

Annual report on Internal Audit Activity

2016-2017



(1) Introduction

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

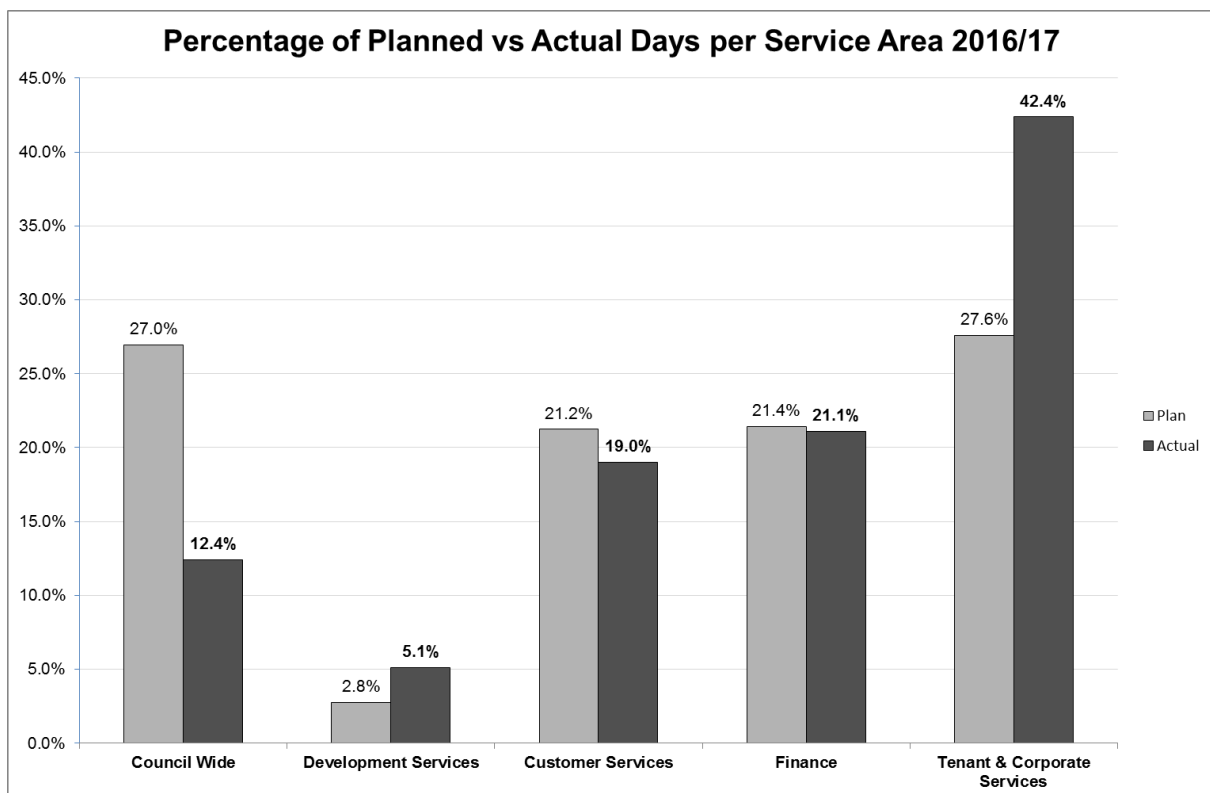
(5) Summary of Internal Audit Activity undertaken compared to that planned

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).

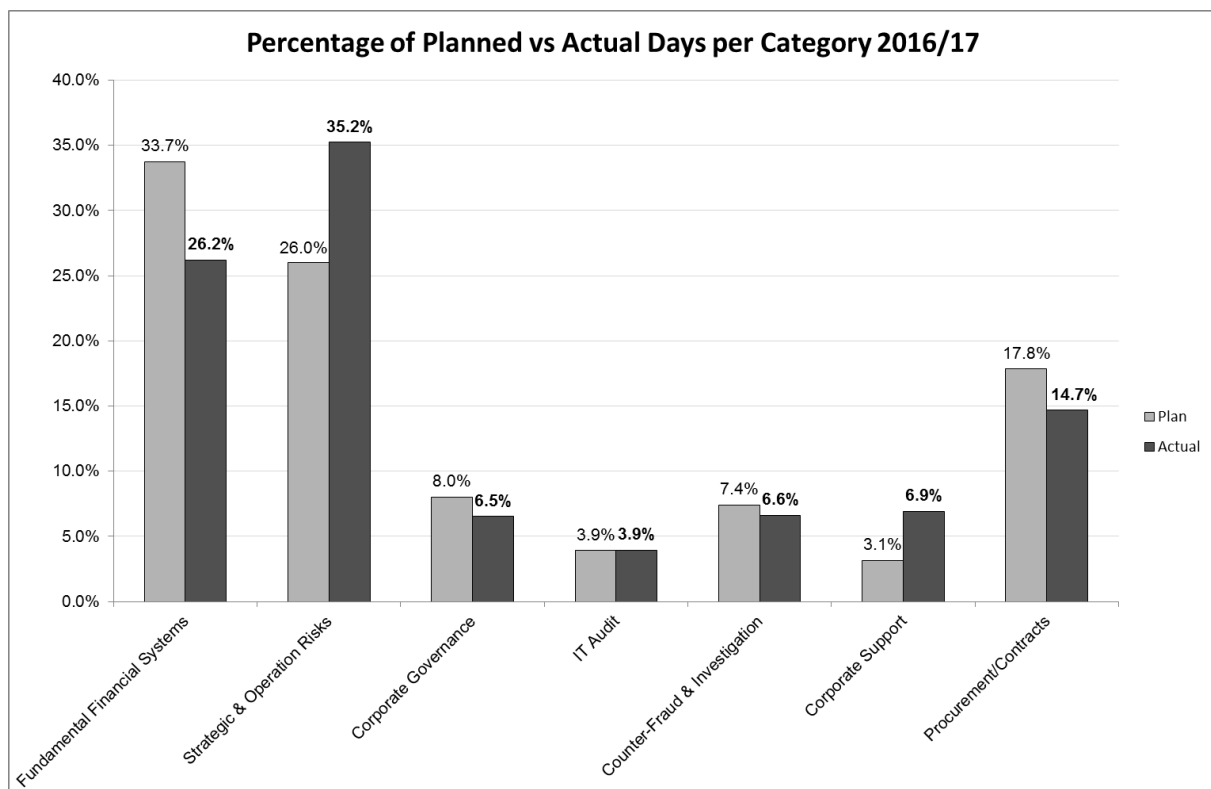
The net effect is that although the work undertaken was slightly different to that originally planned we are able to report that we achieved **93%** of the overall revised plan 2016/17, against a target of 85%.

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.

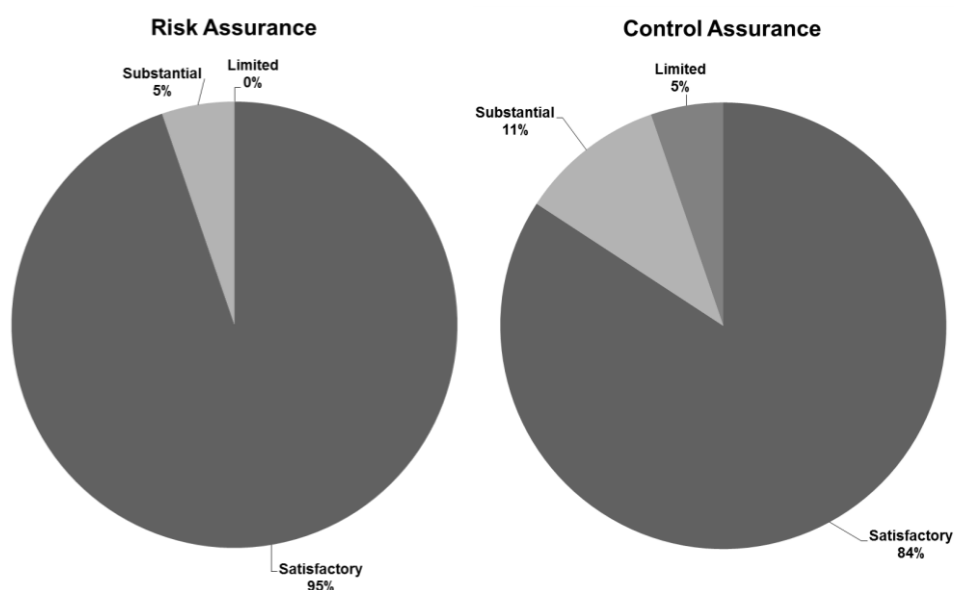
Assurance levels	Risk Identification Maturity	Control Environment
Substantial	Risk Managed Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other services, finance, reputation, legal, the environment client/customer/partners, 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'*.

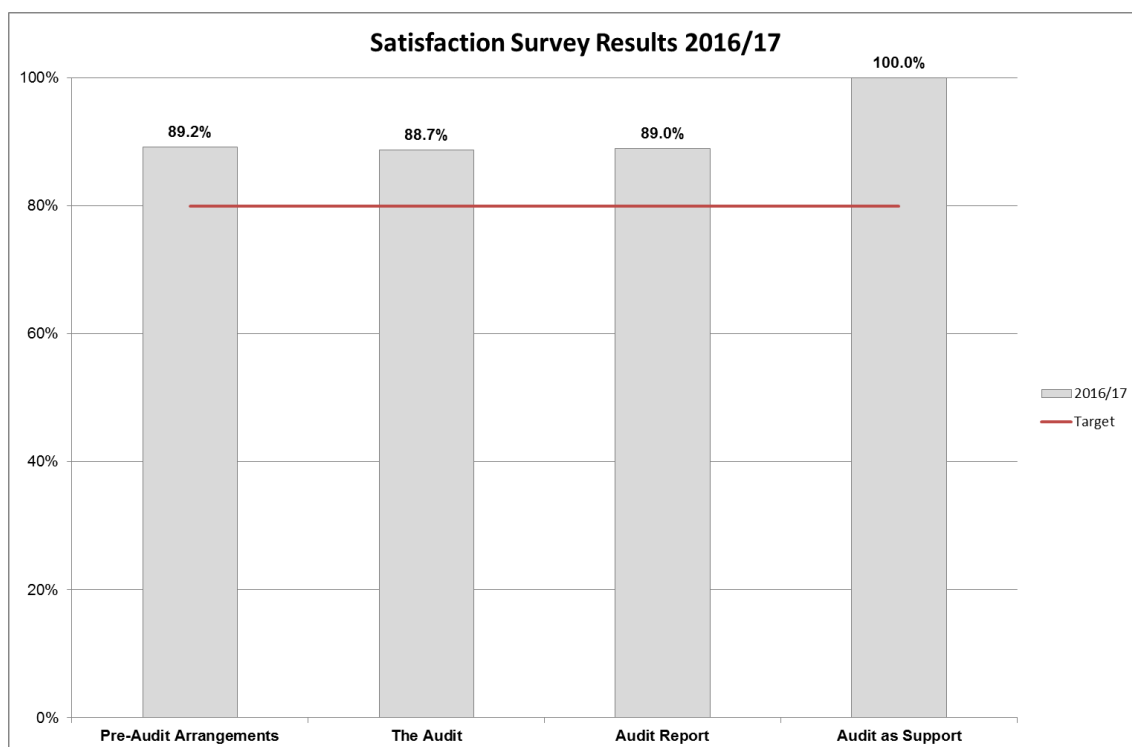
The internal audit shared service applies consistent systems and processes, which supports compliance across the Audit Risk Assurance Shared Service partners.

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.