, be approved.
Consultation and Feedback	Corporate Team, Monitoring Officer, Chief Financial Officer.
Financial Implications and Risk Assessment	There are no financial implications arising from the report. David Stanley, S151 Officer Tel: 01453 754100 Email: david.stanley@stroud.gov.uk Risk Assessment: Failure to deliver effective governance will impact on the ability of the Council to achieve its vision, priorities and key actions. It is important to recognise that the purpose of the AGS is not just to be 'compliant', but also to provide an accurate representation of the arrangements in place during the year and to highlight those areas where improvement is required.
Legal Implications	There are no direct legal implications in respect to this report. Karen Trickey, Legal Services Manager Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk

Report Author	Theresa Mortimer Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754111 Email: Theresa.mortimer@stroud.gov.uk
Options	There are no alternative options that are relevant to this matter.
Performance Management Follow Up	2016/17 Action Plan: The AGS contains the Council's Action Plan – 2016/17 Governance Improvement Actions. The Council will continually monitor progress against the Improvement Plan within 2017/18. Results will be summarised and reported to Audit and Standards Committee throughout 2017/18.
Background Papers/ Appendices	Appendix A Draft AGS 2016/17 Appendix B Revised Local Code of Corporate Governance (LCCG) 2016/17 Background papers: None. Reference and Council website links to supporting reports and documentation are made within the draft AGS and LCCG 2016/17 (Appendix A and Appendix B).

1.0 Background

- 1.1 In April 2016, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework 2016 and this applies to annual governance statements prepared for the 2016/2017 financial year. Guidance notes were also published to assist Council Leaders and Chief Executives in reviewing and testing their governance arrangements against the revised seven principles for good governance.
- 1.2 The key focus of the framework is on sustainability: economic, social and environmental and the need to focus on the longer term and the impact actions may have on future generations.
- 1.3 In response to the above, we therefore:
- reviewed the existing governance arrangements against the revised principles set out in the Framework;
 - developed and implemented a refreshed local code of corporate governance, based on the new principles, including an assurance framework for ensuring ongoing effectiveness; and
 - will report publically, via the Annual Governance Statement on compliance with our code on an annual basis, how we have monitored the effectiveness of our governance arrangements in the year and on planned improvement areas.

Annual Governance Statement 2016/17



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Scope of Responsibility

Stroud District Council (SDC) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

SDC acknowledges its responsibility for ensuring that there is effective governance within the Council and as such has developed a Code of Corporate Governance that defines the principles and practices that underpin the governance arrangements operating within the Council.

The Code is reviewed and updated annually and is consistent with the seven core principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) guidance 'Delivering Good Governance in Local Government framework - 2016 Edition', the key focus being on sustainability i.e. economic, social and environmental and the need to focus on the longer term and the impact actions may have on future generations.

A copy of the Code can be accessed on the Council's website. However, a summary of the seven core principles upon which it is based can be found on page 9 of this document.

This statement explains how the Council has complied with the Code and also meets the requirements of the Accounts and Audit Regulations 2015, regulation 6(1) (a) and (b), which requires the Council to prepare and publish an Annual Governance Statement (AGS).

The responsibility for leading and directing the annual reviews of the effectiveness of the Council's governance arrangements against the Code and providing ongoing oversight and robust challenge, is the Council's Corporate Team and when completed, the findings are reported to and improvement actions identified, monitored by, the Audit and Standards Committee.

What is Governance?

Governance is about how the Council ensures that it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. Good governance leads to effective:

- ❑ leadership and management;
- ❑ performance and risk management;
- ❑ stewardship of public money; and
- ❑ public engagement and outcomes for our citizens and service users.

What is the purpose of a Governance Framework?

The governance framework comprises the culture, values, systems and processes by which an organisation is directed and controlled. It enables the Council to monitor the achievement of its vision and strategic priorities and to consider whether those priorities have led to the delivery of appropriate services and value for money. The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It assures that in conducting its business, the Council:

- ❑ operates in a lawful, open, inclusive and honest manner;
- ❑ makes sure that public money and assets are safeguarded from inappropriate use, or from loss and fraud, properly accounted for and used economically, efficiently and effectively;
- ❑ has effective arrangements for the management of risk;
- ❑ secures continuous improvement in the way that it operates;
- ❑ enables human, financial, environmental and other resources to be managed efficiently and effectively;
- ❑ properly maintains records and information; and
- ❑ ensures its values and ethical standards are met.

What is the Annual Governance Statement?

The Council is required by the Accounts and Audit Regulations 2015 to prepare and publish an Annual Governance Statement, in order to report publicly on the extent to which we comply with our own Local Code of Corporate Governance, including how we have monitored the effectiveness of our arrangements in year and on any planned changes to our governance arrangements in the coming year.

In this document the Council:

- ❑ acknowledges its responsibility for ensuring that there is a sound system of governance;
- ❑ summarises the key elements of the governance framework and the roles of those responsible for the development and maintenance of the governance environment;
- ❑ describes how the Council has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period;
- ❑ provides details of how the Council has responded to any issue(s) identified in last year's governance statement; and
- ❑ reports on any key governance matters identified from this review and provides a commitment to addressing them.

The Annual Governance Statement reports on the governance framework that has been in place at Stroud District Council for the year ended 31st March 2017 and up to the date of approval of the statement of accounts.

It should be noted however, that any system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and priorities; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The Council's Governance Assurance Framework, which underpins the AGS, has been in place at the Council for the year ended 31st March 2017 and up to the date of approval of the AGS and Statement of Accounts.

What is a Governance Assurance Framework?

Assurance provides confidence, based on sufficient evidence, that internal controls are in place and are operating effectively and that priorities/objectives are being achieved. An Assurance Framework is a structure within which Members and Senior Management identify the principal risks to the Council meeting its key priorities, and through which they map out both the key controls to manage them and how they have gained sufficient assurance about the effectiveness of those controls. The assurance framework underpins the statements made within the Annual Governance Statement.

An assurance process is in place to provide a framework for the annual assessment of the effectiveness of the governance arrangements operating within the Council. This includes robust challenge by the Council's Audit and Standards Committee, Statutory Officers i.e. the Chief Executive, Monitoring Officer, Chief Financial Officer and the Corporate Team.

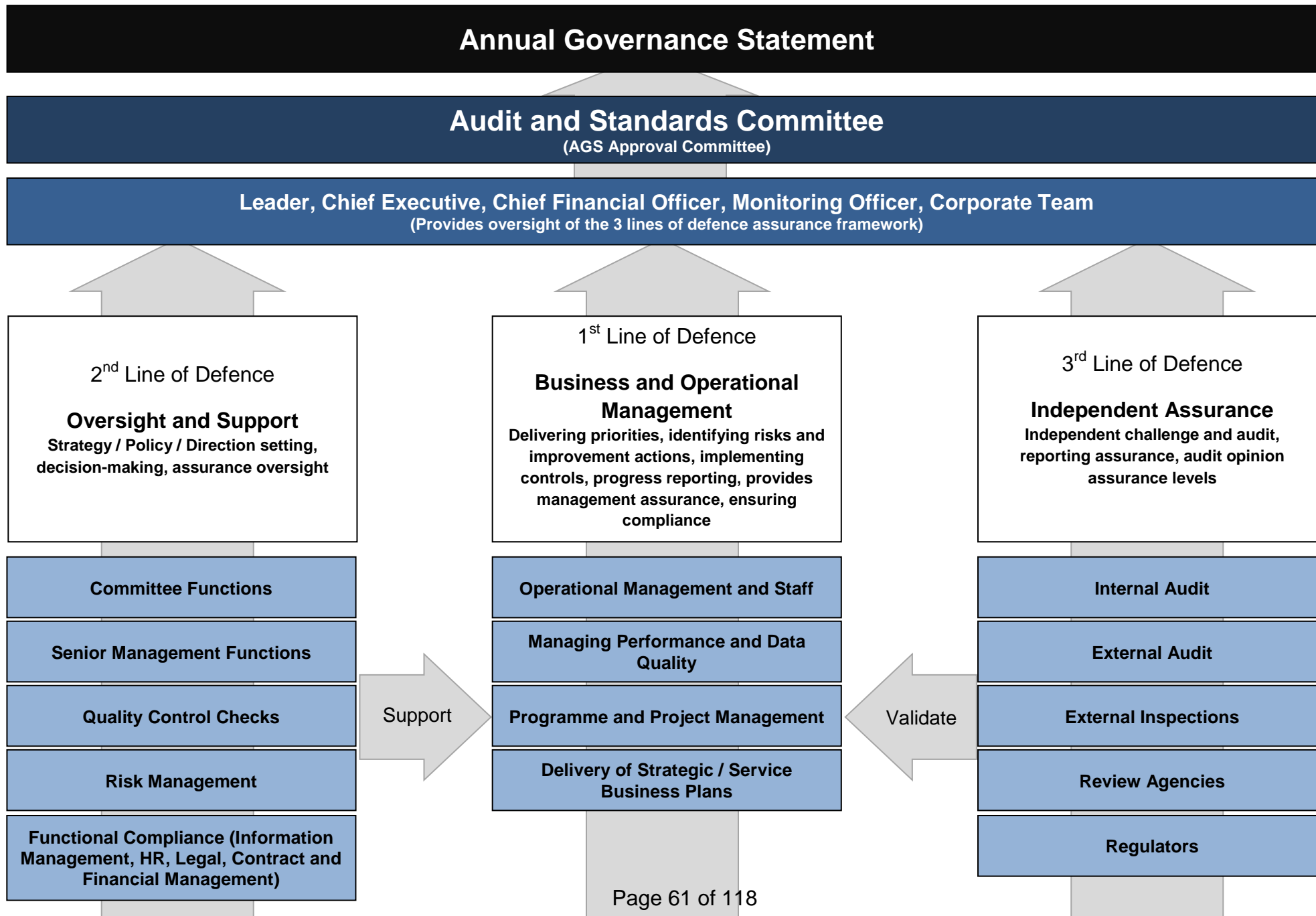
In addition, 'the three lines of defence assurance model' is in place which helps Members and Senior Management to understand where assurances are being obtained from, the level of reliance they place on that assurance and identify potential gaps in assurance.

The Three Lines of Defence in effective Risk Management and Control

Assurance can come from many sources within the Council. The Three Lines of Defence is a concept for helping to identify and understand the different sources of assurance.

By defining these sources into three categories i.e. the First Line (functions that own and manage risks e.g. management and supervisory controls), the Second Line (functions that oversee risks e.g. Governance structures and processes such as Audit and Standards Committee, other Council Committees, Management Teams) and the Third Line (functions that provide independent assurance on the management of risks e.g. HMRC, Internal/External Audit), helps the Council understand how each contributes to the overall level of assurance and how best they can be integrated and supported. Please see page 7 below which summarises the Council's governance assurance framework, which is based on the three lines of defence model.

What is the Council's Governance Assurance Framework?



How has the Annual Governance Statement been prepared?

In preparing the Annual Governance Statement the Council has:

- ❑ reviewed the Council's existing governance arrangements against the revised CIPFA / SOLACE 'Delivering Good Governance in Local Government framework - 2016 Edition' good practice guidance;
- ❑ updated the Council's Local Code of Corporate Governance to reflect this guidance which includes the revised seven principles of good governance and associated required actions and behaviours taken by the Council that demonstrate good governance; and
- ❑ assessed the effectiveness of the Council's governance arrangements against the revised Local Code of Corporate Governance.

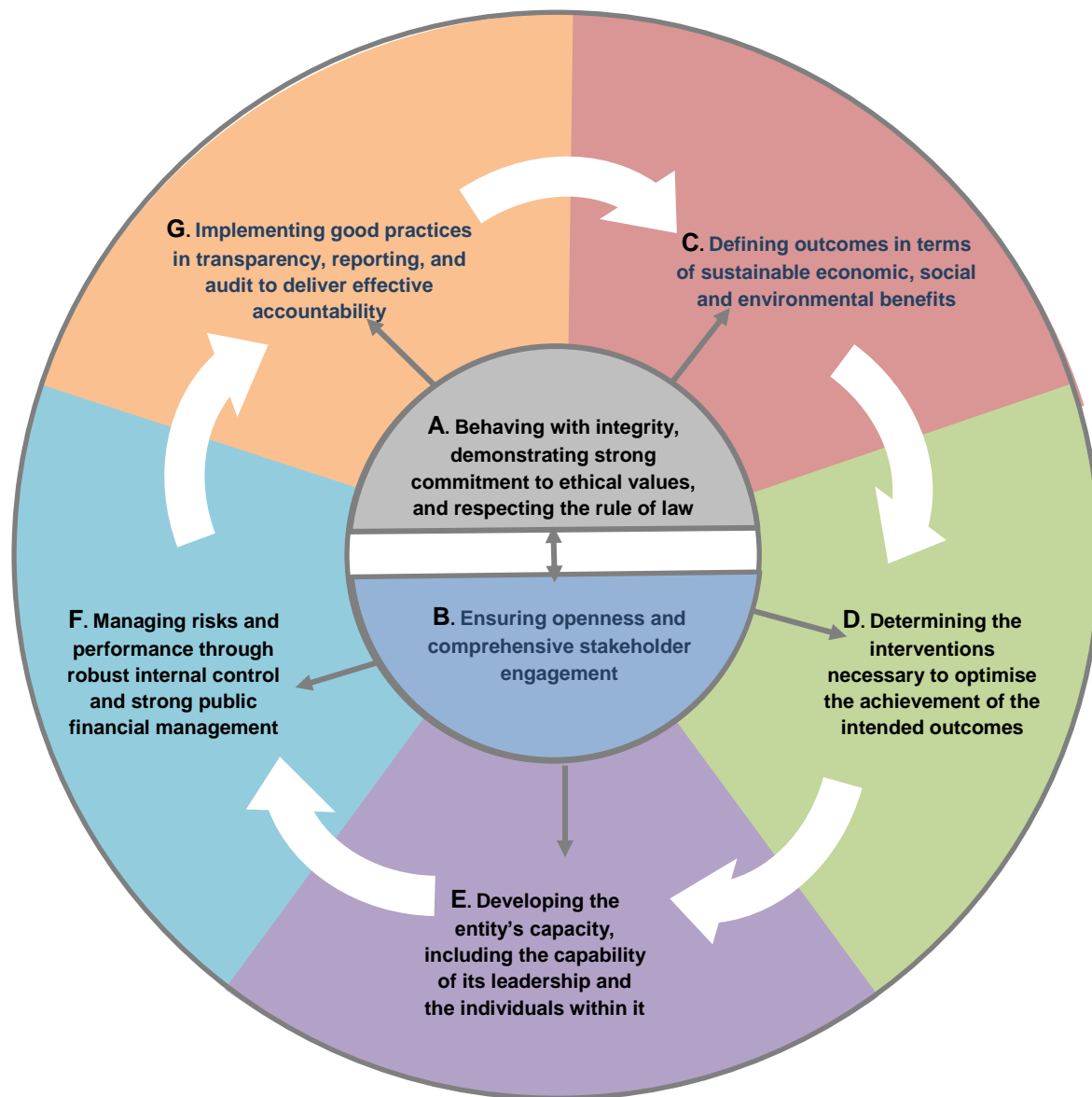
How does the Council monitor and evaluate the effectiveness of its governance arrangements?

The Council annually reviews the effectiveness of its governance arrangements. The key sources of assurance that inform this review are outlined below:

- ❑ The development and implementation of a Management Governance Assurance Framework which enables the Council to gain assurance that good governance actions and behaviours are operating within the Council;
- ❑ The work of Members and Senior Officers of the Council who have responsibility for good governance;
- ❑ The Chief Internal Auditor's annual report on Internal Audit Activity 2016/2017, which provides the independent assurance that key risks (financial and non-financial) are being adequately controlled and provides an opinion on the effectiveness of these arrangements;
- ❑ Reports on Risk Management activity during 2016/2017;
- ❑ Any comments made by the Council's External Auditors; and
- ❑ Any other review agencies and inspectorates.

What are the key elements of SDC's Governance Framework?

The Council aims to achieve good standards of governance by adhering to the seven core principles below, which form the basis of the Council's Code of Corporate Governance:



The following pages provide a summary of actions and behaviours taken by the Council in relation to each of these seven core principles and associated sub principles.

Principle A

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Supporting Principles:

Behaving with integrity

Demonstrating strong commitment to ethical values

Respecting the Rule of Law

How we do this:

- ❖ The Council has an [Audit and Standards Committee](#) to promote high standards of member conduct. Elected members must follow a [Code of Conduct](#) to ensure high standards in the way they undertake their duties. The Monitoring Officer advises members on the Code of Conduct.
- ❖ Officer behaviour is governed by the [Employees' Code of Conduct](#). The Code has been formulated to provide a set of standards of conduct expected of employees at work.
- ❖ External providers of services acting on behalf of the Council are also required to comply with the Code of Conduct.
- ❖ These Codes are regularly reviewed to ensure they are operating effectively.

- ❖ Arrangements exist to ensure that members and officers are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. These include:
 - Registers of disclosable conflicts of interests;
 - Declarations of disclosable conflicts of interests and disclosable other interests at the start of meetings; and
 - Employee Registers of gifts and hospitality.
- ❖ A [customer feedback / Complaints Policy](#) exists to receive & respond to any complaints received.
- ❖ Actively seek to deter and prevent fraud and corruption and ensure where irregularity is suspected that it is thoroughly investigated.
- ❖ The required staff 'behaviours' are embedded into the Council's

- ❖ The [Constitution](#) sets out the responsibilities of the Council and the Committees, as well as officers, including decision making powers.
- ❖ The Council has a duty to appoint three of its staff to specific roles, these being:
 - **The Head of Paid Service (i.e. Chief Executive)**, who has overall accountability for the governance arrangements operating within the Council.
 - **The Monitoring Officer** who has a key role in ensuring that decisions taken are within the law and the Council complies with the provisions of its Constitution.
 - **The Chief Financial Officer** is the principal financial adviser to the Council and is responsible for the proper administration of the Council's financial affairs and internal control environment.

Principle B

Ensuring openness and comprehensive stakeholder engagement

Supporting Principles:

Openness

Engaging comprehensively with institutional stakeholders

Engaging stakeholders effectively, including individual citizens and service users

How we do this:

- ❖ To help the Council deliver its vision it produces a 4-year rolling [Corporate Delivery Plan](#) (CDP) which is reviewed annually. This allows us to maintain a focus over the medium term and ensures that we plan financially and adapt what we do to the changing demands of local people and the Government. The CDP is publicly available.
- ❖ Member decisions and significant officer decisions are also reported on the Council's website.
- ❖ The Council publishes certain data in accordance with the [Local Government Transparency Code](#) which enables more power to be placed into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services.

- ❖ Elected members are democratically accountable to their local area and this provides a clear leadership role in building sustainable communities.
- ❖ The Council's planning and decision-making processes are designed to include consultation with stakeholders and the submission of views by local people.
- ❖ Formal Public Consultation arrangements and public meetings held to ascertain stakeholder views prior to developing and implementing key policy changes.
- ❖ Developed and implemented alternative service delivery models, where appropriate, to allow for resources to be used more efficiently and effectively.

- ❖ The long-term vision for the Council is set out in the Corporate Delivery Plan 2015-2019 which is informed by public consultation.
- ❖ Annual resident/business council satisfaction surveys are received from the local communities.
- ❖ The Councillor Call for Action is to support elected members in achieving improvements for their local areas. In their day to day roles, councillors identify issues of significant concern to their communities. They seek to resolve problems by talking to the Council and other service providers. If they cannot resolve a particular issue they are able to refer it to a relevant committee for further investigation.
- ❖ A [consultation hub](#) is on the website which provides the details of both open and closed consultations, where we consult regularly with local people on a wide range of policies, plans and proposals affecting our communities.

Principle C

Defining outcomes in terms of sustainable, economic, social and environmental benefits

Supporting Principles:

Defining outcomes

Sustainable economic, social and environmental benefits

How we do this:

- ❖ The long term vision and Council's priorities are set out in the Corporate Delivery Plan 2015-2019.
- ❖ A [Budget and Medium Term Financial Plan](#), Capital Programme and annual budget process ensure that financial resources are directed to the Council's priorities.
- ❖ The Council works with partner organisations where there are shared objectives and clear economic benefits from joint working.
- ❖ The Council has a co-ordinated and structured approach to developing services and defining outcomes.
- ❖ Contract management and monitoring arrangements are in place to ensure that services provided are delivered to a high standard.
- ❖ The Council's business planning, performance and risk management framework enables the monitoring of progress against service strategic / business plans priorities and objectives, key performance indicators and targets.

- ❖ The Medium Term Financial Plan identifies the required efficiency savings across the Council in a systematic and considered manner.
- ❖ The Council aims to ensure that the purchase of goods, services or works required to deliver services is acquired under Best Value terms.
- ❖ The Council develops [business continuity plans](#) to ensure that critical service delivery can be maintained or recovered during an emergency.
- ❖ The Council's decision making process requires consideration of the economic, social and environmental impacts of policies and plans when taking decisions about service provision.
- ❖ Programme and project management arrangements require consideration of Political, Environmental, Societal (i.e. increased demand for a service and demographic changes), Technological, Legislative, Economic and Efficiency issues, risks and opportunities and value for money.

Principle D

Determining the interventions necessary to optimise the achievement of the intended outcomes

Supporting Principles:

Determining interventions

Planning interventions

Optimising achievement of intended outcomes

How we do this:

- ❖ The Council's decision making processes ensure that decision makers receive objective and robust analysis of a variety of options indicating how the intended outcomes will be achieved, providing information on the risks and opportunities associated with those options, thus helping to inform those decisions.
- ❖ Public consultation is undertaken to ensure that feedback from citizens and service users are fully considered when making decisions about service improvements / changes.

- ❖ The Council's Corporate Delivery Plan defines the Council's vision and key priorities, following full consultation with the local communities.
- ❖ The Council has developed Service Strategic / Business Plans with clearly defined outcomes and a balanced set of key performance indicators and risks to evaluate performance.
- ❖ Performance reports analysing trends and latest budget position are monitored by management and the relevant Committees.

- ❖ The Council has developed and implemented a Budget and Medium Term Financial Plan (MTFP).
- ❖ The financial plans demonstrate how the Council's financial resources will be deployed over the next four years to deliver declared aims and priorities.
- ❖ The MTFP sets out the overall shape of the Council's budget by determining the level of resources that will be available and how these are currently allocated between services.
- ❖ The Council ensures the achievement of 'social value' (i.e. a way of thinking about how scarce resources are allocated and used when awarding a contract) when procuring services and service planning.

Principle E

Developing the entity's capacity, including the capability of its leadership and the individuals within it

Supporting Principles:

Developing the Council's capacity

How we do this:

- ❖ The Council participates in relevant benchmarking exercises and peer reviews to help inform how the resources are allocated, so that outcomes can be achieved effectively and efficiently.
- ❖ Collaborative working and alternative service delivery models are fully considered as part of the option appraisal process, when looking to determine how the Council's resources are allocated in order to meet our priorities.
- ❖ The Council has developed and implemented a suite of learning, development and growth programmes to enable and encourage increased knowledge and skills.
- ❖ For staff wishing to progress into management, access is provided to programmes through the Institute of Leadership and Management. We currently have two new programmes in the development stages with local colleges.
- ❖ Sometimes, people want to expand their skill set beyond those used in their usual role and gain an insight into other parts of the organisation. We know that this fresh look at the workplace can help to maintain enthusiasm and job satisfaction, so we provide our employees with secondment opportunities within the Council and externally.

Developing the capability of the Council's leadership and other individuals

- ❖ The Council's Constitution clearly defines the statutory and distinctive roles of the Leader and other councillors and sets out to whom decision making powers are delegated, including senior officers such as the Chief Executive.
- ❖ A Members Training and Development Programme is in operation, which supports continued Member development.
- ❖ The Council has implemented a competency framework which provides an opportunity to reflect on how individuals are performing, what is going well and also where the individual may need further support or development as part of their role.
- ❖ The above includes required skills and behaviours as these behaviours are essential for the delivery of our key priorities, to continue to support our savings targets, and form part of our on-going commitment to personal and professional development.
- ❖ Staff appraisals and 121's held to monitor staff performance and identify training and development needs.

Principle F

Managing risks and performance through robust internal control and strong public financial management

Supporting Principles:

Managing Risk

How we do this:

- ❖ The Council has a [Risk Management Policy / Strategy](#) which clearly defines the roles and responsibilities for managing risk, confirming that risk management is an integral part of all our business activities including all aspects of business planning, option appraisals and decision making.
- ❖ Business Continuity arrangements are in place for critical services to ensure they can continue to operate in an emergency.
- ❖ The Audit and Standards Committee monitor the adequacy of the risk identification, monitoring and control of strategic and operational risk within the Council.

Managing Performance

- ❖ The Council's Corporate Delivery Plan (CDP) outlines our vision as leading a community that is making Stroud district a better place to live, work and visit for everyone. The plan seeks to demonstrate how this will be achieved around five key priorities: Economy, Affordable Housing, Environment, Resources and Health and Wellbeing.
- ❖ A business planning framework is in operation which includes our Service Strategic Plans which aligns with our CDP and sets out our strategic priorities and business plans which set out the key priorities / tasks / targets / risks for the day job.
- ❖ Priorities are monitored through our performance, programme and project management framework.

Robust internal control

- ❖ There is an Internal Audit (IA) function (100% compliant with Public Sector Internal Audit Standards 2017) which has provided a satisfactory independent opinion on the effectiveness of the Council's control environment comprising, risk management, control and governance.
- ❖ The Council takes fraud, corruption and maladministration very seriously and has established policies and processes which aim to prevent or deal with such occurrences. These can be found within the [Anti Fraud and Corruption Policy](#) Statement and Strategy.
- ❖ The Audit and Standards Committee is responsible for monitoring and reviewing the above.

Managing Data

- ❖ Data is managed in accordance with the law. The key information management and security policies in place are: The Data Protection Policy and Guidance, and Information Security Policy.
- ❖ Information Sharing protocols are in place when sharing data with third parties.
- ❖ [Freedom of Information Publication Scheme](#) provides a guide to the current information we routinely publish, or intend to publish. It aims to help you understand what information is already available, how to find/access it and whether or not a charge applies.
- ❖ [ICT Infrastructure Investment Plan 2017/18 to 2019/20](#).

Strong public financial management

- ❖ Robust budget management arrangements are in place including monitoring and review by all Committees.
- ❖ [External Audit review](#) and report on the Council's financial statements (including this Annual Governance Statement), providing an opinion on the accounts and concluding on the arrangements in place for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion).
- ❖ The Audit and Standards Committee monitor the effectiveness of the Chief Financial Officer's responsibility for ensuring an adequate internal / financial control environment.

Principle G

Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Supporting Principles:

Implementing good practices in transparency

Implementing good practices in reporting

Assurance and effective accountability

How we do this:

- ❖ [Agendas and minutes](#) of Council and Committee meetings are publically available on the Council's website and Council and Committee meetings are available live and afterwards on the Council's website.
- ❖ The Council has a Freedom of Information Act publication scheme (to ensure the members of the public have access to all recorded information held by the Council).
- ❖ Compliance with the Local Government Data Transparency Code which sets out the minimum data that the Council should be publishing, the frequency it should be published and how it should be published e.g. expenditure exceeding £500, grants to voluntary, community and social enterprise organisations, senior salaries etc. This makes it easier for local people to contribute to the local decision making processes and help to shape public services.

- ❖ The published Annual Statement of Accounts is the statutory summary of the Council's financial affairs for the financial year. The purpose of the Annual Statement of Accounts is to give clear information on the income and expenditure of the Council and to demonstrate the Council's stewardship of public money for the year.
- ❖ The Council publishes an Annual Governance Statement in order to report how we have monitored the effectiveness of our governance arrangements (self assessed against the seven key principles set out within our Code of Corporate Governance) in year and on any planned changes in the coming year.
- ❖ The Audit and Standards Committee review and approve the Annual Statement of Accounts and Annual Governance Statement.

- ❖ Accountability and decision making arrangements are clearly defined within the Council's Constitution. These accountabilities include arrangements when delivering services with our key partners.
- ❖ The Audit and Standards Committee provide independent assurance to the Council on the adequacy and effectiveness of the governance arrangements and internal control environment operating within the Council.
- ❖ Risk based internal auditing provides ongoing assurance that the key risks material to achieving the Council's objectives are being managed.
- ❖ Peer reviews and benchmarking undertaken to ascertain good practice and implement improvements as identified.

What are the key roles of those responsible for developing and maintaining the Governance Framework?

The Council	<ul style="list-style-type: none"> - Adopting and making substantive changes to the Constitution. - Approving or adopting the annual budget. - Agreeing and/or amending the Terms of Reference for Committees, deciding on their composition and appointing Chairmen and Vice Chairmen to them.
Audit and Standards Committee	<ul style="list-style-type: none"> - Provides independent assurance to The Council on the adequacy and effectiveness of the governance arrangements, risk management framework and internal control environment. - Promotes high standards of member conduct. - Approves the Annual Statement of Accounts and Annual Governance Statement.
Committees	<ul style="list-style-type: none"> - There are four Committees aligned to the Council's corporate priorities (excluding Audit and Standards and the Development Control Committee). They hold Officers to account and scrutinise performance. Any two members of each committee will meet on a quarterly basis with senior management in non decision making, informal meetings. They report back on an exception basis to their Committees any key issues.
Chief Executive Corporate Management Team	<ul style="list-style-type: none"> - Implements the policy and budgetary framework set by the Council and provides advice to Committees and the Council on the development of future policy and budgetary issues and oversees the implementation of Council policy.
Chief Financial Officer (s151)	<ul style="list-style-type: none"> - Accountability for developing and maintaining The Council's governance, risk and control framework. - Contribute to the effective corporate management and governance of the Council.
Monitoring Officer	<ul style="list-style-type: none"> - To advise the Council on ethical issues, standards and powers to ensure the Council operates within the law and statutory Codes of Practice. - Overall responsibility for the maintenance and operation of the Confidential Reporting Procedure for Employees. (Whistleblowing) and contributes to the effective corporate management and governance of the Council.
Internal Audit	<ul style="list-style-type: none"> - Provides independent assurance and annual opinion on the adequacy and effectiveness of the Council's governance, risk management and control framework. - Delivers an annual programme of risk based audit activity, including counter fraud and investigation activity. - Makes recommendations for improvements in the management of risk.
External Audit	<ul style="list-style-type: none"> - Audit / review and report on the Council's financial statements (including the Annual Governance Statement), providing an opinion on the accounts and use of resources, concluding on the arrangements in place for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion).
Strategic Heads/Managers	<ul style="list-style-type: none"> - Responsible for developing, maintaining and implementing the Council's governance, risk and control framework. - Contribute to the effective corporate management and governance of the Council.

How has the Council addressed the governance improvement actions from 2015/16?

The Annual Governance Statement 2015/16 contained the following key improvement actions. Details of the issue and how it was addressed are provided below:

AGS 2015/16 review reference	Action	Position as at 31 st March 2017
Local Code of Corporate Governance Core Principle 1	<p>Governance in working with others: The Council is required to focus on the purpose of the authority and on outcomes for our customers and stakeholders and creating and implementing a vision for the local area.</p> <p>The Council has joined with ten of our public sector partners to have one conversation with government about how through devolution we can achieve better outcomes and reduced costs.</p> <p>Action: The devolution bid, if successful, includes a commitment to a new governance arrangement. This is a statutory process and will be led by the Chief Executive. The process will include consultation and engagement with the organisations involved and other stakeholders.</p> <p>Target date: To be determined - depending upon outcome of bid.</p>	Devolution bid outcome still to be determined.

AGS 2015/16 review reference	Action	Position as at 31 st March 2017
<p>Revised CIPFA Guidance on Delivering Good Governance 2016</p>	<p>CIPFA - Delivering Good Governance in Local Government : Framework (2016 Edition): The Council currently prepares and publishes an Annual Governance Statement in accordance with the CIPFA Delivering Good Governance in Local Government 2007 (Addendum 2012). This guidance/framework has been refreshed and defines the principles that should underpin the governance arrangements of the Council and applies to the annual governance statements prepared for the financial year 2016/17 onwards.</p> <p>Action: The Chief Internal Auditor to test the Council's governance arrangements and be able to demonstrate that its governance structures comply with the core and sub principles contained within the revised framework. To then develop and maintain, on behalf of the Council, a local code of governance / governance arrangements reflecting the principles set out.</p> <p>Target date: 31st March 2017</p>	<p>Completed</p> <p>The Council's revised Local Code of Corporate Governance, Annual Governance Statement and the associated assurance framework has been developed by the Chief Internal Auditor, which is in accordance with the principles contained within the CIPFA guidance i.e. Delivering Good Governance in Local Government 2016 Edition.</p> <p>The revised governance assurance framework applies to the Annual Governance Statement 2016/2017.</p>

AGS 2015/16 review reference	Action	Position as at 31 st March 2017
<p>Local Code of Corporate Governance Core Principle 3 (and Annual Governance Statement paragraph 7.10)</p>	<p>Anti-Fraud and Corruption Strategy: The Council is required to promote values for the authority and demonstrate the values of good governance through upholding high standards of conduct and behaviour.</p> <p>The Fighting Fraud and Corruption Locally 2016–2019 Strategy has been developed by local authorities and counter fraud experts and supported by the 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.</p> <p>Action: During 2016/17 the Chief Internal Auditor will undertake a self-assessment against the new guidance to measure the Council’s counter fraud and corruption culture and response and propose enhancements as required.</p> <p>Target date: 31st March 2017</p>	<p>Completed</p> <p>A self assessment against the new counter fraud guidance has been undertaken by the Chief Internal Auditor, which has resulted in a refreshed Anti Fraud and Corruption Policy Statement and Strategy, Anti Bribery Policy and Anti Money Laundering Policy 2017 – 2019.</p> <p>The revised policies were approved by the Audit and Standards Committee on 11th April 2017.</p>

AGS 2015/16 review reference	Action	Position as at 31 st March 2017
<p>Annual Governance Statement paragraphs 7.4 & 7.5</p>	<p>Risk Management Policy and approach: Risk management is a core part of the Council’s corporate governance framework and internal control environment. It is one of the six core principles within the Council’s Code of Governance – ‘taking informed and transparent decisions which are subject to effective scrutiny and managing risk’.</p> <p>The Council’s Risk Management Policy should reaffirm and improve effective risk management in the Council, comply with good practice and in doing so, effectively manage potential opportunities and threats to the organisation achieving its objectives. The Policy should also support the consideration and auctioning of risk management within Council partnerships and contracts.</p> <p>Action: The Chief Internal Auditor will review the Council’s risk management arrangements (including the Risk Management Policy) against the latest ISO 31000 risk management standard. The review findings will be reported to Audit and Standards Committee and will inform future risk management development at the Council.</p> <p>Target date: 31st March 2017</p>	<p>Completed</p> <p>Risk management arrangements: Self assessment of the Council’s risk management arrangements has been completed against the latest ISO 31000 risk management standard and the results reported to Audit and Standards Committee on 22nd September 2016. The relevant action plan, following finalisation and approval by Corporate Team, was then presented to and approved by Audit and Standards Committee on 22nd November 2016.</p> <p>Risk Management Strategy: The update of the Council’s Risk Management Policy Statement and Strategy has been led by the Legal Services Manager, supported by the Chief Internal Auditor, in consultation with Corporate Team.</p> <p>The updated Risk Management Policy Statement and Strategy was approved by the Audit and Standards Committee on 11th April 2017.</p>

AGS 2015/16 review reference	Action	Position as at 31 st March 2017
Annual Governance Statement paragraph 14.7	<p>HRA balances investigation: The investigation of HRA balances reported to Members between 2014/15 and 2015/16 (requested by the Chief Executive and reported to Strategy and Resources Committee on 15th June 2016) confirmed that reported HRA balances had been overstated by £909,000. The overstatement has impacted on the HRA budget and business plan for 2016/17 (and subsequent years). The investigation report raised eight recommendations to improve controls surrounding budget and outturn reporting to Members. Responsibility for control implementation and governance improvement has been allocated to the S151 Officer and the Accountancy Manager.</p> <p>Action(s): Internal Audit to complete follow up reviews on the implementation of the HRA balances investigation recommended controls. Review to be completed in two stages within quarters 2 and 3 2016/17. The follow up review findings will be reported to Audit and Standards Committee. Revision and update of the HRA business plan (including options available to the Council) to be presented to Housing Committee and Strategy and Resources Committee by the S151 Officer and Accountancy Manager.</p> <p>Target date: Regular updates to be provided to Audit and Standards Committee within 2016/17 Civic year.</p>	<p>Completed for 2015/2016</p> <p>Three HRA balances investigation follow up internal audit reports have been presented to Audit and Standards Committee to date:</p> <ul style="list-style-type: none"> • First follow up: 22nd September 2016 • Second follow up: 22nd November 2016 • Third follow up: 11th April 2017 <p>The third follow up internal audit reviewed all financial reports submitted to Stroud Committees between November 2016 and March 2017, to provide assurance over the completeness and accuracy of the reports.</p> <p>The approved 2017/18 Risk Based Internal Audit Plan includes full follow up of all recommendations raised within the original HRA balances investigation report.</p>

AGS 2015/16 review reference	Action	Position as at 31 st March 2017
Annual Governance Statement paragraphs 15.0 to 15.3	<p>Procurement Action Plan: Weakness in the use and management of procurement and contract management increases the risk of legal challenge from suppliers and contractors of not complying with relevant regulations and internal Council Contract and Procurement Rules. It also increases the risk that the Council cannot demonstrate that it is securing value for money when procuring.</p> <p>The Council drafted the Procurement Action Plan 2015/16 to mitigate against the above risks. Implementation in 2015/16 was delivered through the Procurement Board and progress reported to the Audit and Standards Committee. At 2015/16 year end, governance of procurement and contract management was transferred from the Procurement Board to the Corporate Team. To continue development of the area, Audit and Standards Committee approved the proposed 2016/17 Action Plan on 5th April 2016.</p> <p>Action: Corporate Team to lead on delivery and implementation of the approved Procurement Action Plan 2016/17 (first review planned for 12th July 2016). Progress against the 2016/17 Plan will be reported to Audit and Standards Committee.</p> <p>Target date: Latest Plan implementation date – 31st March 2017.</p>	<p>Completed for 2015/2016</p> <p>Progress on the 2016/17 Procurement Action Plan has been reported to Corporate Team on a quarterly basis to date within 2016/17. Briefing notes and reports have also been presented to Audit and Standards Committee.</p> <p>Actions within the year to date have included (but are not exclusive to) Corporate Team approval of the corporate procurement training programme which was completed in March 2017.</p> <p>Work also commenced in 2016/2017 and is continuing to consolidate expenditure on particular areas across the Council.</p>

AGS 2015/16 review reference	Action	Position as at 31 st March 2017
<p>Annual Governance Statement paragraph 16.9</p>	<p>Business Continuity and Disaster Recovery: The Council's Excelsis risk register includes the risk 'COMS10: If the Council does not regularly review it's business continuity/disaster recovery plans to ensure they are fit for purpose, the delivery of frontline and back office services will be disrupted in the event of an incident' which has a current risk score of 8 (allocated in line with the Council Risk Management Policy) and a target risk score of 4. The COMS10 lead officer is the s151 Officer.</p> <p>To support mitigation of the COMS10 risk, the s151 Officer and ICT Delivery Manager have raised the area for inclusion within the Risk Based Internal Audit Plan 2016/17.</p> <p>Action: Business Continuity and Disaster Recovery consultancy review to be completed by Internal Audit in liaison with the ICT Delivery Manager, to support control improvement. Review action plan to be reported to Audit and Standards Committee.</p> <p>Target date: 31st March 2017.</p>	<p>Completed</p> <p>The IT Disaster Recovery and Business Continuity internal audit consultancy review has been completed and outcomes presented to Audit and Standards Committee on 7th February 2017.</p> <p>The approved 2017/18 Risk Based Internal Audit Plan includes an audit of progress made with the recommendations raised within this consultancy review.</p>

What are the key 2016/17 governance matters identified?

The review of the effectiveness of the Council's governance framework has identified the following actions that will need to be addressed during 2017/18.

Review Reference	Governance matters identified/actions taken	Target Date	Lead Officer
Chief Financial Officer Assurance Statement	<p>Future Financial Sustainability</p> <p>The 2017/2018 Medium Term Financial Plan identified core deficit of £3.4m by 2020/21.</p> <p>Actions: Work is currently underway with Strategic Heads and key members of the administration to produce a balanced savings plan that addresses the funding shortfall.</p>	Ongoing	Chief Financial Officer (S151)
Corporate Team Review	<p>ICT Strategy / Infrastructure Investment Plan 2017/18 to 2019/20</p> <p>The Council has allocated up to £600k between 2017/18 and 2019/20 to upgrade the ICT infrastructure and has developed an investment plan summarising how these funds are to be utilised to ensure that the ICT infrastructure continues to meet the business needs of the Council and is able to protect itself against key risks such as cyber threats.</p> <p>Actions: The delivery of the plan will be monitored by Corporate Team and key outcomes reported to Strategy and Resources Committee.</p>	Ongoing	Head of ICT and Lead Business Consultant

Review Reference	Governance matters identified/actions taken	Target Date	Lead Officer
<p>Strategic Head's Composite Assurance Statement</p>	<p>Multi Service Contract</p> <p>The multi services contract provides for the provision of waste and recycling, street cleaning, grounds maintenance, fleet management and maintenance services.</p> <p>There has been a significant increase in costs of the new waste and recycling service which has resulted in additional resources allocated in 2017/2018 Medium Term Financial Plan.</p> <p>Actions: A full service management review is being undertaken in early 2017/2018 which includes detailed resource analysis. In addition, Internal Audit will provide support to the development of a control framework to effectively manage and monitor the contract.</p>	<p>Ongoing</p>	<p>Strategic Head of Customer Services</p>

Review Reference	Governance matters identified/actions taken	Target Date	Lead Officer
Strategic Head's Composite Assurance Statement	<p>Council Tax and Business Rates Direct Debit issues</p> <p>In December 2016 an error occurred in two Direct Debit payment runs and payments were taken from customer's bank accounts a few days earlier than the due date. A full review was immediately undertaken that examined what had happened and how it can be prevented from happening again. A Members Information sheet was produced which was published on the Council's website which included an improvement action plan. In consultation with Internal Audit, six key recommendations were agreed:</p> <ul style="list-style-type: none"> ➤ Procedure guidance notes and procedures documented and process defined; ➤ Additional staff training; ➤ Internal User Group meetings; ➤ Business Continuity Plan; ➤ Automate Process; and ➤ Internal Audit Review. <p>Actions: An Internal Audit review is undertaken to provide the relevant assurances that the Improvement Action Plan has been addressed and implemented.</p>	31 st May 2017	Chief Internal Auditor

Review Reference	Governance matters identified/actions taken	Target Date	Lead Officer
<p>Brought Forward from 2015/2016</p>	<p>HRA Balances Investigation: The investigation of HRA balances reported to Members between 2014/15 and 2015/16 (requested by the Chief Executive and reported to Strategy and Resources Committee on 15th June 2016) confirmed that reported HRA balances had been overstated by £909,000. The overstatement has impacted on the HRA budget and business plan for 2016/17 (and subsequent years). The investigation report raised eight recommendations to improve controls surrounding budget and outturn reporting to Members. Responsibility for control implementation and governance improvement has been allocated to the S151 Officer.</p> <p>Action(s): Internal Audit to complete follow up reviews on the implementation of the HRA balances investigation recommended controls. Review to be completed in two stages within quarters 2 and 3 2016/17 (completed) and a final full follow up of all recommendations raised within the original HRA balances investigation report within quarter 2 of 2017/2018. The follow up review findings will be reported to Audit and Standards Committee.</p>	<p>Audit and Standards Committee 12th September 2017</p>	<p>Chief Internal Auditor</p>

Review Reference	Governance matters identified/actions taken	Target Date	Lead Officer
<p>Brought forward from 2015/2016</p>	<p>Procurement Action Plan: Weakness in the use and management of procurement and contract management increases the risk of legal challenge from suppliers and contractors of not complying with relevant regulations and internal Council Contract and Procurement Rules. It also increases the risk that the Council cannot demonstrate that it is securing value for money when procuring.</p> <p>The Council drafted the Procurement Action Plan 2015/16 to mitigate against the above risks. Implementation in 2015/16 was delivered through the Procurement Board and progress reported to the Audit and Standards Committee. At 2015/16 year end, governance of procurement and contract management was transferred from the Procurement Board to the Corporate Team. To continue development of the area, Audit and Standards Committee approved the proposed 2016/17 Action Plan on 5th April 2016.</p> <p>Action: Corporate Team to lead on delivery and implementation of the approved Procurement Action Plan 2016/17. Progress against the 2016/17 Plan will continue to be reported to Audit and Standards Committee during 2017/2018.</p>	<p>Ongoing</p>	<p>Principal Procurement Officer</p>

Review Reference	Governance matters identified/actions taken	Target Date	Lead Officer
<p>Brought forward from 2015/2016</p>	<p>Business Continuity and Disaster Recovery: The Council's Excelsis risk register includes the risk <i>'if the Council does not regularly review it's business continuity/disaster recovery plans to ensure they are fit for purpose, the delivery of frontline and back office services will be disrupted in the event of an incident'</i>.</p> <p>To support mitigation of this risk the s151 Officer and the previous ICT Delivery Manager raised the area for inclusion within the Risk Based Internal Audit Plan 2016/17. A Business Continuity and Disaster Recovery consultancy review was therefore completed by Internal Audit in liaison with the ICT Delivery Manager, to support control improvement. An action plan was subsequently developed which highlighted improvement areas.</p> <p>Action: During 2017/2018 Internal Audit will review progress with the recommendations made and report the outcomes to the Audit and Standards Committee.</p>	<p>Audit and Standards Committee 28th November 2017</p>	<p>Chief Internal Auditor</p>

Certification

I can confirm that the Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government 2016.

Signed:



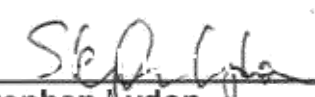
David Stanley
S151 Officer

Date:

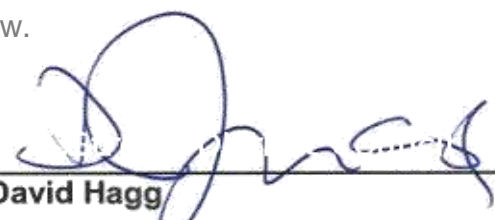
14/06/2017

To the best of our knowledge, the governance arrangements, as defined above and within the Council's Code of Corporate Governance, have been effectively operating during the year with the exception of those areas identified on pages 25 – 30 above. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation during the year and as part of our next annual review.

Signed:



Stephen Lydon
Leader of the Council



David Hagg
Chief Executive

Date:

14.6.17

14/6/17

Code of Corporate Governance

2016-2017

December 2016



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Introduction

The Council's Code of Corporate Governance is based upon the CIPFA / SOLACE publication entitled "Delivering Good Governance in Local Government: Framework 2016 Edition."

What do we mean by Governance?

'The International Framework: Good Governance in the Public Sector' defines 'governance' as comprising the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The Framework also states that to deliver good governance in the public sector both governing bodies and individuals working for them must aim to achieve the Council's objectives while acting in the public interest at all times.

Core Principles

The Council's Code of Corporate Governance is based on seven core principles:-

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimize the achievement of the intended outcomes;
- E. Developing the Council's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The Code specifically identifies the actions and behaviours taken by the Council in relation to each of these core principles and associated sub principles. The Code, along with its supporting infrastructure is set out below at Appendix A and is summarised in diagrammatic form in Appendix B.

The Audit and Standards Committee is currently responsible for approving this Code and ensuring it is annually reviewed and updated accordingly.

Appendix A - Actions and behaviours taken by the Council that demonstrate good governance.

Principle	Sub Principles	Council Actions and Behaviours
(A) Behaving with integrity, demonstrating strong Commitment to ethical values, and respecting the rule of law	Behaving with integrity	<ul style="list-style-type: none"> Ensure that Members and Officers behave with integrity and lead a culture where acting in the public interest is visible and consistently demonstrated thereby protecting the reputation of the Council; Ensure that Members take the lead in establishing specific standard operating principles or values for the Council and its staff and that they are communicated and understood. These will build on the Seven Principles of Public Life (The Nolan Principles); Lead by example and use the above standard operating principles or values as a framework for decision making and other actions; and Demonstrate, communicate and embed the standard operating principles or values through appropriate policies and processes which will be reviewed on a regular basis to ensure they are operating effectively.
	Demonstrating strong commitment to ethical values	<ul style="list-style-type: none"> Seek to establish, monitor and maintain the Council's ethical standards and performance; Underpin personal behaviour with ethical values and ensure they permeate all aspects of the Council's culture and operation; Develop and maintain robust policies and procedures which place emphasis on agreed ethical values; and Ensure that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the Council.
	Respecting the Rule of Law	<ul style="list-style-type: none"> Ensure Members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations; Create the conditions to ensure that the statutory officers, other key post holders, and Members are able to fulfil their responsibilities in accordance with legislative and regulatory provisions; Strive to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders; Deal with breaches of legal and regulatory provisions effectively; and Ensure corruption and misuse of power is dealt with effectively.
(B) Ensuring openness and comprehensive stakeholder engagement	Openness	<ul style="list-style-type: none"> Ensure an open culture through demonstrating, documenting and communicating the Council's commitment to openness; Make decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption will be for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential will be provided; Provide clear reasoning and evidence for decisions in both public records and explanations to stakeholders and will be explicit about the criteria, rationale and considerations used. In due course, the Council will ensure that the impact and consequences of those decisions are clear; and Use formal and informal consultation and engagement to determine the most appropriate and effective interventions / courses of action.
	Engaging comprehensively with institutional stakeholders	<ul style="list-style-type: none"> Effectively engage with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably; Develop formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively; and Ensure that partnerships are based on trust, a shared commitment to change, a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit.
	Engaging stakeholders effectively, including individual citizens and service users	<ul style="list-style-type: none"> Establish a clear policy on the type of issues that the Council will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes; Ensure that communication methods are effective and that Members and Officers are clear about their roles with regard to community engagement; Encourage, collect and evaluate the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs; Implement effective feedback mechanisms in order to demonstrate how their views have been taken into account; Balance feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity; and Take account of the interests of future generations of tax payers and service users.

Principle	Sub Principles	Council Actions and Behaviours
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(C) Defining outcomes in terms of sustainable economic, social and environmental benefits	Defining outcomes	<ul style="list-style-type: none"> ▪ Have a clear vision, which is an agreed formal statement of the Council’s purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the Council’s overall strategy, planning and other decisions; ▪ Specify the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer; ▪ Deliver defined outcomes on a sustainable basis within the resources that will be available; ▪ Identify and manage risks to the achievement of outcomes; and ▪ Manage service users’ expectations effectively with regard to determining priorities and making the best use of the resources available.
	Sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> ▪ Consider and balance the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision; ▪ Take a longer term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the Council’s intended outcomes and short-term factors such as the political cycle or financial constraints; ▪ Determine the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs; and ▪ Ensure fair access to services.
(D) Determining the interventions necessary to optimise the achievement of the intended outcomes	Determining interventions	<ul style="list-style-type: none"> ▪ Ensure decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided; and ▪ Consider feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts.
	Planning interventions	<ul style="list-style-type: none"> ▪ Establish and implement robust planning and control cycles that cover strategic and operational plans, priorities and targets; ▪ Engage with internal and external stakeholders in determining how services and other courses of action should be planned and delivered; ▪ Consider and monitor risks facing each partner when working collaboratively including shared risks; ▪ Ensure arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances; ▪ Establish appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured; ▪ Ensure capacity exists to generate the information required to review service quality regularly; ▪ Prepare budgets in accordance with organisational objectives, strategies and the medium term financial plan; and ▪ Inform medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy.
	Optimising achievement of intended outcomes	<ul style="list-style-type: none"> ▪ Ensure the medium term financial plan integrates and balances service priorities, affordability and other resource constraints; ▪ Ensure the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term; ▪ Ensure the medium term financial plan sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage; and ▪ Ensure the achievement of ‘social value’ through service planning and commissioning. The Public Services (Social Value) Act 2012 states that this is “the additional benefit to the community...over and above the direct purchasing of goods, services and outcomes”.

Principle	Sub Principles	Council Actions and Behaviours
(E) Developing the Council's capacity, including the capability of its leadership and the individuals within it	Developing the Council's capacity	<ul style="list-style-type: none"> ▪ Review operations, performance use of assets on a regular basis to ensure their continuing effectiveness; ▪ Improve resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the Council's resources are allocated so that outcomes are achieved effectively and efficiently; ▪ Recognise the benefits of partnerships and collaborative working where added value can be achieved; and ▪ Develop and maintain an effective workforce plan to enhance the strategic allocation of resources.
	Developing the capability of the Council's leadership and other individuals	<ul style="list-style-type: none"> ▪ Develop protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained; ▪ Publish a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body; ▪ Ensure the Leader and the Chief Executive have clearly defined and distinctive leadership roles within a structure whereby the Chief Executive leads the Council in implementing strategy and managing the delivery of services and other outputs set by Members and each provides a check and a balance for each other's authority; ▪ Develop the capabilities of Members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by: <ul style="list-style-type: none"> ➢ ensuring Members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged; ➢ ensuring Members and Officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis; and ➢ ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external. ▪ Ensure that there are structures in place to encourage public participation; ▪ Take steps to consider the leadership's own effectiveness and ensure leaders are open to constructive feedback from peer review and inspections; ▪ Hold staff to account through regular performance reviews which take account of training or development needs; and ▪ Ensure arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing.
(F) Managing risks and performance through robust internal control and strong public financial management	Managing Risk	<ul style="list-style-type: none"> ▪ Recognise that risk management is an integral part of all activities and must be considered in all aspects of decision making; ▪ Implement robust and integrated risk management arrangements and ensure that they are working effectively; and ▪ Ensure that responsibilities for managing individual risks are clearly allocated.
	Managing Performance	<ul style="list-style-type: none"> ▪ Monitor service delivery effectively including planning, specification, execution and independent post implementation review; ▪ Make decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the Council's financial, social and environmental position and outlook; ▪ Ensure an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the Council's performance and that of any organisation for which it is responsible; ▪ Provide Members and senior management with regular reports on service delivery plans and on progress towards outcome achievement; and ▪ Ensure there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements).
	Robust internal control	<ul style="list-style-type: none"> ▪ Align the risk management strategy and policies on internal control with achieving objectives; ▪ Evaluate and monitor the Council's risk management and internal control arrangements on a regular basis; ▪ Ensure effective counter fraud and anti-corruption arrangements are in place; ▪ Ensure additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor; ▪ Ensure an Audit and Standards Committee which is independent of the executive and accountable to the Council: <ul style="list-style-type: none"> ➢ provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment; and ➢ that its recommendations are listened to and acted upon.

Principle	Sub Principles	Council Actions and Behaviours
(F) Managing risks and performance through robust internal control and strong public financial management	Managing Data	<ul style="list-style-type: none"> ▪ Ensure effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data; ▪ Ensure effective arrangements are in place and operating effectively when sharing data with other bodies; and ▪ Review and audit regularly the quality and accuracy of data used in decision making and performance monitoring.
	Strong public financial management	<ul style="list-style-type: none"> ▪ Ensure financial management supports both long term achievement of outcomes and short-term financial and operational performance; and ▪ Ensure well developed financial management is integrated at all levels of planning and control, including management of financial risks and controls.
(G) Implementing good practices in transparency, reporting and audit to deliver effective accountability	Implementing good practice in transparency	<ul style="list-style-type: none"> ▪ Write and communicate reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience ensuring that they are easy to access and interrogate; and ▪ Strike a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand.
	Implementing good practices in reporting	<ul style="list-style-type: none"> ▪ Report at least annually on performance, value for money and the stewardship of its resources to stakeholders in a timely and understandable way; ▪ Ensure Members and senior management own the results; ▪ Ensure robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publish the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (Annual Governance Statement); ▪ Ensure that the Framework is applied to jointly managed or shared service organisations as appropriate; and ▪ Ensure the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations.
	Assurance and effective accountability	<ul style="list-style-type: none"> ▪ Ensure that recommendations for corrective action made by external audit are acted upon; ▪ Ensure an effective internal audit service with direct access to Members is in place which provides assurance with regard to governance arrangements and that recommendations are acted upon; ▪ Welcome peer challenge, reviews and inspections from regulatory bodies and implement recommendations; ▪ Gain assurance on risks associated with delivering services through third parties and evidence this in the annual governance statement; and ▪ Ensure that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met.

Appendix B – Stroud District Council’s Corporate Governance Framework

‘The International Framework: Good Governance in the Public Sector’ defines ‘governance’ as comprising the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The framework also states that to deliver good governance in the public sector both governing bodies and individuals working for them must try to achieve the Council’s objectives while acting in the public interest at all times.							
Core Principles	(A) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	(B) Ensuring openness and comprehensive stakeholder engagement	(C) Defining outcomes in terms of sustainable economic, social, and environmental benefits	(D) Determining the interventions necessary to optimise the achievement of the intended outcomes	(E) Developing the Council’s capacity, including the capability of its leadership and the individuals within it	(F) Managing risks and performance through robust internal control and strong public financial management	(G) Implementing good practices in transparency, reporting, and audit to deliver effective accountability
Evidence of Good Governance	The Constitution	Corporate Delivery Plan 2015-2019	Committee Reports	Corporate Consultation Strategy	The Constitution	The Constitution	Audit and Standards Committee
	Schemes of Delegation / Decision making protocols	Decision Making Protocols	Corporate Delivery Plan 2015-2019	Budget Consultation	Member Development Framework	Audit and Standards Committee	Committee Framework
	Audit and Standards Committee	Council website records all council meetings and key decisions	Committee Framework	Stakeholder Engagement	Member Induction Programme	Committee Framework	Decision Making Protocols
	Committee Framework	Public Meetings	Decision Making Protocols	Option Appraisals	Skills for Stroud –Work Experience Charter	Financial Regulations / Contact and Procurement Procedure Rules	External audit of accounts and value for money opinion
	Contract Standing Orders / Financial Regulations	Public Consultations	Procurement Strategy / Procedures/guidance	Corporate Delivery Plan 2015-2019	Staff Appraisal Process	External audit of accounts and value for money opinion / Statement of Accounts / Medium Term Financial Plan	Annual Statement of Accounts
	Statutory Officers Roles: Chief Executive, Chief Financial Officer / Monitoring Officer / Legal Services	Communications Strategy	Public Sector Social Value Act 2012	Medium Term Financial Plan	Peer Reviews / External Inspection	Risk Management Policy / Strategy / Toolkit	Annual Governance Statement / Assurance Framework
	Members and Employees Codes of Conduct	Corporate performance, financial and risk reporting framework	Service Strategic Plans	Decision Making Protocols	Benchmarking	Information Governance	Internal Audit Service Chief Internal Auditors Annual Opinion / Report
	Members / Officers Register of Interests / Register of Gifts and Hospitality	Open Data and Transparency Code	Service Level / Outcome Agreements	Risk Management Policy / Strategy	Internally led reviews / independent challenge	Corporate and Operational Risk Registers	Review Panels (Planning and Housing)
	Protocol for Member Officer Relations	Customer feedback / Complaints Policy	Service Business Plans	Alternative Service Delivery Models	Alternative Service Delivery Models	Risk Based Internal Auditing Service / Plan	Strategic performance, financial and risk reporting framework
	Anti-fraud and Corruption Policy and Strategy	FOI Publication Scheme	Risk Management Policy / Strategy	Corporate performance, financial and risk reporting framework	Shared Services Programme	Chief Internal Auditors Annual Opinion / Report	Open Data and Transparency Code
	Anti-Bribery and Anti Money Laundering Policies	Annual Statement of Accounts and Annual Governance Statement published	Corporate performance, financial and risk reporting framework	Service Business Plans	Continuing Professional Development Programmes	Corporate performance, financial and risk reporting framework	Website
	Whistleblowing Policy		Environmental Strategy	Project Management	Safety, Health and Wellbeing	Anti-fraud and Corruption Policy / Strategy, Anti Bribery Policy / Anti Money Laundering Policy	Freedom of Information (FOI) reports published
	Risk Management Policy / Strategy		Option Appraisals	Review Panels (Planning and Housing)		Emergency / Business Continuity Management	Complaints Annual Report

**Code of Corporate
Governance**
2016-2017

December 2016



STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

4 JULY 2017

9

Report Title	STATEMENT OF ACCOUNTS 2016/2017
Purpose of Report	To report the headlines from the Statement of Accounts for 2016/2017 and any key issues.
Decision(s)	The Committee APPROVES the report and considers any recommendations that it would like to make regarding the accounts for the year ending 31 March 2017.
Consultation and Feedback	None.
Financial Implications and Risk Assessment	There are no financial implications arising directly from this report. The accounts are now subject to external audit and Members will be asked to approve the Statement of Accounts no later than 30 September 2017. David Stanley, S151 Officer Tel: 01453 754100 Email: david.stanley@stroud.gov.uk Risk Assessment: The risk to the Council in not approving the Statement of Accounts at this time is:- (i) a breach of legal obligation and (ii) the Council's reputation in not meeting statutory deadlines
Legal Implications	The approved civic timetable should enable the new finance timetable to be accommodated. If it becomes apparent that further committees will be required as reports cannot be prepared or approved in time to meet the statutory requirements, additional committee meetings may need to be arranged nearer the time. (Ref:d20.06r15.06.c20.06) Karen Trickey, Legal Services Manager Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk
Report Author	Graham Bailey, Principal Accountant Tel: 01453 754133 Email: graham.bailey@stroud.gov.uk
Options	None.
Performance Management Follow Up	KPMG will be presenting an ISO260 report and formal opinion to the Audit Committee at its meeting on 12 September 2017 when the audit has been completed. The Committee will be asked to approve the Accounts at this meeting.

Background Papers/ Appendices	Background papers <ul style="list-style-type: none"> • Local Audit and Accountability Act 2014 • The Accounts and Audit Regulations 2015 • Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 'Code') • Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 'Code') Appendix A – Statement of Accounts 2016/17
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Background

1. The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority.
2. The Code sets out the proper accounting practices required by section 21(2) of the Local Government Act 2003. These proper practices apply to:
 - Statements of Accounts prepared in accordance with the statutory framework established for England by the Accounts and Audit Regulations 2015
 - the audit of those accounts undertaken in accordance with the statutory framework established by sections 3 and 20 of the Local Audit and Accountability Act 2014 for England
3. The Code is part of the 'proper practices' requirements governing the preparation of an authority's Statement of Accounts referred to in section 21 of the Local Government Act 2003.
4. Section 3 of the Local Audit and Accountability Act 2014 requires a relevant authority to prepare a Statement of Accounts. It is expected that bodies covered by the Accounts and Audit Regulations requirements to prepare a Statement of Accounts but not by the definition of proper practices in section 21 of the Local Government Act 2003 will adopt the Code as a source of proper practices.
5. The Code has been prepared on the basis that the purpose of a local authority's published Statement of Accounts is to give electors, those subject to locally levied taxes and charges, members of the authority, employees and other interested parties clear information about the authority's finances. It should answer such questions as:
 - What did the authority's services cost in the year of account?
 - Where did the money come from?
 - What were the authority's assets and liabilities at the year-end?
6. It is important for compliance with the Code that two particular aspects are understood clearly. First, all Statements of Accounts should reflect a common pattern of presentation, although this does not necessarily require them to be in an identical format. One of the main aims of the Code is to narrow the areas of difference and variety in accounting treatment and thereby to enhance the usefulness of published Statements of Accounts.

7. Secondly, interpretation and explanation of the accounts are considered to be extremely important. The Code requires that there should be a Narrative Report to accompany the Statement of Accounts. The Narrative Report should explain the more significant features of the accounts (see section 3.1 of the Code for further details of the requirements to produce a Narrative Report). It should be based on the information contained in the Statement of Accounts and local authorities should ensure that it does not contain material inaccuracies or misleading statements in relation to the Statement of Accounts.
8. Information contained in the Statement of Accounts will be consolidated into the Whole of Government Accounts. The Code aims to narrow the areas of difference and variety in accounting treatment with the rest of the public sector, facilitating consolidation. As part of the consolidation process, additional information to that disclosed in the Statement of Accounts may need to be submitted to government; such information is expected to be in line with the requirements of the Code.
9. The Statement of Accounts should be prepared promptly by authorities in a form which fulfils the purpose outlined above in accordance with the statutory timetable and CIPFA's Standard of Professional Practice on Financial Reporting. The publication are as follows:
 - Each authority is required to prepare its accounts for certification by the responsible financial officer prior to the commencement of the period for the exercise of public rights (which includes the first 10 working days in July) and to approve and publish them by 30 September, or as soon as reasonably practicable after the receipt of the auditor's final findings (if later).

Arrangements for 2017/18 Statement of Accounts

10. It is worth noting at this point the significant change in requirements that are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18:
11. The responsible financial officer in each authority is required to confirm that they are satisfied that the Statement of Accounts presents a true and fair view of the financial position of the authority at the end of the relevant financial year and the authority's income and expenditure for that financial year, prior to the commencement of the period for the exercise of public rights (which includes the first 10 working days in June) and to approve and publish them by 31 July, or as soon as reasonably practicable after the receipt of the auditor's final findings (if later). The complete set of financial statements as defined in paragraph 3.4.2.17, and including the significant accounting policies and notes to the accounts, should form the relevant Statement of Accounts for the purpose of the auditor's certificate and opinion in England. The statements should be published with an audit certificate and opinion. If the published Statement of Accounts has not been audited, this should be stated clearly on the front of the document.

12. This new timetable, which finance have been working towards in recent years will have a significant impact on the way financial year closedown plans and processes have been carried out hitherto, not least of which will be significantly revising the dates for committees and for the production of the revenue and capital outturn reports and the unaudited and audited Statement of Accounts for consideration by those committees. Revenue and Capital outturn reports will need to be presented to Strategy and Resources Committee in late April, the draft Statement of Accounts will need to be presented to Audit and Standards Committee in early June, and the audited Statement of Accounts will need to be presented to an Audit and Standards Committee in late July.

Commentary on the Financial Statements

13. The Statement of Accounts is comprised of four main statements as required by International Financial Reporting Standards which are:-

- **Movement in Reserves Statement**

This is split between usable and unusable reserves and shows the detail of movement in reserves, from the surplus / (deficit) on provision of services in the Comprehensive Income and Expenditure Statement (CIES), to the position on the Balance Sheet at 31 March 2017.

- **Comprehensive Income and Expenditure Statement (CIES)**

The CIES consolidates all the financial gains and losses experienced during the year. The CIES has two sections:

- a) Surplus or Deficit on the Provision of Services – which shows the increase or decrease in the net worth of the Council as a result of incurring expenses and generating income.
- b) Other Comprehensive Income and Expenditure – which shows any other changes to net worth, and examples include movements in the fair value of assets or actuarial gains or losses on pension assets and liabilities.

- **Balance Sheet**

The Balance Sheet summarises the Council's financial position at 31 March 2017. The top half shows accrued assets and liabilities. The bottom half is comprised of reserves, split between usable and unusable reserves, which represent the net worth of the Council.

- **Cash Flow Statement**

This shows the year on year change in cash and cash equivalents, which are cash on call, and investments with a maturity of three months or less.

Expenditure and Funding Analysis

14. A new note is required by the Code for the 2016/17 Statement of Accounts, which is required to be given due prominence. It is positioned before the Comprehensive Income and Expenditure Statement. The objective of the Expenditure and Funding Analysis is to demonstrate to council tax and rent

payers how the funding available to the authority (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's committees. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

4 JULY 2017

10

Report Title	ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2016/2017
Purpose of Report	To advise on the treasury management activities in 2016/2017, in accordance with the Council's Treasury Policy Statement. To report on actual 2016/2017 Prudential Indicators in accordance with the requirements of the Prudential Code.
Decision(s)	The Audit & Standards Committee approves the treasury management activity annual report for 2016/2017 and the actual Prudential Indicators.
Consultation and Feedback	Capita Asset Services Limited.
Financial Implications and Risk Assessment	<p>This report sets out the outturn position on the Council's Treasury Management activities.</p> <p>Paragraph 12 of the report highlights the return achieved on the Council's investments during the year of £223k (0.62%). 2016/17 has been another challenging year for treasury investments given the reduction in interest rates following the EU referendum. The level on investment income gained is a positive outcome and the Council performs well against benchmarked authorities given the level of risk the undertaken.</p> <p>As at 31 March 2017, the Council had external debt of £106.7m, an increase of £2m in the year. The majority of this debt relates to HRA self financing (£97.7m) and is serviced through annual revenue payments from the Housing Revenue Account.</p> <p>Internal borrowing of £4m was undertaken to finance the capital programme, rather than taking-on further external debt.</p> <p>David Stanley, Accountancy Manager Tel: 01453 754100 E-mail: david.stanley@stroud.gov.uk</p>

Legal Implications	There do not appear to be any significant legal implications other than those referred to in the report. Mike Wallbank Solicitor Tel: 01453 754362 E-Mail: mike.wallbank@stroud.gov.uk
Report Author	Graham Bailey, Principal Accountant Tel: 01453 754133 Email: graham.bailey@stroud.gov.uk
Options	None
Performance Management Follow Up	The Committee will receive regular reports on treasury activity throughout the year.
Appendices	A – Temporary investments 2016/2017 B – Actual Prudential Indicators 2016/2017 C – Explanation of Prudential Indicators D – The economy and interest rates 2016/2017 E – Borrowing and investment rates in 2016/2017

Discussion

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

3. Treasury management in this context is defined as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. ”

Treasury Activity

4. A summary of treasury management activity for 2016/2017 is shown below:

Treasury Activity 2016-17				
	April 2016	Increase	Decrease	March 2017
	£000	£000	£000	£000
Debt				
Borrowing:				
Long-term	-104,717	-2,000	-	-106,717
Short-term	-	-	-	-
Total debt	-104,717	-2,000	-	-106,717
Investments				
Externally managed	-	-	-	-
Internally managed - Long term	-	-	-	-
Internally managed - Short term	30,939	-	-2,008	28,931
Total investments	30,939	-	-2,008	28,931
Net debt	-73,778	-2,000	-2,008	-77,786

Investment Strategy

5. Investment strategy for 2016/2017 was to give primary importance to security of capital and liquidity. This was achieved through having regard to government ‘Guidance on Local Government Investment’ issued in March 2004, and our own investment policy which set out permitted specified and non-specified investments. In addition, the Council received and followed weekly investment advice from Capita Asset Services detailing counterparty credit ratings, which were also subjected to a credit default swap overlay. This was supplemented by daily update emails from Capita Asset Services, economic briefings and monitoring the financial press.
6. Investment strategy, set out in the report to Council in January 2016, stated that in 2016-17 the Council would continue to invest for the longest permitted duration with quality counterparties to maximise return without compromising security. All investment options would be subject to the Capita creditworthiness methodology, and the Council’s own limitations as to duration of investment and amount invested.

7. The expectation for interest rates within the strategy for 2016/17 was for Bank Rate to increase to 0.75% in June 2016, and then a further increase to 1% in March 2017 as part of a rising trend reaching 2% in June 2018. However, in fact rates were cut to 0.25% in August 2016 and remained at that rate for the remainder of the financial year. The Council achieved a return of 0.62% in an environment of continued falling interest rates.
8. **Appendix A** has a summary of investments during the year.

Borrowing Outturn for 2016/17

9. The Council had total borrowing of £106.717m as at 31 March 2017. During the year two £1m PWLB loans were taken at rates of 2.51% and 2.65% for durations in excess of 40 years. With a closing Capital Financing Requirement of £111.457m, the Council has introduced an element of internal borrowing during the year to help offset sharply falling investment returns. As at 31 March there is internal borrowing of £4.740m.

Lender	Principal	Type	Interest Rate	Years to Maturity	Maturity Date	New 16-17
PWLB	£1m	Fixed Interest Rate	2.42%	1 year	28/03/2018	
Hampshire CC	£2m	Fixed Interest Rate	2.40%	2 years	05/02/2019	
PWLB	£1m	Fixed Interest Rate	1.63%	4 years	11/02/2021	
PWLB	£2m	Fixed Interest Rate	1.93%	6 years	11/02/2023	
PWLB	£6m	Fixed Interest Rate	3.32%	15 years	31/03/2032	
PWLB	£10m	Fixed Interest Rate	3.45%	20 years	31/03/2037	
PWLB	£7m	Fixed Interest Rate	3.51%	25 years	31/03/2042	
PWLB	£7m	Fixed Interest Rate	3.51%	25 years	31/03/2042	
PWLB	£7m	Fixed Interest Rate	3.53%	30 years	31/03/2047	
PWLB	£7m	Fixed Interest Rate	3.53%	30 years	31/03/2047	
PWLB	£7m	Fixed Interest Rate	3.52%	35 years	31/03/2052	
PWLB	£7m	Fixed Interest Rate	3.52%	35 years	31/03/2052	
PWLB	£7m	Fixed Interest Rate	3.51%	40 years	31/03/2057	
PWLB	£7m	Fixed Interest Rate	3.51%	40 years	31/03/2057	
PWLB	£10m	Fixed Interest Rate	3.48%	44 years	31/03/2061	
PWLB	£9.717m	Fixed Interest Rate	3.48%	44 years	31/03/2061	
PWLB	£1m	Fixed Interest Rate	2.51%	46 years	21/06/2063	Y
PWLB	£2m	Fixed Interest Rate	3.16%	46 years	20/08/2063	
PWLB	£1m	Fixed Interest Rate	3.55%	48 years	28/11/2064	
PWLB	£2m	Fixed Interest Rate	3.20%	48 years	18/08/2065	
PWLB	£2m	Fixed Interest Rate	2.96%	49 years	11/02/2066	
PWLB	£1m	Fixed Interest Rate	2.65%	49 years	14/06/2066	Y
Total Loans	£106.717m					

The Economy and Interest Rates

10. An analysis of UK economic performance and interest rates during 2016/2017 is in **Appendix D**.

Performance Measurement

11. **Appendix A** has details of the investments made during the year. All of these were 'approved investments' with counterparties included on the Council's lending list, and within permitted limits as regards time and amount, with the exception of a breach of the amount limit for the Lloyds Banking Group by £411k during the period 15/06/2016 to 22/07/2016.
12. The average level of investments held was £35.958 million and the average return on these investments was 0.62%, compared with the average un compounded 7-day LIBID rate of 0.20% which is a generally accepted benchmark rate (the 3 month un compounded LIBID rate is given as well for comparative purposes). The interest earned was £223k.

	Average Investment	Rate of Return	Benchmark Return 7 day LIBID un compounded	For comparison 3 month LIBID un compounded
Internally Managed	£35,957,780	0.62%	0.200%	0.315%
Externally Managed	N/A	N/A	N/A	N/A

13. Stroud is a member of a Capita Asset Services Benchmarking group. The group is comprised of North Warwickshire Borough Council, Nuneaton and Bedworth Borough Council, Oxford City Council, Rugby Borough Council, Stratford-on-Avon District Council, Warwick District Council, Warwickshire County Council, Worcester City Council, Worcestershire County Council and Wyre Forest District Council. A primary aim of the group is to evaluate and compare return on investment taking into account the level of risk for the investment portfolio. During 2016/17 Stroud has again compared very favourably with the benchmark group in terms of return achieved, whilst maintaining a low risk portfolio.
14. The above figures exclude interest earned on the £1m invested in the Local Authority Mortgage Scheme. If this investment earning 3.8% is taken into account then the rate of return increases to 0.705% on an average investment balance of £36.958m. Total interest earned including these non-standard investments was £260k.

Prudential Indicators and Compliance with Borrowing Limits

15. The Council is required by the Prudential Code to report actual prudential indicators after the yearend. These are shown in **Appendix B**.

16. The Council had loans totalling £106.717m during 2016/2017. This amount of borrowing was well within both the authorised and operational borrowing limits of £125m and £130m respectively.

Borrowing limits 2016/2017	Approved Limit	Actual
Authorised limit for external debt (£'million) (Includes deferred liabilities)	£130m	£106,717
Operational boundary for external debt (£'million)	£125m	£106,717

Member Training

17. Member training provided by Capita Asset Services on treasury management issues took place on 6 July 2016 and 25 January 2017. Further training for Members will be scheduled for 2017/18.

New contract

18. The treasury advice service contract was re-tendered through the Eastern Shires Purchasing Organisation (ESPO) Framework Agreement in 2016 and was awarded to Capita Asset Services. This is a contract for two years with an option to extend for a further two years. The contract commenced 1 October 2016.

Local Authority Mortgage Scheme update

Through introducing a Local Authority Mortgage Scheme the Council offered a financial guarantee to enable first time buyers to obtain a mortgage. The total value of the guarantee is £1.2m. The Council invested £1m and the county council £200k with Lloyds bank for 5 years at a market rate of 3.8%. Premium interest of 0.7% is payable in return for the financial guarantee. Premium interest has been set aside to pay for any liability realised as a result of the financial guarantee. This scheme commenced in April 2012 and closed to new loan applications in 2015. A total of £4.7m of loans to 37 first time buyers were issued which utilised £0.9m of the available £1.2m guarantee. As at March 2017 there are no arrears cases, and there have been no repossessions under the scheme since inception. The financial guarantee continues for 5 years from the start date of each mortgage and so should gradually reduce and end in July 2020, unless a mortgage is in arrears during the last six months of its 5 year period. In any such case the financial guarantee for that mortgage will extend for a further 2 years.

Temporary Investments - Summary Activity 2016/2017				
Borrower	Type	Average Principal Invested £	Interest £	Average Rate
RBS Group				
NatWest Treasury Reserve	Call	520,355	1,199.66	0.23%
RBS Deposit	CD	575,342	5,523.29	0.96%
RBS Deposit	Fixed	200,000	1,240.00	0.62%
RBS Treasury Reserve	Call	7,488	6.93	0.09%
RBS Group Total		1,303,185	7,969.88	
Lloyds Group				
Bank of Scotland	Fixed	3,045,205	18,964.80	0.62%
Lloyds	Fixed	1,967,123	13,626.31	0.69%
Lloyds 175 Notice	Call	2,288,876	11,873.27	0.52%
Lloyds Group Total		7,301,204	44,464.38	
Barclays Bank PLC				
Barclays	FIBCA	1,434	0.70	0.05%
Barclays	Fixed	487,671	2,926.03	0.60%
Barclays Total		489,105	2,926.73	
Nationwide				
Nationwide	CD	1,331,507	9,453.70	0.71%
Nationwide	Fixed	2,109,589	14,747.95	0.70%
Nationwide Total		3,441,096	24,201.65	
Santander				
Santander - 95 day notice	Notice	4,212,635	32,124.90	0.76%
Santander - 180 day notice	Notice	3,427,880	34,432.45	1.00%
Santander MMA	Call	30	0.00	0.00%
Santander Total		7,640,544	66,557.35	
Standard Chartered				
Standard Chartered	Fixed	241,096	771.51	0.32%
Standard Chartered 35 day notice	Notice	224,658	920.49	0.41%
Standard Chartered 65 day notice	Notice	1,084,932	5,042.59	0.46%
Standard Chartered 95 day notice	Notice	739,726	3,977.47	0.54%
		2,290,411	10,712.06	
Nordea AB				
Nordea AB	CD	487,671	3,169.86	0.65%
Nord LB Girozentrale				
Nord LB Girozentrale	CD	471,233	2,214.79	0.47%
Co-Operative Rabobank				
Co-Operative Rabobank	CD	898,630	5,751.23	0.64%
UBS				
UBS	CD	1,095,890	7,671.23	0.70%
Deutsche				
Deutsche	MMF	1,498,206	5,418.70	0.36%
Federated Prime Rate MMF				
Federated Prime Rate MMF	MMF	3,825,428	15,078.85	0.39%
Goldman Sachs MMF				
Goldman Sachs MMF	MMF	554,383	1,896.09	0.34%
Handlesbanken				
Handlesbanken	Call	6,583	13.96	0.21%
Ignis				
Ignis	MMF	2,304,895	7,600.81	0.33%
Stockport Metropolitan B C				
Stockport Metropolitan B C	Fixed	198,630	436.99	0.22%
Goldman Sachs				
Goldman Sachs	Fixed	657,534	4,109.59	0.63%
Toronto Dominion				
Toronto Dominion	CD	1,493,151	12,851.51	0.86%
Grand Total		£35,957,780	£223,046	0.62%

Types of investment

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

CD - Certificate of Deposit which are tradeable financial investments.

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

FIBCA - Fixed Interest Bearing Current Account

Fixed - fixed term investments at fixed interest rates.

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

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

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

	2015/16 £'000 actual outturn	2016/17 £'000 original indicator	2016/17 £'000 actual outturn
Prudential Indicators			
Capital Expenditure			
Non- HRA	3,385	12,623	10,975
HRA	18,080	17,136	10,527
TOTAL	£21,465	£29,759	£21,502
Ratio of financing costs to net revenue stream			
Non- HRA	-2.40%	6.38%	-0.68%
HRA	15.41%	16.05%	16.03%
Net borrowing requirement			
brought forward 1 April	95,717	101,949	101,205
carried forward 31 March	101,373	114,381	111,457
in year borrowing requirement	£5,656	£12,432	£10,252
In-year Capital Financing Requirement			
Non- HRA	1,656	8,670	6,490
HRA	4,000	3,762	3,762
TOTAL	£5,656	£12,432	£10,252
Capital Financing Requirement as at 31 March			
Non- HRA	9,225	18,639	15,715
HRA	91,980	95,742	95,742
TOTAL	£101,205	£114,381	£111,457
HRA borrowing limit	£95,742	£95,742	£95,742
Incremental impact of capital investment decisions			
Increase in council tax (band D) per annum	£1.23	£2.84	£1.09
Increase in average housing rent per week	£0.53	£0.57	£0.19
Authorised limit for external debt			
borrowing	104,717	130,000	106,717
other long term liabilities	-	-	-
TOTAL	104,717	130,000	106,717
Operational boundary for external debt			
borrowing	104,717	125,000	106,717
other long term liabilities	-	-	-
TOTAL	104,717	125,000	106,717
Upper limit for fixed interest rate exposure			
Net principal re. Fixed rate borrowing / investments	100%	100%	100%
Upper limit for variable rate exposure			
Net principal re. Fixed rate borrowing / investments	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	-	8,000	-

Explanation of prudential indicators

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

Capital expenditure – compares the 2016/17 original capital estimates with the actual outturn. Actual 2015/16 outturn is shown for comparison.

Ratio of financing costs to net revenue stream – this indicator shows the effect of HRA self-financing debt, with the cost of servicing debt accounting for 16.03% of rental income. Interest on reserves and balances still makes marginal, but positive contribution to General Fund finances.

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

In year capital financing requirement – this shows that in 2016/2017 capital spend was financed by borrowing (internal or external) of £10.252m, and the remainder was financed by the Council's capital resources such as grants, capital receipts and revenue contributions. The comparative 2015/2016 figure shows the capital spend financed by borrowing for that year was £5.656m.

Capital financing requirement (CFR) as at 31 March – the capital financing requirement shows the underlying need of the Council to borrow for capital purposes as determined from the balance sheet. The overall positive CFR of £111.457m provides the Council with the opportunity to borrow if appropriate. The Council has £106.717m in long term borrowing. This indicates Council is internally borrowing £4.740m .

Incremental impact of capital investment decisions – increase in Council Tax (Band D) per annum – this indicator shows that the funding of the Non-HRA capital programme compared with the original estimate for 2016/2017 of £2.84. The reduced actual for 2016/2017 of £1.09 per annum on band D council tax arose mainly through interest savings from internal borrowing.

Incremental impact of capital investment decisions – increase in average housing rent per week – The lower than estimated spending on the HRA capital programme cost an estimated 19p per week of the average housing rent in increased investment interest, rather than the expected 57p per week. This was due to a reduced planned programme and some internal borrowing.

Authorised limit for external debt - this is the “affordable borrowing limit” for external temporary borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cash flows. The Council does not have the power to borrow above this level. The Authorised Limit was set at £130m in January 2016.

Operational boundary for external debt – this is set as the more likely amount required for day to day cash flow purposes. It is acceptable to be above or below this level as long as the Authorised Limit is not breached. The Operational Boundary was set at £125m in January 2016.

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

Upper limit for total principal sums invested for over 364 days – the amount it is considered can prudently be invested for a period in excess of a year. Although the Council can invest for longer than a year no such investments were made in 2016/2017 in accordance with Capita Asset Services' advice.

The Economy and Interest Rates 2016-17

The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest CPI inflation figure had risen to 2.3%, above the MPC's inflation target of 2%. However, the MPC's view was that it would look through near term supply side driven inflation, (i.e. not raise Bank Rate), caused by sterling's devaluation, despite forecasting that inflation would reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend. Market expectations for the first increase in Bank Rate moved forward to quarter 3 2018 by the end of March 2017 in response to increasing concerns around inflation.

USA. Quarterly growth in the US has been very volatile during 2016 but a strong performance since mid-2016, and strongly rising inflation, prompted the Fed into raising rates in December 2016 and March 2017. The US is the first major western country to start on a progressive upswing in rates. Overall growth in 2016 was 1.6%.

EU. The EU is furthest away from an upswing in rates; the European Central Bank (ECB) has cut rates into negative territory, provided huge tranches of cheap financing and been doing major quantitative easing purchases of debt during 2016-17 in order to boost growth from consistently weak levels, and to get inflation up from near zero towards its target of 2%. These purchases have resulted in depressed bond yields in the EU, but, towards the end of 2016, yields rose, probably due at least in part to rising political concerns around the positive prospects for populist parties and impending general elections in 2017 in the Netherlands, France and Germany. The action taken by the ECB has resulted in economic growth improving significantly in the eurozone to an overall figure of 1.7% for 2016, with Germany achieving a rate of 1.9% as the fastest growing G7 country.

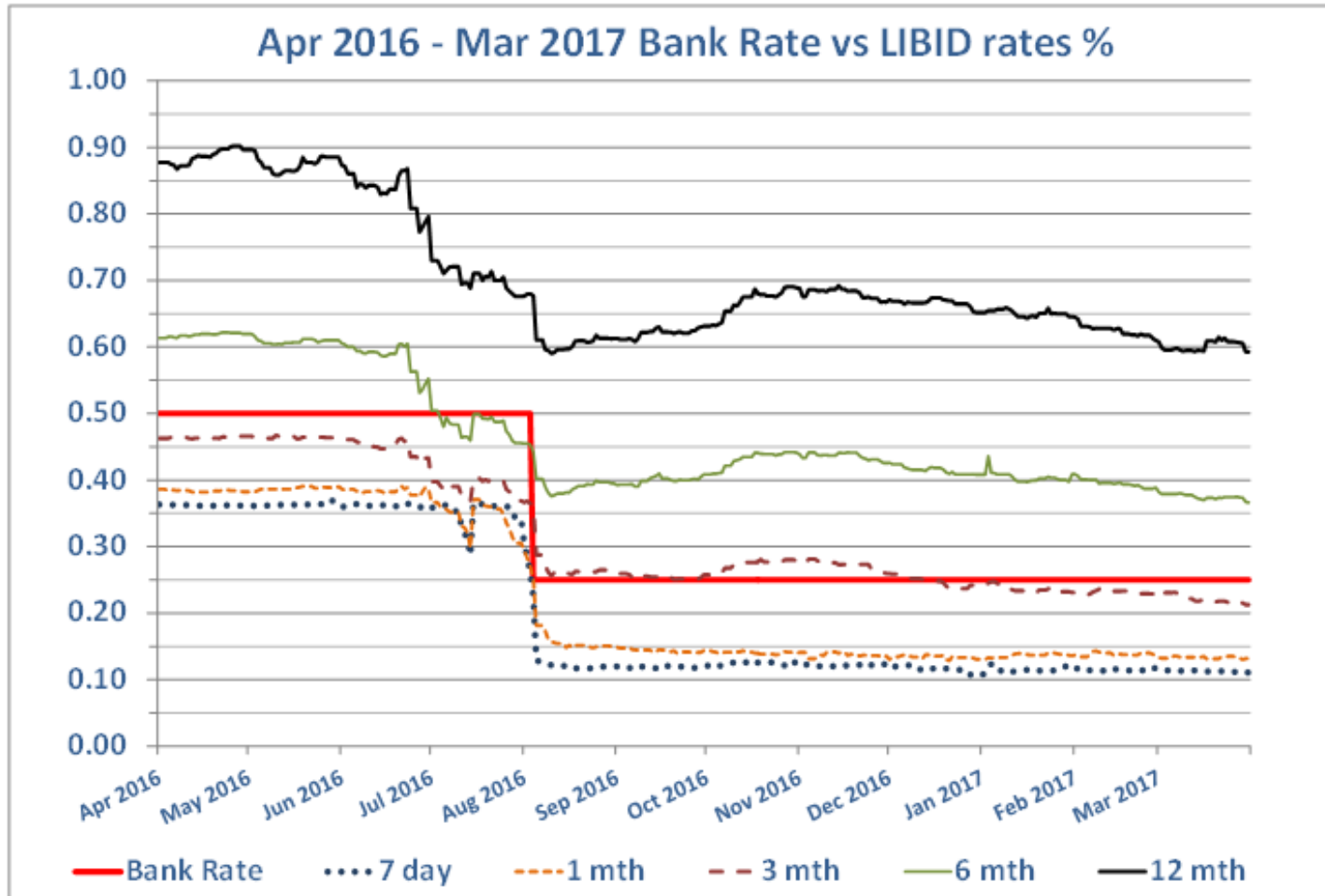
On the other hand, President Trump's election and promise of fiscal stimulus, which are likely to increase growth and inflationary pressures in the US, have resulted in Treasury yields rising sharply since his election. Gilt yields in the UK have been caught between these two influences and the result is that the gap in yield between US treasuries and UK gilts has widened sharply during 2016/17 due to market perceptions that the UK is still likely to be two years behind the US in starting on an upswing in rates despite a track record of four years of strong growth.

Japan struggled to stimulate consistent significant growth with GDP averaging only 1.0% in 2016 with current indications pointing to a similar figure for 2017. It is also struggling to get inflation up to its target of 2%, only achieving an average of -0.1% in 2016, despite huge monetary and fiscal stimulus, though this is currently expected to increase to around 1% in 2017. It is also making little progress on fundamental reform of the economy.

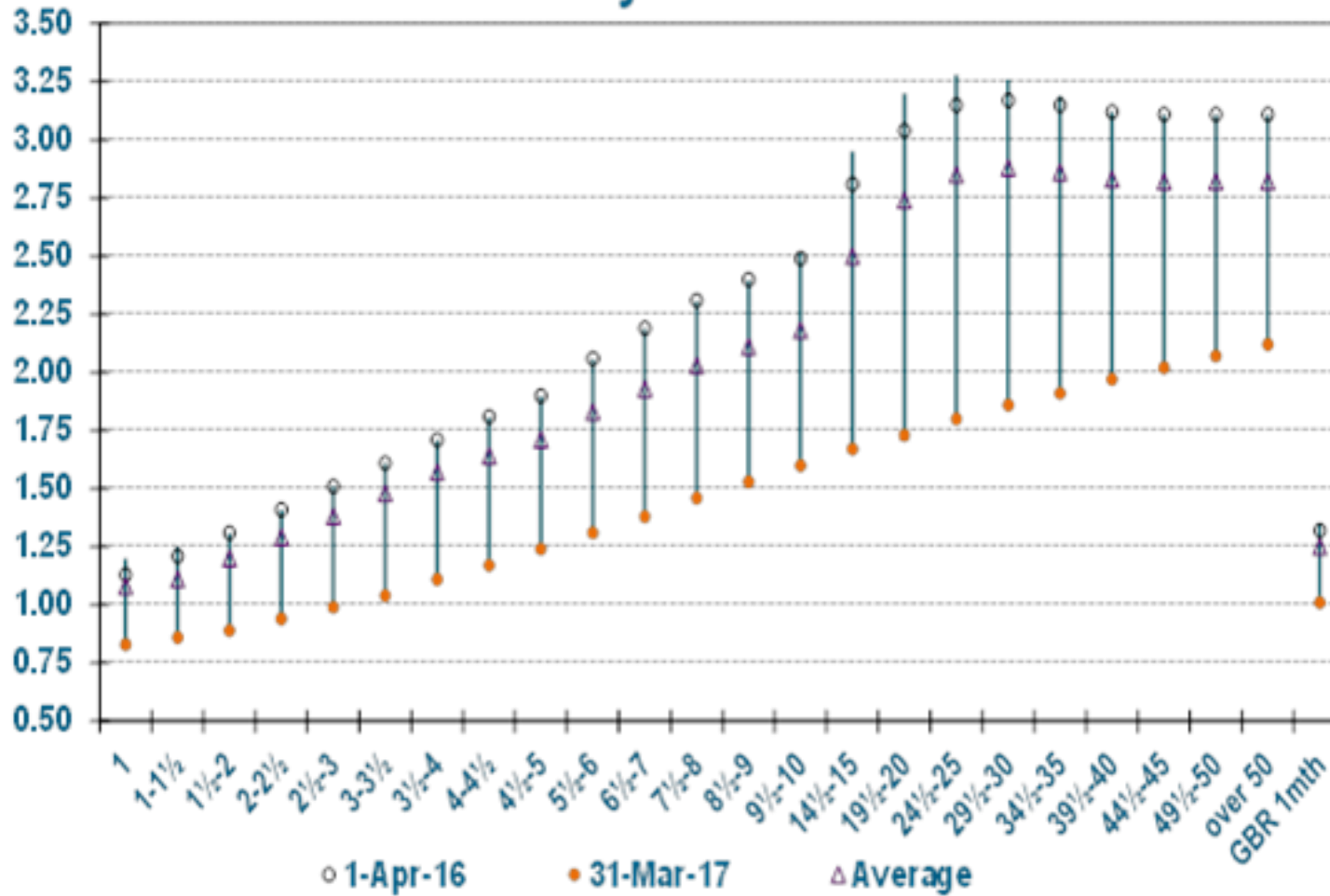
China and emerging market countries. At the start of 2016, there were considerable fears that China's economic growth could be heading towards a hard landing, which could then destabilise some emerging market countries particularly exposed to a Chinese economic slowdown and / or to the effects of a major reduction in revenue from low oil prices. These fears have largely subsided and oil prices have partially recovered so, overall, world growth prospects have improved during the year.

Equity markets. The result of the referendum, and the consequent devaluation of sterling, boosted the shares of many FTSE 100 companies which had major earnings which were not denominated in sterling. The overall trend since then has been steeply upwards and received further momentum after Donald Trump was elected President as he had promised a major fiscal stimulus to boost the US economy and growth rate.

INVESTMENT AND BORROWING RATES 2016-2017

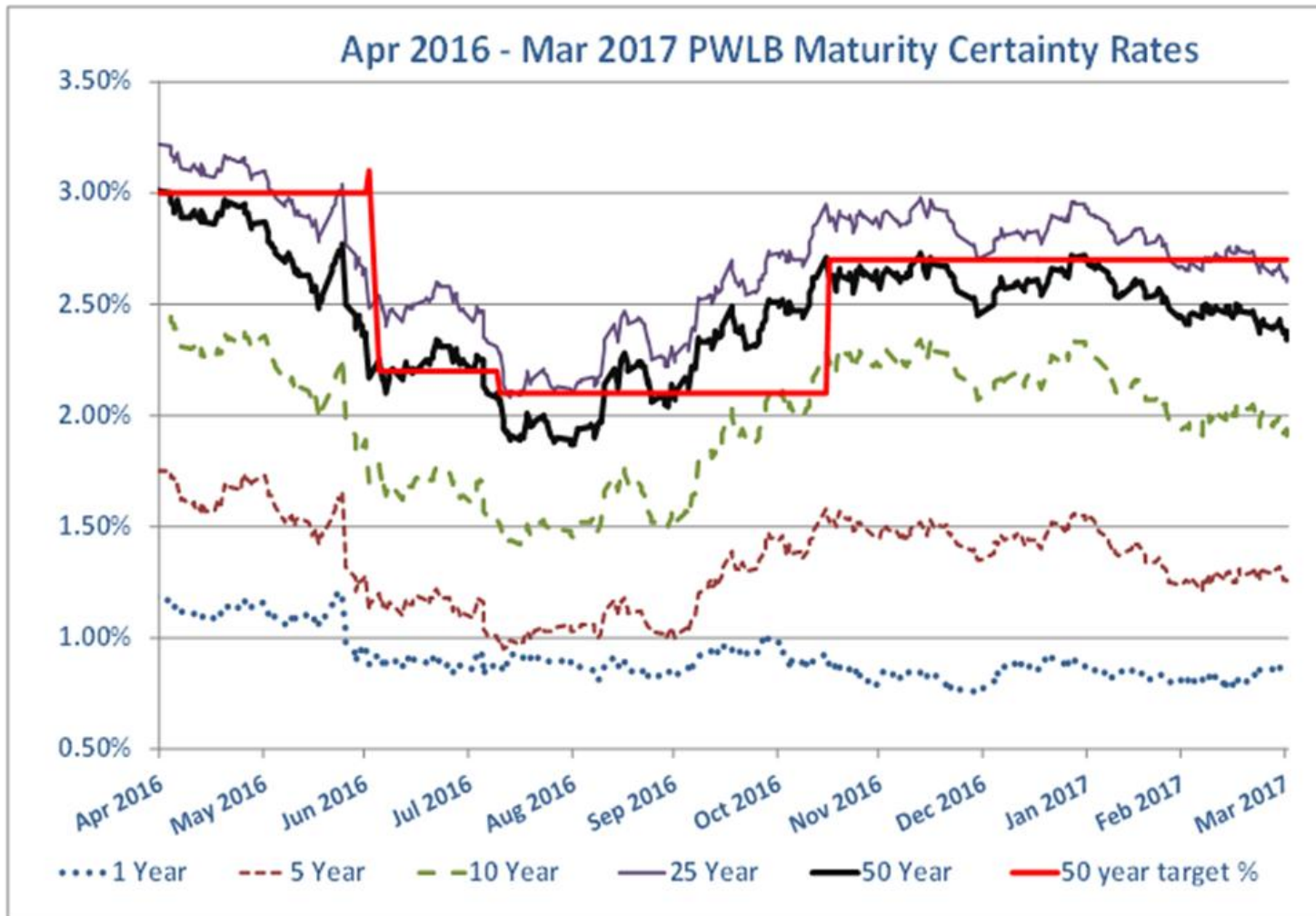


PWLB certainty rate variations in 2016-17



PWLB Certainty Rate Summary

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
31/3/17	0.83%	1.24%	1.60%	1.80%	2.07%
Low	0.76%	0.95%	1.42%	2.08%	1.87%
Date	20/12/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.93%	1.36%	2.01%	2.72%	2.49%



Money market investment rates 2016/17

	7 day	1 month	3 month	6 month	1 year
1/4/16	0.363	0.386	0.463	0.614	0.877
31/3/17	0.111	0.132	0.212	0.366	0.593
High	0.369	0.391	0.467	0.622	0.902
Low	0.107	0.129	0.212	0.366	0.590
Average	0.200	0.220	0.315	0.462	0.702
Spread	0.262	0.262	0.255	0.256	0.312
High date	27/5/16	21/6/16	10/5/16	22/4/16	26/4/16
Low date	28/12/16	21/12/16	30/3/17	31/3/17	10/8/16