

Internal Audit Activity Progress Report

2017-2018



Audit and Standards Committee
12 September 2017



Appendix A
Agenda Item 8

(1) Introduction

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

The guidance accompanying the Regulations recognises the Public Sector Internal Audit Standards 2017 (PSIAS) as representing “proper internal audit practices”. The standards define the way in which the Internal Audit Service should be established and undertake its functions.

(2) Responsibilities

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

Internal Audit plays a key role in providing independent assurance and advising the organisation that these arrangements are in place and operating effectively.

Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance and these are set out in the Council’s Code of Corporate Governance and its Annual Governance Statement.

(3) Purpose of this Report

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

- The progress against the 2017/18 Internal Audit Programme, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period June 2017 to September 2017;
- Special investigations/counter fraud activity; and

- The outcomes of the Housing Revenue Account (HRA) Balances final follow up review.

(4) Progress against the 2017/18 Internal Audit Programme, including the assurance opinions on risk and control

The schedule provided at **Attachment 1** provides the summary of 2017/18 audits which have not previously been reported to the Audit and Standards Committee.

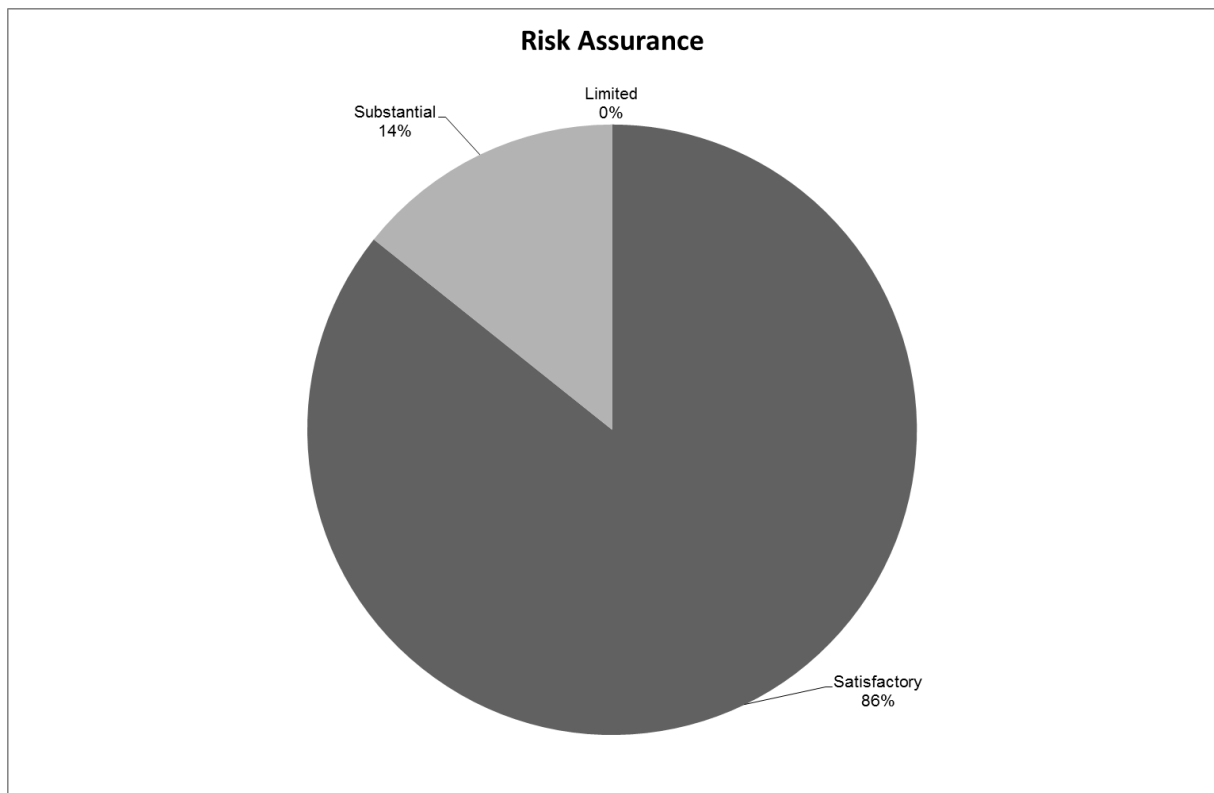
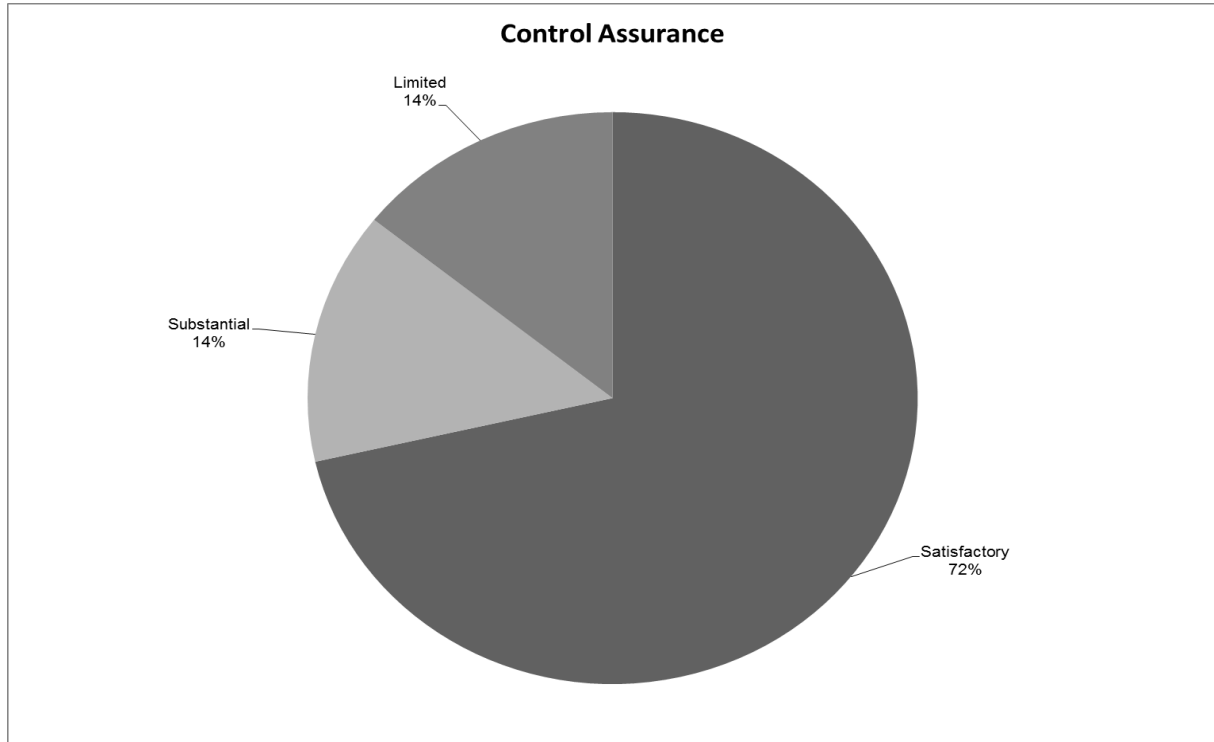
Attachment 2 includes the HRA Balances final follow up review summary.

The schedule provided at **Attachment 3** contains a list of all of the 2017/18 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Standards Committee. Explanations of the meaning of these opinions are shown in the below table.

Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	<p>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 service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Policy.</p>	<ul style="list-style-type: none"> • 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	<p>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 service areas, finance, reputation, legal, the environment, client/customer/partners, and staff, however some key risks are not being accurately reported and monitored in line with the Council's Risk Management Policy.</p>	<ul style="list-style-type: none"> • 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	<p>Risk Naïve Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council's Risk Management Policy, the service area has not demonstrated a satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.</p>	<ul style="list-style-type: none"> • 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

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

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



(4b) Limited Control Assurance Opinions

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

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

During the period June 2017 to September 2017, one audit review has been provided with a split assurance opinion of Limited/Satisfactory for control environment. This relates to the Local Government Pensions Scheme (LGPS) 2014 internal audit report, where limited assurance was applied to four key control areas only (see **Attachment 1**).

Within 2016/17, one limited opinion on control was provided in relation to ICT Business Processes. The audit outcomes were presented to the July 2017 Audit and Standards Committee. Management update on actions taken following the ICT Business Processes internal audit are to be presented at a scheduled Members meeting. Audit follow up of the management actions will then be completed later within 2017/18 and the outcomes presented to Audit and Standards Committee.

(4d) Satisfactory Control Assurance Opinions

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

(4e) Internal Audit Recommendations

During the period June 2017 to September 2017 Internal Audit made, in total, **24** recommendations to improve the control environment, **6** of these being high priority recommendations (**100%** of these being accepted by management) and **18** being medium priority recommendations (**100%** accepted by management).

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

(4f) Risk Assurance Opinions

During the period June 2017 to September 2017, it is pleasing to report that no limited assurance opinions on risk have been provided on completed audits from the 2017/18 Internal Audit Plan.

Where a limited assurance opinion is given, the Shared Service Senior Risk Management Advisor will be provided with the Internal Audit report(s) to enable the prioritisation of risk management support.

Completed Internal Audit Activity during the period June 2017 to September 2017

Summary of Limited Assurance Opinions on Control

Service Area: Finance

Audit Activity: Local Government Pension Scheme Regulations 2014

Background

In April 2014 the Local Government Pension Scheme (LGPS) was revised. The new scheme known as LGPS14 is a career average pension scheme rather than a final salary scheme.

Existing employees' future pensions are protected in respect of their pre-2014 service. Their pensions are now made up of a final salary element for the pre-2014 service and a career average re-valued earnings (CARE) element for the post 2014 service.

As a result, employers are required to keep additional information on members' salaries and contributions and to provide the Gloucestershire Pensions Administration Section with an annual return by 31st May each year (CARE report).

It is essential that the information provided to the Pensions Administration Section is correct and accurate, as the new LGPS regulations now require that each member's actual benefits for the year are calculated, allocated and notified to the member by 31st August following the end of each financial year.

Stroud District Council (SDC) took over the administration of the payroll function on 1st April 2016; for the seven years prior to this it was run by an external provider. As at 31st March 2016 there were 468 SDC employees who were active members of the LGPS scheme.

Scope

- Compliance with the Payroll Guide to the 2014 Scheme including;
 - Treatment of non-contractual overtime;
 - Assumed pensionable pay for those on child related leave and sick leave;
 - Breaks in membership of the scheme and membership of the 50:50 scheme;
 - Additional pension contributions;
 - Salary sacrifice schemes; and
 - Employer and employee contributions.

- To review year-end CARE report, processes, controls and accuracy; and
- To review the completion of leavers forms.

Risk Assurance - Satisfactory

Control Assurance - SPLIT OPINION - Satisfactory/Limited

Key Findings

Overall it was found that the administration of the pension scheme is satisfactory with deductions being correctly made for both employees and employers in the majority of cases. Monthly and annual returns are submitted promptly.

There are 33 cases, in the 2015/16 return submitted in May 2016, where the number of records on the annual return for an individual at the year end did not match the number of records held in the pension scheme database. This could be due to errors by SDC or Gloucestershire Pension Fund (Pensions). There should be a separate line of information for each separate contract that an employee has. Pensions have not brought these anomalies to the attention of SDC and therefore they remain unresolved. As a result, individuals concerned have not received annual benefit statements.

Internal Audit found that certain areas specifically referred to in the LGA guidance were not operating as intended. In particular:

- Assumed pensionable pay for individuals on sickness and maternity leave was found not to be correct. This should be based on the average pensionable pay for the three months prior to the start of the leave. The same amount is then applied each month. In the cases reviewed the amount altered from month to month and it was not clear how it was calculated. Management have put in a request to the payroll software provider to investigate the matter.
- A scheme is in place to enable staff to purchase additional annual leave. The treatment of this scheme from a taxation/pensions perspective does not appear to be correct. Further advice from our tax advisers and liaison by the advisers with HMRC and the pension fund will lead to a resolution of this issue.
- When an individual leaves the organisation if they were a member of the LGPS prior to 1st April 2014 part of their pension will be based on their final salary. The final salary is calculated as it would have been under the 2008 regulations, when for example non-contractual payments such as overtime were not pensionable. Finance is required to provide the pensionable pay under the 2008 regulations for this purpose. Finance did not appreciate that

the pensionable pay required was not the current pensionable pay. That said they have broken down any payments over and above the basic salary and as a result Pensions have been able to raise questions and the correct pension calculated.

- Internal Audit found that in three out of six records tested Pensions had not been informed of contractual changes in advance of the individual leaving. As well as ensuring that in future Pensions are informed, management should consider undertaking some checking of service history records held by Pensions.

Conclusion

Under the LGPS scheme the employer has responsibilities for fully understanding and implementing the guidance. Therefore it is important that SDC fully understand the regulations and provide accurate information to the Gloucestershire Pensions Administration Section.

Although overall SDC administration of the scheme is satisfactory, where Internal Audit has identified errors, these demonstrate that either Finance does not understand the legislation and/or that they have not tested the payroll system to ensure that it is correctly configured. The errors identified only affect a limited number of employees.

Management Actions

Management have responded positively to the nine audit recommendations that have been made, of which five are classified as high priority and relate to the Key Findings four bullet points.

Summary of Satisfactory Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: Network Access Controls

Background

As part of the 2016/17 internal audit plan approved by the Stroud District Council (SDC) Audit and Standards Committee, a review of Network Access Controls was undertaken.

Scope

The scope of this audit encompassed both Access Controls and the ICT Control Environment.

Access Controls:

- Validity of Active Directory access rights;
- Authorisation and user set up;
- Leaver access rights are promptly disabled; and
- Review of privilege user access rights.

ICT Control Environment:

- Documented and comprehensive ICT security policy framework;
- Active Directory password and account lockout security settings; and
- External penetration testing.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

Audit testing confirmed that the SDC network domain was subject to annual external penetration testing in December 2016. All reported network vulnerabilities from the most recent penetration test have been addressed by the Council. Public Services Network (PSN) Code of Connection was attained by the Council on 27 February 2017.

Comprehensive information security policy guidelines have been published on the SDC intranet which includes guidance on the risk of cyber security threats such as ransomware. All Active Directory new user access requests are submitted via the SDC intranet and authorised by the respective line manager. Robust password policies and account lockout policies have been invoked on the Active Directory domain. The SDC Human Resources team extract monthly reports of all leavers from the Agresso payroll system. Details are then passed to ICT who promptly disabled leaver access rights.

Conclusions

The internal audit has resulted in satisfactory assurance levels for both risk identification maturity and control environment. Some development actions have been identified, to support improvement of internal controls. The main areas that require attention are:

- The need to assess the feasibility of disabling the default administrator account;
- A review to assess the validity and necessity of all service accounts that have been allocated superuser access rights; and
- The failure to enable audit policies on the Active Directory domain.

Management Actions

Management have responded positively to the Internal Audit recommendations made.

Service Area: Finance

Audit Activity: Council Tax Opening Debit – 2017/18

Background

Council Tax is a system of local taxation collected by local authorities and is a tax on domestic property collected by Stroud District Council. All homes are given a Council Tax valuation band (A to H) by the Valuation Office Agency (VOA), which is based on the value of the property on 1st April 1991. Newly constructed properties are also assigned a nominal 1991 value by the VOA.

The Council meeting on 23rd February 2017 recorded the Council Tax requirement for the Council's own purposes and other 'precepting' authorities to be:

Stroud District Council	£8,354,121
Gloucestershire County Council	£50,353,514
Police and Crime Commissioner	£9,158,577
Parish and Town Councils	£3,330,955

Scope

An audit of the Council Tax opening debit was undertaken to provide assurance that the Council Tax opening debit has been correctly calculated and reflected in the Council Tax system.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

Revenue and Benefits acknowledge the inherent associated risks and mitigating controls relating to the Council Tax opening debit and have captured these using the corporate system for risk recording (Excelsis).

Finance collated the Council Tax budget requirements and using the tax base information, determined the Band 'D' charges for all residents in the Parish/Town areas. This was reviewed and authorised by the Accountancy Manager as part of his delegated powers as acting Section 151 Officer.

A reconciliation of the total number of properties by band between the VOA (as at 12th February 2017) and the CIVICA Open Revenues System (CIVICA) was conducted and signed by the Revenue Officer.

Revenue and Benefits updated CIVICA with the Finance calculated band 'D' rates. These were verified and signed by a team member and the Revenue and Benefits Manager.

Before updating the CIVICA system with the new household Council Tax rates, Revenue and Benefits tested the process in the CIVICA Test System. Once it was confirmed that the updates on the CIVICA Test System were accurate, the CIVICA Live System was updated.

The Revenue and Benefits team received letter samples to check the formatting and accuracy of the billing. In addition, the Revenue and Benefits Manager checked the Council Tax total value with the total value of the letters and once this matched the letters were approved for posting.

Conclusions

The audit confirmed that there is a sound Council Tax Opening Debit control framework in place to:

- Receive the precepts from Gloucestershire County Council, Gloucestershire Police Authority and the Parish/Town Councils;

- Calculate the Band 'D' charges for all residents;
- Return the 'Council Tax Requirement Return' to the Department for Communities and Local Government;
- Reconcile properties held by the VOA with CIVICA;
- Check and update CIVICA with the new rates; and
- Check and print the Council Tax letters.

Internal Audit has made one medium priority recommendation with the aim to further strengthen the control environment in respect of documenting reconciliation activities.

Management Actions

Management have responded positively to the one medium recommendation made.

Service Area: Tenant and Corporate Services

Audit Activity: Brimscombe Port Redevelopment

Background

Brimscombe Port is a ten acre brownfield site in an industrial heritage conservation area and although currently infilled it is seen as a key part of the Cotswold Canals with significant historical and cultural value.

Brimscombe Port was transferred to the Stroud Valleys Canal Company (SVCC) from British Waterways in 2009, utilising grant funding of £7.6m from the South West Regional Development Agency. In 2015 the Housing and Communities Agency (HCA) approached Stroud District Council to discuss additional funding to bridge the funding gap and bring the site forward for redevelopment with the expectation of delivering the outcome of the South West Regional Development Agency's original investment in the site. The HCA agreed to invest a further £2m, by way of a recoverable loan, with Stroud District Council contributing £1m of capital monies to fund site preparation.

The HCA's investment is repayable and will be triggered upon the development and sale of the site. Both the HCA's and Stroud District Council's funding are conditional upon the site transferring from SVCC to the Council, as the accountable body and the organisation that will deliver the redevelopment of the site. However, once the works are completed, the remediated canal and port basin of Brimscombe Port will be transferred back to SVCC.

Scope

An audit was undertaken to provide assurance that the project management of the site preparation of the Brimscombe Port redevelopment meets the requirements of the Council's project management guidance and expectations.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

As part of the review Internal Audit met with two Councillors, the Project Board, and the Project Team; reviewed Committee and team documentation; and accessed the South West Procurement Portal. Findings included:

- The governance for the project is provided by a Project Sponsor, the Strategy and Resources Committee, the Investment and Development Panel, the Brimscombe Port Project Board and the Brimscombe Port Project Team.
- Project Board meetings are held every six weeks and evidence open and transparent discussions with good challenging of the Project Team, and particular focus on project milestones and financial governance.
- The Project Board Terms of Reference could be improved with the addition of a clearly defined decision making framework.
- In addition to the core membership of the Project Board, key professionals are invited to help inform decision making. To ensure compliance with Stroud District Council's Financial Regulations the Section 151 Officer can nominate a member of staff from Financial Services who will give advice as needed. The Project Manager is aware of this requirement and going forward will seek advice as appropriate.
- The New Homes and Regeneration Manager uses an expenditure spreadsheet to manage and monitor the project finances, which is presented to the Project Board as a standing agenda item for review.
- In May 2017, the Project Team structure was reviewed resulting in a new Project Manager and two new team members. Internal Audit has observed that the new team structure is having a positive impact upon the project, with significant improvements in project documentation; and the Project Manager and the team demonstrating a good understanding of the project, milestones, risks and project outputs.

- The project plan documents 98 tasks. Although up-to-date and regularly monitored its effectiveness could be improved through reviews of project tasks, baselines, milestones and resources. This will ensure increased transparency of the project position and that the Project Team and Project Board are supported in their decision making.
- As at the time of the audit, an Options Appraisal was being developed and Internal Audit was assured by the Project Manager that it would be complete and presented to the Project Board by October 2017.
- Asset Management has acknowledged an associated inherent risk relating to the Brimscombe Port redevelopment and has captured this using the corporate system for recording, Excelsis.
- In June 2017, the Project Team reviewed and updated all risks in the Brimscombe Port Risk Register spreadsheet, resulting in 30 identified risks, four of which have been classified with a very high inherent risk score. These are regularly reviewed and presented to the Project Board as a standing agenda item.
- The Project Team are aware of the Council's Procurement process and followed it when the Civil Engineer contract was awarded. This was verified by Internal Audit when reviewing the South West Procurement Portal.
- The Project Team have considered various legislative and corporate requirements such as the Public Services (Social Value) Act, the Localism Act (2011) and the Corporate Consultation Strategy.

Conclusions

As at the date of the review, Internal Audit are able to confirm that there is evidence of sound project management of the site preparation of the Brimscombe Port redevelopment which meets the requirements of the Council's project management guidance and expectations.

Internal Audit has worked closely with the service area providing professional advice and support as required to aid project management and has made three recommendations to further strengthen arrangements over project governance and project management (including risk management).

Management Actions

Management have responded positively to the three medium recommendations made.

Service Area: Tenant and Corporate Services

Audit Activity: Response Repairs Contract

Background

Tenant Services have had a number of contracts in place to deliver asset management services to its housing stock of 5,117 Council rented dwellings.

In October 2015 Stroud District Council went through a procurement process for works to be let as two contracts to two separate contractors; with an annual value anticipated to be £4 million per contract. The contracts are for four years with the option to extend for a further six years by two separate extensions of up to three years each. From 17:00 31st March 2016, two contracts were let for the north and south of the district; the contract for the north was awarded to NKS Contracts (Central) Ltd and south to Mears Ltd.

The contracts are aimed at dealing with responsive repairs i.e. day to day minor repairs that need to be dealt with quickly to keep properties in reasonable order and to a lettable standard, work to void properties to enable properties to be re-let, and planned elemental upgrade works such as replacement of kitchens, bathrooms and roofs.

Scope

The review sought to provide assurance that:

- There are effective arrangements in place to manage and monitor the contractors Key Performance Indicators (KPI's);
- There is a robust decision making process for work order variations that ensure the prevention of unnecessary works; and
- There is a sound control framework to monitor contractual compliance for safeguarding vulnerable residents.

During the audit, the scope of the review was increased to include the accuracy of raised work orders and the use of the 'Minimum Order' rate, due to the findings emanating from the monthly audit reports that are produced by an external consultant.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

Risk Management

Tenant Services have acknowledged the inherent associated risks and mitigating controls generically for Tenant Services contracts and have captured these under three references using the corporate system for risk recording (Excelsis). Internal Audit has recommended that an additional risk for managing the safeguarding of vulnerable tenants is included within Excelsis. In addition, focus now needs to be given to ensure that identified risks are periodically reviewed and updated in line with the target review dates set on Excelsis.

KPI's

The Maintenance and Void Works element of the contract has ten KPI's and the Planned Works element of the contract has six KPI's. A representative sample of KPI's was selected by Internal Audit and it was found that:

- Some KPI's are calculated by Tenant Services and others by the contractors;
- Tenant Services do not independently verify contractor calculated KPI's;
- Planned Work KPI's are only calculated for one of the two contractors; and
- KPI calculations are not consistently accurate.

Tenant Services management have agreed to review and refresh the suite of KPI's to ensure that KPI's are fit for purpose and enable more robust management of the contractors' performance. Going forward all KPI's will be generated by Tenant Services to ensure consistency and accuracy.

Work Orders and Variations

Internal Audit found that there is a clear process for raising and authorising work orders. When a work order is raised, Tenant Services assign codes for each element of the work e.g. codes for each part required and type of labour needed.

As part of contract management, Tenant Services have engaged an external consultant to review work orders and their codes for accuracy. Sampling of work orders, for the period July 2016 to March 2017 found that an average of 57% of sampled work orders potentially had incorrect codes; however Tenant Services' decision to use these codes may have clear justification and give due consideration to best value when remedying the work required.

Tenant Services having considered the consultants findings, have concluded that actions will be taken to rectify the identified issues. Further work is now needed by Tenant Services to quantify the financial value of the incorrect code usage and management are proactively seeking to ensure the current review process is enhanced and key learning points are shared with applicable staff.

The contract allows for a minimum value to be paid for work orders, this is variable depending upon the type of work required. The majority of these are applied to low value work orders to ensure a minimum payment of £25. From a sample of 25 work orders, between April 2016 and May 2017 where a minimum order code was applied, Internal Audit found that 52% had an incorrect minimum order value resulting in a £207.09 overpayment to the contractors. Subsequent to the audit, Tenant Services are proactively reviewing work orders to ensure that they are accurate and any identified payments are addressed. Internal Audit have recommended further enhancements to the control environment to ensure the authorisation of work orders are reviewed in line with Tenant Services risk appetite.

There are agreed processes in place that a contractor can follow to request a variation to a Maintenance and Void Works and Planned Works work order.

Tenant Services staff use their experience and work knowledge to check that all work is necessary, however there is no documentary evidence in place to support the checking and rejection of unnecessary work and therefore Internal Audit can give no assurance that in all cases these checks have taken place. However since the audit, a process to record unnecessary work requests is being implemented by Tenant Services.

Safeguarding

Safeguarding training was delivered by Stroud District Council's Sport and Health Development Manager to the contractors, who are responsible for embedding safeguarding training into their company's induction process.

There are systems and processes in place to record when a tenant identifies themselves as vulnerable, however this needs to be enhanced to ensure that staff are confident in identifying and supporting vulnerable tenants.

If a tenant informs Tenant Services that they are vulnerable it is recorded on the Northgate Housing Management System and this information is passed onto the contractor during daytime working hours only and not during 'out of hours'. Tenant Services intend to address this as part of the procurement for the new out of office provider process, in 2017.

The monitoring of contractor's staff DBS (Disclosure and Barring Service) checks needs to be strengthened to ensure that contractors promptly notify Tenant Services that checks have taken place.

Conclusions

Internal Audit is pleased to confirm that there are systems and processes in place for:

- The capturing of risks associated with Tenant Services contracts;
- Acquiring and recording KPI information;
- Contractors to request work order variations;
- The monitoring of work variations that exceed authorisation limits; and
- Contractors to be notified of tenant vulnerability during daytime working hours.

Internal Audit has made five recommendations aimed at strengthening:

- Risk management, and contract management and monitoring;
- KPI's;
- The use and accuracy of the application of the schedule of rates codes;
- The monitoring of work orders; and
- The safeguarding of vulnerable residents.

Management Actions

Management have responded positively to the four medium and one high priority recommendations made.

Summary of Substantial Assurance Opinions on Control

Service Area: Finance

Audit Activity: Benefits Upgrading 2017/18

Background

Stroud District Council's expenditure on Housing Benefits and Council Tax Support was approximately £30m for 2016/17. The rules surrounding entitlement to Housing Benefit and Council Tax Support are very complex and any administrative errors have the potential to lead to under / overpayments.

The Minister of State for Welfare Reform announced, in his written statement to Parliament on 28th November 2016, his proposals for the social security benefit rates that would apply from April 2017. Details of the rates were published in a Housing Benefit Circular available to all Councils to enable them to take the appropriate action.

The Council is responsible for the management and application of the Council Tax Support Scheme that operates in the district. Members at 13th October 2016 Strategy and Resources Committee approved the Council's 2017/18 Local Council Tax Support Scheme.

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

Scope

This audit was undertaken to provide assurance that Housing Benefit and Council Tax Support rates for 2017/18 had been correctly updated to the Benefits system and that internal procedures had been followed for verifying the rates before they were applied.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

Nationally set increases for 2017/18 Housing Benefits and Council Tax Reduction Scheme parameters were updated to the Benefits system by one officer and independently checked for correct update by a different officer. In addition a random sample of 20 rates and thresholds selected by Internal Audit were agreed to source documentation and the Benefits system.

The Revenue and Benefits Manager provided verbal rather than formal approval to ICT to apply the 2017/18 rates and threshold to the Benefits system.

Sample checks of Benefit claims were performed by Benefit Officers following successful update of the parameters to the Benefits system to confirm the system was correctly applying the 2017/18 rates and thresholds, but documentary evidence of the checks was not retained.

Conclusions

The results of the Internal Audit review confirmed through testing and discussions with appropriate officers that suitable controls were applied to ensure that Housing Benefit and Council Tax Support rates for 2017/18 had been correctly updated to the Benefits system.

Management Actions

Internal Audit has raised three medium priority recommendations to make the process for future years more efficient and for documentary evidence to be retained to support completion of all the controls and key activities involved in the Benefits parameter up-rating process.

Summary of Special Investigations/Counter Fraud Activities

Current Status

During 2017/18 to date (1st April 2017 to 31st July 2017) there have been four potential irregularities referred to Internal Audit relating to tenancy issues.

One of these has been passed to the Department for Work and Pensions (DWP) as the queries raised by a member of the public did not relate to matters dealt with by the Council.

Another case has been closed following a joint investigation with Internal Audit and Tenant Services, concerning an application for social housing. There was insufficient evidence to take the matter further.

Internal Audit is currently working with relevant officers within the Council on the remaining two cases, which involve allegations of subletting.

In addition, Internal Audit continued to provide advice on a subletting / right to buy issue from 2016/17, although did not actively investigate this case. Service decision was made for the case to close within July 2017, due to insufficient evidence to take the matter further.

Any fraud alerts received by Internal Audit from the National Anti-Fraud Network (NAFN) are passed onto the relevant service area within the Council, to alert staff to the potential fraud.

Fraud Risk Assessment/Risk Register

A fraud risk register is currently being developed. 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 been provided for investigation. 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.

Outcomes from the HRA Balances final follow up review

Service Area: Finance

Audit Activity: Housing Revenue Account (HRA) Final Follow Up

Background

An investigation was undertaken by Internal Audit within 2016/17, following the discovery by Council officers that balances had been overstated within the HRA 2014/15 Outturn report to the Housing Committee. The overstated balance of £909k continued to be included in financial reports throughout 2015/16.

Following the investigation, a report was produced which included eight recommendations; seven high priority and one medium. The investigation outcomes were reported to Audit and Standards Committee in July 2016.

Between September 2016 and March 2017 three follow up reviews were completed and reported to Audit and Standards Committee, to provide an update as to the progress made with the original investigation report recommendations. The March 2017 follow up report (reported to Audit and Standards Committee in April 2017) confirmed that all recommendations had been addressed by management and appropriate actions taken.

A final follow up review is included within the Stroud District Council Internal Audit Plan 2017/18 to consider the Housing Committee Outturn report and Statement of Accounts for the financial year 2016/17, and provide assurance that the original investigation recommendations continue to be followed as agreed.

Scope

The HRA Final Follow Up review considered the original investigation recommendations, including the checking of balances brought and carried forward against the Council's financial accounting system (Agresso) for both the HRA and General Fund, in respect of the financial year 2016/17.

Key Findings

The findings from this follow up review confirm that the Council has actioned all of the eight original investigation recommendations.

Both the HRA Outturn report and the Statement of Accounts were checked for consistency in reporting and against balances held in Agresso. No issues arose once checked against the revised Statement of Accounts.

During another review undertaken within Internal Audit it was noted that, there were inconsistencies within two reports to Members in respect of the Environment Committee meeting held on 6th April 2017 and the Community Services and Licensing Committee meeting on 30th March 2017. Although the headline amounts were correctly recorded and consistent within the reports the narrative below the headings were contradictory in as much as:

- The Community Services and Licensing Committee was informed in the report that the Street Cleansing Service (Environment) is showing a projected underspend whilst it is reported to the Environment Committee that there is a projected overspend in this area.
- Also the Environment Committee is informed that the Grounds Maintenance Service (Community Services and Licensing Committee) is showing a projected underspend when the Community Services and Licensing Committee is told that the Grounds Maintenance Service is projecting an overspend.

Both Committee reports indicate that the narrative was provided by the relevant Service Manager (i.e. the budget holder).

Conclusions

It is pleasing to note that all original investigation recommendations have now been implemented, including the addition to the checklist required in respect of the preparation and publishing of the Statement of Accounts.

Although Key Findings confirm there were contradictory statements within two Committee reports, it is noted that the correct financial information in respect of balances was recorded within the headline of each particular paragraph. Other responsible officers, as well as Finance, need to ensure that their narrative/statements produced for reports to Members are accurate.



Progress Report including Assurance Opinions

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Standards Committee	Comments
Council Wide	Delivery of Savings Target	High	Audit in Progress				Brought Forward from 2016/17 plan
Council Wide	Capital Programme	High	Audit in Progress				
Council Wide	Contract Management	High	Planned				
Council Wide	Gifts and Hospitality	High	Planned				
Council Wide	Information Governance	High	Audit in Progress				
Council Wide	Members Allowances and Expenses	Medium	Audit in Progress				
Council Wide	Post Project Reviews	High	Planned				
Council Wide	Procurement	High	Planned				
Council Wide	Banks Automated Clearing System (BACS)	High	Final Report Issued	Satisfactory	Satisfactory	04/07/2017	
Council Wide	Legacy Software	High	Planned				
Council Wide	Data Protection	High	Planned				
Council Wide	IT Disaster Recovery follow up	High	Planned				
Council Wide	Critical ICT systems back up	High	Audit in Progress				New Activity
Council Wide	Network Access Controls	High	Final Report Issued	Satisfactory	Satisfactory	12/09/2017	Brought Forward from 2016/17 plan
Council Wide	ICT Business Process follow up	High	Planned				
Development Services	Community Infrastructure Levy	High	Audit in Progress				
Development Services	Licensing (Business Licences)	Medium	Planned				
Customer Services	Homelessness	Medium	Planned				
Customer Services	Housing - Discretionary Payments	Medium	Planned				
Customer Services	Multi Services Contract	High	Draft Report Issued				
Customer Services	The Pulse Dursley	Medium	Audit in Progress				
Finance	Housing Revenue Account (HRA) Balances final follow up	High	Final Report Issued	Not Applicable	Not Applicable	12/09/2017	
Finance	Benefits Uprating 2017/18	High	Final Report Issued	Substantial	Substantial	12/09/2017	
Finance	Budget Setting	High	Planned				
Finance	Cash and Bank	High	Audit in Progress				
Finance	Council Tax Opening Debit - 2017/18	High	Final Report Issued	Satisfactory	Satisfactory	12/09/2017	
Finance	General Ledger	High	Audit in Progress				
Finance	National Non Domestic Rates (NNDR)	High	Audit in Progress				
Finance	Local Government Pension Scheme Regulations (LGPS) Regulations 2014	High	Final Report Issued	Satisfactory	Limited	12/09/2017	Brought Forward from 2016/17 plan Split opinion on control Satisfactory/Limited
Tenant & Corporate Services	Response Repairs Contract	High	Final Report Issued	Satisfactory	Satisfactory	12/09/2017	Brought Forward from 2016/17 plan
Tenant & Corporate Services	Brimscombe Port Redevelopment	High	Final Report Issued	Satisfactory	Satisfactory	12/09/2017	