

17 November 2017

## AUDIT AND STANDARDS COMMITTEE

A meeting of the Audit and Standards Committee will be held on **TUESDAY 28 NOVEMBER 2017** in the Council Chamber, Ebley Mill, Ebley Wharf, Stroud at **7.00 pm.**



David Hagg  
Chief Executive

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

### AGENDA

1. **APOLOGIES**  
To receive apologies for absence
2. **DECLARATIONS OF INTEREST**  
To receive declarations of interest
3. **MINUTES**  
To approve the minutes of the meeting held on 12 September 2017
4. **PUBLIC QUESTION TIME**  
The Chair of Committee will answer questions from members of the public submitted in accordance with the Council's procedures.  
DEADLINE FOR RECEIPT OF QUESTIONS  
**Noon on THURSDAY 23 NOVEMBER 2017**  
Questions must be submitted in writing to the Chief Executive, Democratic Services, Ebley Mill, Ebley Wharf, Stroud and sent by post or by Email: [democratic.services@stroud.gov.uk](mailto:democratic.services@stroud.gov.uk).
5. **WORK PROGRAMME**  
To consider the work programme

6. **REVIEW OF RISK MANAGEMENT**  
To receive a report on promoting effective risk management across the Council
7. **ANNUAL AUDIT LETTER**  
To receive the Annual Audit Letter 2016/17 from KPMG
8. **INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2017/18**  
To inform Members of the internal audit activity progress in relation to the approved Internal Audit Plan 2017/18
9. **LIMITED ASSURANCE – LOCAL GOVERNMENT PENSION SCHEME  
INTERNAL AUDIT – MANAGEMENT UPDATE**  
To receive a report on the progress made against agreed management actions
10. **REVIEW OF AUDIT RISK ASSURANCE (ARA) SHARED SERVICE**  
To receive a report of the progress of the shared service
11. **HALF YEAR TREASURY MANAGEMENT ACTIVITY REPORT 2017/18**  
To receive an update on activity as at the first half of the financial year
12. **MEMBERS' QUESTIONS**  
See Agenda Item 4 for deadline for submission

#### **Members of Audit and Standards Committee**

Councillor Nigel Studdert-Kennedy (Chair)  
Councillor Rachel Curley (Vice Chair)  
Councillor Martin Baxendale  
Councillor Stephen Davies  
Councillor Colin Fryer

Councillor Keith Pearson  
Councillor Mark Reeves  
Councillor Tom Williams  
Councillor Penny Wride

## AUDIT AND STANDARDS COMMITTEE

12 September 2017

7.00 pm – 8.30 pm

Council Chamber, Ebley Mill, Stroud

### Minutes

#### Membership

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

A = Absent P = Present

#### Officers in attendance

Accountancy Manager and Acting Section 151 Officer)	Principal Accountant
Group Manager (Audit, Risk & Assurance)	Democratic Services Officer

#### Also present

Darren Gilbert from KPMG, the Council's External Auditors.

#### **AC.012**

#### **APOLOGIES**

Apologies for absence had been received from Councillors Stephen Davies and Keith Pearson.

#### **AC.013**

#### **DECLARATIONS OF INTEREST**

There were none.

#### **AC.014**

#### **MINUTES**

#### **RESOLVED**

**That the Minutes of the meeting held on 4 July 2017, are approved as a correct record.**

#### **AC.015**

#### **PUBLIC QUESTION TIME**

There were none.

**AC.016**                      **WORK PROGRAMME**

It was agreed to add an item onto the agenda of a future meeting if there were any major changes to the HRA.

**RESOLVED**                      **To note the current work programme.**

**AC.017**                      **EXTERNAL AUDIT REPORT 2016-17**

Darren Gilbert from KPMG gave a brief summary of the work that had been undertaken. A copy of the signed report would be published onto the Council's website, together with the revised Appendix 2 (copies had been circulated).

Members asked questions and received replies on the following topics:-

- the pension fund
- the value of the housing stock
- ensuring the Council received value for money when procuring goods and services in accordance with the Council's policy
- the future upgrade of the Agresso system

**RESOLVED**                      **To accept the above report.**

**AC.018**                      **STATEMENT OF ACCOUNTS**

The Principal Accountant outlined the purpose of the Statement of Accounts and the updates following the unaudited accounts that were presented and discussed at the last meeting. Committee agreed that the Chair and Acting Section 151 Officer could sign the annual audit letter.

**RESOLVED**                      **To approve the audited Statement of Accounts for the year ending 31 March 2017.**

**AC.019**                      **INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2017-18**

The Group Manager (Audit Risk and Assurance) outlined the first progress report confirming the current position against the Internal Audit Plan 2017-18 and highlighting key audit outcomes to date.

**RESOLVED**                      **a) Accept the progress against the Internal Audit Plan 2017/18;**

**b) Accept the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date; and**

**c) Request senior management attendance at the next meeting of the Committee to provide an update on the actions taken in relation to the recommendations made in the Local Government Pension Scheme (LGPS) 2014 internal audit report, which contained a split assurance opinion of Limited/Satisfactory for control environment.**

**AC.020****1<sup>ST</sup> QUARTER TREASURY MANAGEMENT ACTIVITY  
REPORT 2017-18**

The Principal Accountant provided an update on the treasury management activity up to 30 June 2017. Interest rates were at an all time low and to achieve higher returns eg in the property market would mean the Council take higher risks.

**RESOLVED**                    **To approve the Treasury Management Activity Report  
2017-18.**

**AC.021****MEMBER QUESTIONS**

There were none.

The meeting closed at 8.30 pm.

Chair

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**AGENDA  
ITEM NO**

**28 NOVEMBER 2017**

**WORK PROGRAMME**

**5**

<b>Proposed Meeting Date</b>	<b>Report Description</b>	<b>Responsible Officer / Member</b>
06.02.2018	Annual Summary of Certification of Grant Claims and Returns 2016/17	KPMG
	Annual Governance Statement 2016/17 Improvement Plan	Chief Internal Auditor
	Treasury Management Activity 2017/18	Principal Accountant
	Treasury Management, Annual Investment, and MRP Strategy 2018/19	Principal Accountant
	Internal Audit Activity Progress Report 2017/18	Chief Internal Auditor
10.04.2018	External Audit Plan 2017/18	KPMG
	Internal Audit Activity Progress Report 2017/18	Chief Internal Auditor
	Internal Audit Plan 2018/19	Chief Internal Auditor
	Annual Report of the Audit and Standards Committee (prepared by the Chairman) for agreement prior to presentation to Council	Chair

**Information sheets relevant to the Committee**

<b>Date sent &amp; (Ref No)</b>	<b>Topic</b>
1 June 2017 SR-2017/18-001	ICT Infrastructure Investment Plan 2017/18 to 2019/20
1 September 2017 AS-2017/18-001	Standards Update
5 September 2017 AS-2017/18-002	Review of Risk Management Framework
19 October 2017 AS-2017/18-003	Local Spend and Suppliers

## AUDIT AND STANDARDS COMMITTEE

28 NOVEMBER 2017

6

<b>Report Title</b>	<b>REVIEW OF RISK MANAGEMENT</b>
<b>Purpose of Report</b>	To promote effective risk management across the Council
<b>Decision(s)</b>	The Committee <b>RESOLVES</b> that as required by the Adopted Risk Management Policy (adopted April 2017): <ol style="list-style-type: none"> <li>1. Member Performance Monitoring Champions for each committee be requested to specifically consider as part of their regular meetings with Corporate Team officers, progress being made to effectively manage the strategic risks for which the officers are responsible.</li> <li>2. The said members and / or officers be requested to report back to the Audit and Standards Committee to help in its considerations as to whether it can provide independent assurance of the adequacy and effectiveness of the risk management arrangements.</li> </ol>
<b>Consultation and Feedback</b>	Corporate Team
<b>Financial Implications</b>	There are no financial implications arising directly from this report. An effective risk management policy will ensure that risks are regularly reviewed, with Corporate Team members leading and supporting on risk management to ensure that all staff and members are fully aware of their responsibilities with regard to managing the risks faced by the Council. Failure to properly identify, record and manage risk will prevent the Council from delivering efficient and effective services as set out in the Corporate Delivery Plan. David Stanley – Accountancy Manager (Section 151 Officer) Email: <a href="mailto:david.stanley@stroud.gov.uk">david.stanley@stroud.gov.uk</a>
<b>Legal Implications</b>	This report provides an update on implementation in practice of the Council's Risk Management policy and practice; and in particular the current position regarding strategic risks. Karen Trickey, Head of Legal Services Email: <a href="mailto:Karen.trickey@stroud.gov.uk">Karen.trickey@stroud.gov.uk</a>
<b>Report Author</b>	Sarah Turner, Principal Procurement Officer Tel: 01453 754346 Email: <a href="mailto:sarah.turner@stroud.gov.uk">sarah.turner@stroud.gov.uk</a>
<b>Options</b>	None.
<b>Performance Management Follow Up</b>	The Audit & Standards Committee will receive regular briefing papers or reports on the risk management process and any policy updates.
<b>Appendices / Background Papers</b>	None

## 1. Background

- 1.1 This report follows on from the update on progress on implementation of the revised risk management framework earlier in the year, as set out in [Audit & Standards Information Sheet No: 2](#), dated 5 September 2017.
- 1.2 In accordance with the Council's Risk Management Policy (April 2017) [Risk Management Policy](#) all committees as well as the Audit & Standards Committee and Corporate Team have a role in securing the effective management of strategic risks across the Council (see Section 5 of the policy).

## 2. Current position

- 2.1 Performance Monitoring Champions regularly meet with the Directors and some senior officers to review performance of each committee's relevant service areas. They then report to their relevant committees to update them on progress and identify any issues. The report template includes reference to key risks based upon the Council's previous approach to risk management. Consequently this has understandably meant that reports back to committee have largely been focused on operational, rather than strategic risks.
- 2.2 In line with the current Risk Management Policy, it is recommended that the performance monitoring meetings should also include discussion of strategic risks if the responsible officer is present at those meetings. Clearly, this will include risks that are of a cross cutting nature rather than service specific, but it will raise the awareness of strategic risk management within committees. Further, such risk management updates should also be considered by the Audit & Standards Committee as part its risk assurance responsibilities.
- 2.3 It is also recommended that the Audit and Standards Committee members should regularly review the strategic risk register on Excelsis. (The risk management toolkit provides simple guidance on the content of the Risk Register – see Risk Management Toolkit )
- 2.4 If there is any particular risk that should be examined in more detail, the relevant matter should be raised with the Audit and Standards Committee which will then be able to request a more extensive review on the effectiveness of the risk management and / or if considered appropriate, formally include such as a regular item on its work programme. The Committee could for example request the Performance Monitoring Champions or the responsible officers to attend committee; or set up a Task and Finish Group to consider specific matters.



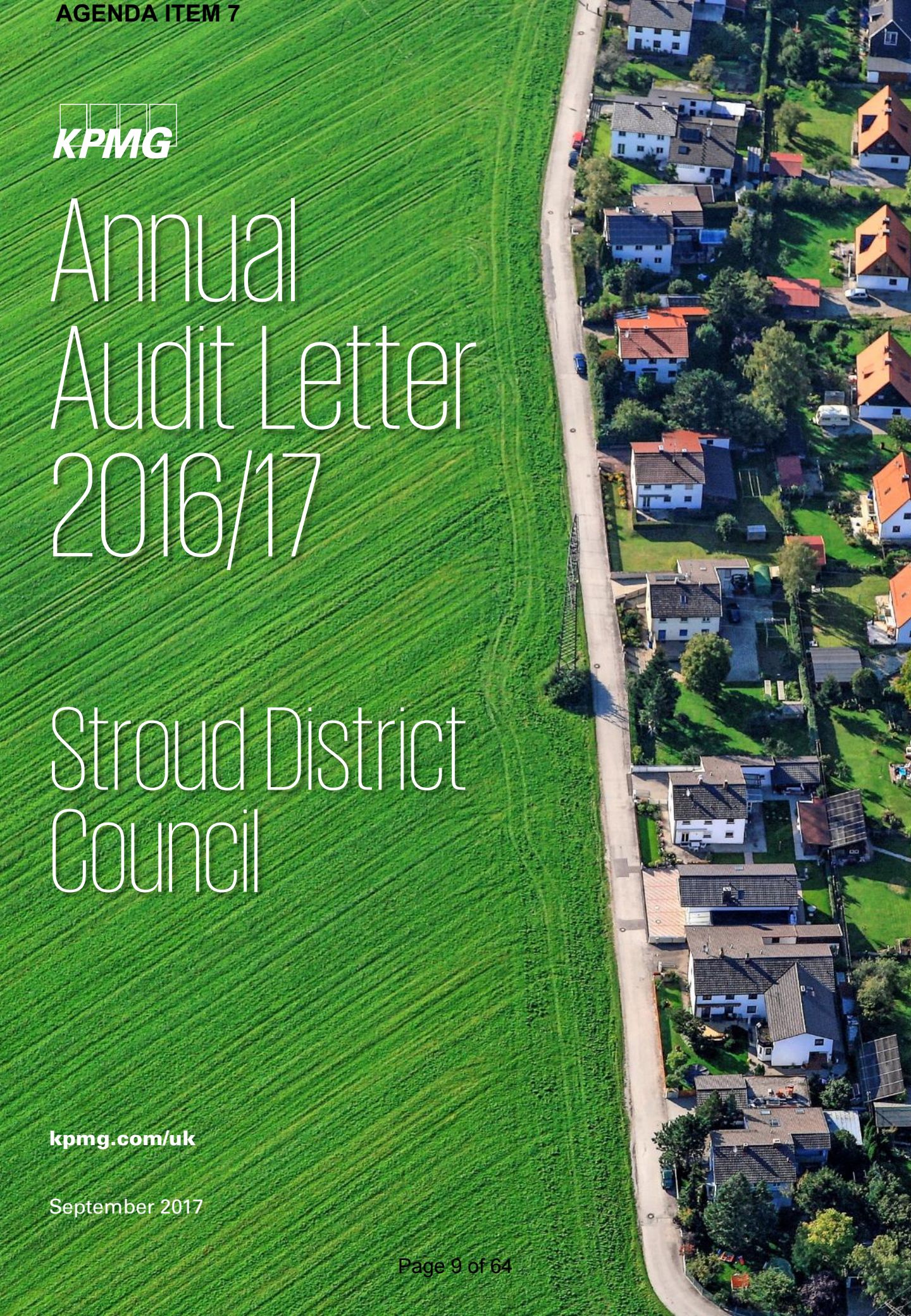


# Annual Audit Letter 2016/17

## Stroud District Council

[kpmg.com/uk](http://kpmg.com/uk)

September 2017



# Contents

## Report sections

Summary 3

## Appendices

- 1. Summary of reports issues 5
- 2. Audit fees 7

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers ([andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

The contacts at KPMG in connection with this report are:

### **Darren Gilbert**

*Director*

Audit

Tel: +44 29 2046 8205

[darren.gilbert@kpmg.co.uk](mailto:darren.gilbert@kpmg.co.uk)

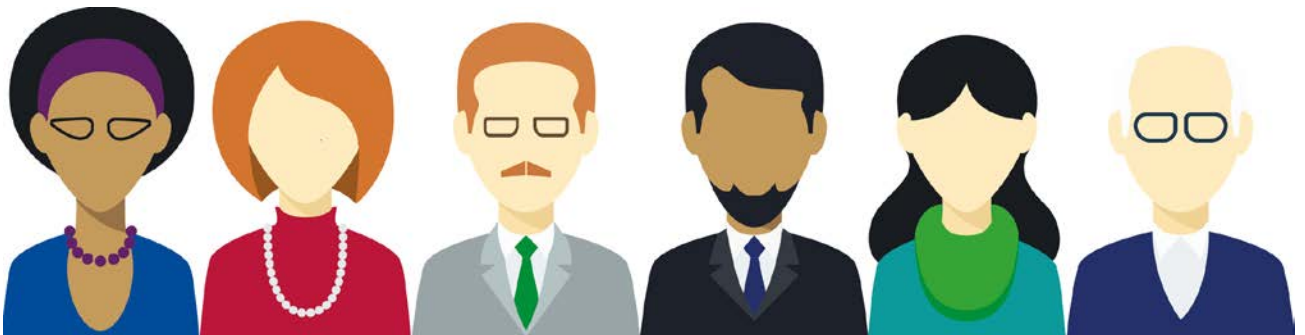
### **Matthew Arthur**

*Senior Manager*

Audit

Tel: +44 29 2046 8006

[matthew.arthur@kpmg.co.uk](mailto:matthew.arthur@kpmg.co.uk)



# Summary

This Annual Audit Letter summarises the outcome from our audit work at Stroud District Council in relation to the 2016/17 audit year. Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.



## VFM conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 12 September 2017. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

## VFM risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified the following significant matters:

- **Achievement of the savings plan** - Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. The Medium Term Financial Plan (MTFP) details the increasingly difficult financial challenges faced each year, with the current MTFP forecasting that the general fund balances are likely to be fully diminished by 2021. However, this is intended as a worst case scenario budget and the Council is actively working on further savings plans to reduce the required reserves usage. Based on our review of the plans in place and understanding of the actions being taken, there are no factors impacting adversely on our VFM conclusion.
- **Procurement** - In 2016/17, we reviewed the work of internal audit over procurement and considered if any significant new contracts required additional work. There were no significant issues resulting from internal audit work during the year, and no major contracts let during the year. In addition, we have reviewed the procurement action plan and confirmed that it is on target. On this basis, there are no factors impacting adversely on our VFM conclusion.

## Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 12 September 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

### **Financial statements audit**

Our audit approach included two audit significant risk area related to the pensions triennial valuation and the implementation of the new financial system, and two areas of focus (the new Expenditure and Funding Analysis (EFA) disclosure statement and fair value of property). No significant issues were identified in this testing, other than one adjusted audit difference as below.

We identified one audit adjustment relating to the valuation of housing stock, which was overstated by £7.7 million as a result of a change in the index being applied to revalue this stock subsequent to the draft accounts being prepared. This was adjusted by management in the final financial statements.

The Authority finalised the accounts in a shorter timescale than in 2016, which puts the Authority in a good position to meet the earlier deadline next year. Nonetheless, there is scope to improve the process further by putting in place additional reviews of working papers and sharing audit responsibility to make sure the 2017/18 audit deadline of 31 July is achieved. The Authority has recognised the additional pressures which the earlier closedown will bring, and we are making arrangements to debrief the 2016/17 and commence planning of the 2017/18 closedown process together.

### **Other information accompanying the financial statements**

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

### **Whole of Government Accounts**

The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.

### **High priority recommendations**

No high priority recommendations have been raised as a result of our 2016/17 audit work. One medium priority recommendation from the previous year has not yet been implemented relating to the use of purchase orders, which is awaiting the upgrade of the financial system currently planned for mid-2018.

We will formally follow up this recommendation as part of our 2017/18 work.

### **Certificate**

We issued our certificate on 12 September 2017. The certificate confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

### **Audit fee**

Our fee for 2016/17 was £51,975, excluding VAT, which is the same as prior year. Further detail is contained in Appendix 2.

# Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Committee pages on the Authority's website at [www.stroud.gov.uk](http://www.stroud.gov.uk).

A horizontal timeline on a blue background showing the sequence of reports issued in 2017. The timeline is a white line with four circular markers. Above the line, the year '2017' is written on the left, and the months 'Jan', 'Feb', 'Mar', and 'Apr' are positioned above their respective markers. Below the line, a vertical line descends from the 'Feb' marker to a text box containing the 'External Audit Plan' report summary.

Month	Report Title	Summary
Jan	Grant and Return	This letter summarised the outcome of our certification work on the Authority's 2015/16 grants and returns.
Feb	External Audit Plan	The External Audit Plan set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.
Mar	Interim Audit Letter	The Interim Audit Letter summarised the results from the preliminary stages of our audit, including testing of financial and other controls.
Apr	Audit Fee Letter	The Audit Fee Letter set out the proposed audit work and draft fee for the 2016/17 financial year.

**A d**

This Annual Audit Letter provides a summary of the results of our audit for 2016/17.

May

Jun

Jul

Aug

Sep

Oct

Nov

**T d G**

The Report to Those Charged with Governance summarised the results of our audit work for 2016/17 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

**A d**

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

# Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2016/17 planned audit fee.

### External audit

Our final fee for the 2016/17 audit was £51,975, which is in line with the planned fee.

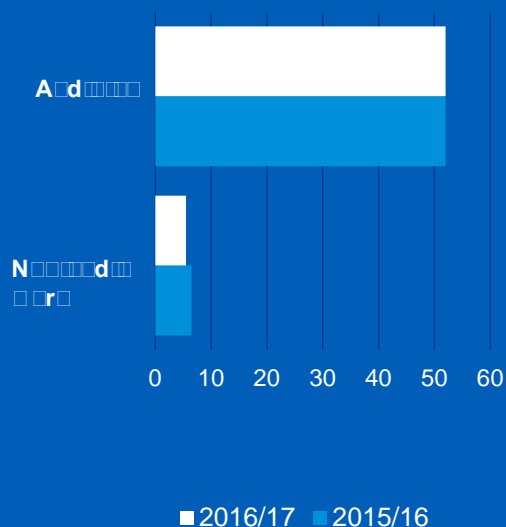
### Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2018.

### Other services

We charged £5,500 for two additional audit-related services for Agreed upon procedures over HCA Social Housing Assistance and Certification of Pooling of Housing Capital Receipts Return, which are outside of Public Sector Audit Appointment's certification regime.

External audit fees 2016/17 (£'000)





© 2017 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Designed by CREATE | CRT086038



**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**AGENDA  
ITEM NO**

**28 NOVEMBER 2017**

**8**

<b>Report Title</b>	<b>INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2017/18</b>
<b>Purpose of Report</b>	To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2017/18.
<b>Decisions(s)</b>	The Committee <b>RESOLVES</b> to: 1. Accept the progress against the Internal Audit Plan 2017/18; and 2. Accept the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date.
<b>Consultation and Feedback</b>	Internal Audit findings are discussed with Service Heads/Managers. Management responses to recommendations are included in each assignment report.
<b>Financial Implications and Risk Assessment</b>	There are no financial implications arising from the report. David Stanley Accountancy Manager (Section 151 Officer) Email: <a href="mailto:david.stanley@stroud.gov.uk">david.stanley@stroud.gov.uk</a> Risk Assessment: Failure to deliver an effective Internal Audit service will prevent an independent, objective assurance opinion from being provided to those charged with governance that the key risks associated with the achievement of the Council's objectives are being adequately controlled.
<b>Legal Implications</b>	This report provides assurance from the Internal Auditor on the specified matters. It will assist the Committee when combined with other reports it receives over the course of the year, to assess whether it is able to provide annual assurance as to the effectiveness of risk management across the Council. (Ref:KT/LEG123/c.161117) Karen Trickey, Head of Legal Services Email: <a href="mailto:karen.trickey@stroud.gov.uk">karen.trickey@stroud.gov.uk</a>
<b>Report Author</b>	Theresa Mortimer Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754319 Email: <a href="mailto:theresa.mortimer@stroud.gov.uk">theresa.mortimer@stroud.gov.uk</a>

<b>Options</b>	There are no alternative options that are relevant to this matter.
<b>Performance Management Follow Up</b>	In accordance with the Public Sector Internal Audit Standards 2017 (PSIAS) and reflected within the Audit and Standards Committee work programme, Internal Audit reports on progress against the approved Internal Audit Plan 2017/18. These are scheduled to be presented to the Audit and Standards Committee at the February 2018 and April 2018 meetings.
<b>Background Papers/ Appendices</b>	<b>Appendix A</b> – Internal Audit Activity Progress Report 2017/18. <b>Background papers:</b> <ul style="list-style-type: none"> <li>➤ Internal Audit Plan 2017/18;</li> <li>➤ PSIAS; and the</li> <li>➤ CIPFA Local Government Application Note for the UK PSIAS.</li> </ul>

## 1.0 Background

- 1.1 Members approved the Internal Audit Plan 2017/18 at 11<sup>th</sup> April 2017 Audit and Standards Committee meeting. In accordance with the Public Sector Internal Audit Standards 2017 (PSIAS), this report (through **Appendix A**) details the outcomes of Internal Audit work carried out in accordance with the approved Plan.
- 1.2 The Internal Audit Activity Progress Report 2017/18 at **Appendix A** summarises:
- The progress against the 2017/18 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
  - The outcomes of the Internal Audit activity during the period September 2017 to October 2017; and
  - Special investigations/counter fraud activity.
- 1.3 The report is the second progress report in relation to the Internal Audit Plan 2017/18.
- 1.4 In relation to the areas covered in the progress report attached at Appendix A members of the Audit and Standards Committee may wish to refer to the Council's strategic risk register on Excelsis for further information relating to the management of risks. Specifically CCR1 in relation to budget savings, CCR6 Business Rates Pooling and CCR9 Multi Services Contract.

# Internal Audit Activity Progress Report

2017-2018



## **(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 September 2017 to October 2017; and
- Special investigations/counter fraud activity.

#### (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.

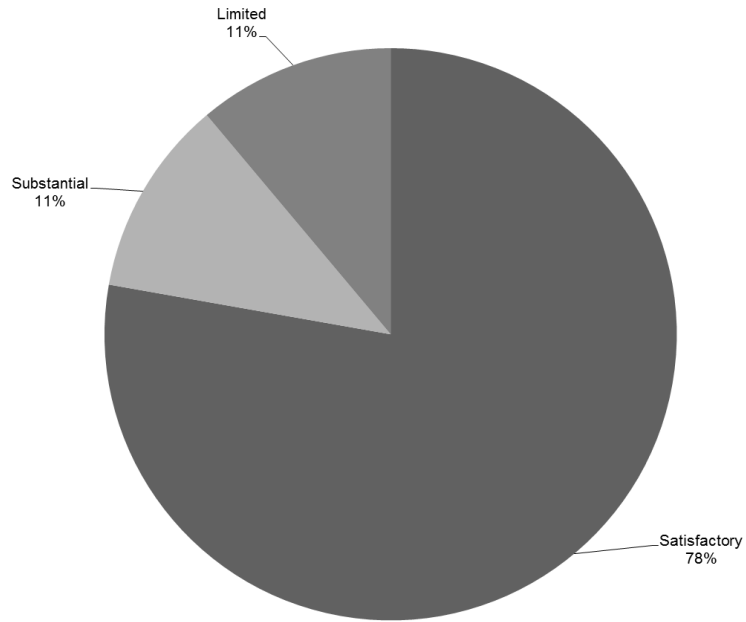
The schedule provided at **Attachment 2** contains a list of all of the 2017/18 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage 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.

##### (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 October 2017.

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

### Control Assurance



### Risk Assurance



#### **(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 September 2017 to October 2017, it is pleasing to report that no limited assurance opinions on control have been provided on completed audits from the 2016/17 Internal Audit Plan.

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

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

#### **(4e) Internal Audit Recommendations**

During the period June 2017 to September 2017 Internal Audit made, in total, **11** recommendations to improve the control environment, **5** of these being high priority recommendations (**100%** of these being accepted by management) and **6** 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 September 2017 to October 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 September 2017 to October 2017

## Summary of Satisfactory Assurance Opinions on Control

**Service Area:** Finance

**Audit Activity:** National Non Domestic Rates (NNDR)

### Background

National Non Domestic Rates (NNDR) is a tax on properties which are not used for domestic purposes such as shops, factories, offices, etc. and is a contribution towards local services.

On 9th March 2017 the Department for Communities and Local Government (DCLG) issued a letter to all local authorities. This advised that the House of Commons on 22nd February 2017 approved the Local Government Finance Report (England) 2017/2018 and detailed the English 2017/2018 non-domestic rating multipliers.

Since 2013/14 local authorities are allowed to retain a proportion of the revenue that is generated in their area. For 2017/2018 the NNDR for the Council was calculated to be £35,845,066.88 (gross).

It is important to have a strong control framework in place for the calculation of NNDR to ensure that business are charged the correct rates for the financial year and that any issues are resolved in a timely manner in order to reduce any potential financial exposure.

### Scope

An audit of the NNDR opening debit was undertaken to provide assurance that the NNDR opening debit had been correctly calculated, and that appropriate notifications have been received advising of the NNDR multipliers and transitional relief rates; and these are reflected in the NNDR system (CIVICA Open Revenues system).

### Risk Assurance - Satisfactory

### Control Assurance - Satisfactory

### Key findings

The Revenue and Benefits service area has acknowledged the associated inherent risks relating to the NNDR opening debit and has captured these using the corporate system for recording (Excelsis).



Revenue and Benefits performed a reconciliation of the total number of hereditaments and their rateable value between the Valuation Office Agency (VOA) and CIVICA Open Revenues Live (CIVICA); no discrepancies were identified.

The DCLG informed the Council of the 2017/18 rating multipliers and Civica UK Ltd provided the New Year non domestic rates precepts. A member of the Revenue and Benefits service area updated the Civica parameters with the multipliers and precepts and this was verified by a second member of staff.

A reconciliation was performed by Revenue and Benefits between the expected NNDR Net Charge and the value of the NNDR demand notices. The reconciliation identified a difference of £16,182.39, which is being investigated by the Revenue and Benefits service area and Civica UK Ltd, which is expected to be resolved by October 2017.

The NNDR demand notices were dispatched on 14th March 2017 which complies with the requirements of the Non-Domestic Rating (Collection and Enforcement) (Local Lists) Regulations 1989 that stipulates notices must be issued at least 14 days before the first payment is due. However the notices were not sampled with the related records on Civica prior to issue which would have assured the Revenue and Benefits Manager that the notices were accurate.

## **Conclusion**

The audit confirmed that there is a sound control framework in place to:

- Receive the rating multipliers and precepts from DCLG and Civica UK Ltd, and update Civica;
- Reconcile the total number of hereditaments and their rateable value as held by the Valuation Office Agency with CIVICA;
- Reconcile the total NNDR Net Charge with the total value of demand notices; and
- Print the demand notices.

Internal Audit has made one medium priority recommendation with the aim to further strengthen the control environment.

## **Management Actions**

Management have responded positively to the one medium recommendation made.

**Service Area: Council Wide**

**Audit Activity: Delivery of Savings Target 2016/17**

## **Background**

Stroud District Council's approach in setting out the budget position in its Medium Term Financial Plan (MTFP) is that savings are only included when they are known/certain rather than including indicative savings levels to be achieved in order to balance the budget.

The Council also recognises that an important part of its Balanced Budget strategy will be to continue to deliver efficiencies and savings over the coming years to slowly remove the dependency of the Council on the utilisation of its reserves before they are depleted.

The MTFP for 2016/17 identified a number of budget and efficiency savings amounting to £347,000 and these were agreed at the Council Budget Meeting on 28th January 2016 and resolved at the Full Council Meeting on 25th February 2016.

## **Scope**

The objective of this review was to provide assurance that:

- Budget holders identification of savings and their monitoring of the achievement of savings targets for 2016/17 was robust, clear and accurate;
- Members were consulted and regularly updated on the savings targets outlined in the 2016/17 MTFP; and
- Planned budget savings had been identified for 2017/18.

## **Risk Assurance - Satisfactory**

## **Control Assurance – Satisfactory**

## **Key findings**

Financial Services has acknowledged one inherent associated risk for budget and efficiency savings and captured this on the Corporate Risk Management system, Excelsis.

Stroud District Council's Financial Regulations establishes responsibilities for budgetary control and the identification of efficiency savings.

Directors work with their budget holders to identify potential savings and additional

income generation.

The budget holders then discuss with Finance and once reviewed and with agreement of the budget holder, it is removed from the budget holder's base budget.

Finance document the identified savings or additional income generation in the 'Budget and Efficiencies table' within the 'Revenue Estimates' report, which is presented to the relevant Committee for the service area and finally the Full Council Meeting.

Internal Audit sampled six 2016/17 budget holder identified savings and additional income generation targets and established that:

- Initially three of the budget holders could not recall the details and rationale of their service area identified savings, however following a review of Finance documentation and emails, the savings were recalled and monitoring had taken place;
- At the time of identification five were realistic targets, the sixth had underestimated the additional income resulting in an over achievement; and
- Four had exceeded the expected savings or additional income generation.

The Strategy and Resources Committee, Community Services and Licensing Committee and the Environment Committee receive a Budget Monitoring report twice a year in September and February/March. This report details differences between budgets and actual income and expenditure.

As planned savings are removed from the base budget of the budget holders, the Budget Monitoring report does not provide an update for members on the progress and achievement of each individual saving or planned income generation, as documented in the proposed 2016/17 Medium Term Financial Plan.

The Statement of Accounts 2016/17 states that "the 2017/18 MTFP indicated a growing funding gap that may necessitate a change to the approach the Council takes to achieving efficiencies and savings"; although the change to approach has not been fully developed the Accountancy Manager and the Corporate Team are actively developing a Savings Delivery Plan which will take into account the new approach, and is expected to be presented to the Strategy and Resources Committee in October 2017.

## **Conclusion**

Internal Audit conclude that it is evident that there is a framework in place to identify and monitor efficiency savings and income generation and that the 2016/17 sampled identified savings and income generation were realistic and achievable.

Internal Audit has made one medium priority recommendation around enhancing the narrative explaining the savings rationale and ensuring these are fully documented. This is aimed at further strengthening the transparency of saving identification, monitoring and achievement.

### **Management Actions**

Management have responded positively to the one medium recommendation made.

## **Summary of Consulting Activity, Grant Certification and/or support delivered where no opinions are provided**

**Service Area: Customer Services**

**Audit Activity: Multi Services Contract (Consultancy)**

### **Background**

On 31st October 2013 the Environment Committee approved the formation of a Task and Finish (Waste) Group to look at the multi services contract and the different options of service design / delivery, service packaging, procurement route(s) and financial implications following the end of the contract in June 2016.

The Task and Finish (Waste) Group identified three possible options for the delivery of the multi services contract; in-house direct service organisation, Ubico Ltd (not for making profit organisation wholly owned by Cheltenham Borough and Cotswold District Councils) and the private sector.

On 6th November 2014 Council meeting, the Members approved Ubico Ltd as the preferred supplier of the service from 1st July 2016 until 31st March 2022 (option to extend for a further five years) and that the Council join this Teckal company (Local Authority trading company) as a shareholder and enter into an agreement to deliver the contract.

The multi services contract provides for the provision of waste and recycling, street and building cleaning, grounds maintenance, fleet management and maintenance services and represents a significant service provision to the Council in both terms of financial and reputational exposure. The cost of providing this service, in this first year of operation, as per the contract was approximately £5m.

## **Scope**

As part of the 2017-18 Internal Audit work plan, it was agreed that Internal Audit would provide professional advice and support to the Service area to develop a control environment to ensure that there are adequate arrangements in place to effectively manage and monitor the contract. This consultancy activity therefore focused upon the following key areas:

- Governance arrangements;
- Risk identification and management;
- Cost control and management;
- Change control; and
- Monitoring and management of performance.

**Risk Assurance - N/A**

**Control Assurance – N/A**

## **Key findings**

The Internal Audit consultancy review highlighted that improvements in the governance and contract management processes are required to ensure effective risk and financial control over the contract. Specifically the review identified the following key areas where progress was required to strengthen the management of the contract:

- Introduction of terms of reference for the different operational and management contract management groups in order to fully explain their purpose and roles and responsibilities in the governance of the contract;
- Formal review of the approved contract to identify all key actions and to then undertake regular monitoring to confirm Ubico Ltd compliance with these actions;
- Regular review and update of the identified multi service contract risks and mitigating controls, as documented on the risk and performance management system, to confirm that they are effectively managed;
- Review of the Ubico Ltd business continuity plan to confirm that it is fit for purpose and meets the Council's requirements in the event of a significant disruption to service, whether temporary or long term;

- Formal instructions to Ubico Ltd to provide prompt, accurate and up to date financial and risk reports to the monthly Client / Contractor meetings and the quarterly Environmental Services Partnership Board to enable the Council to effectively manage the financial nature of the contract and to avoid and if appropriate, effectively manage variances to budget;
- Update the service specification so that it fully and clearly details Ubico Ltd roles and responsibilities and its expected service delivery;
- Details of officers who have been delegated with authority to submit and approve a change to the service provision should be documented and appropriately approved by Council management. In addition all service provision changes, as per the contract, should be fully documented so that the Council is fully aware of the financial effect of the proposed change; and
- Improvements to the reporting of key performance indicators (KPIs) should be made and appropriate checks performed by Public Space officers to confirm the accuracy of Ubico Ltd reporting. In addition a regular review of the KPIs should be undertaken to confirm they remain fit for purpose and provide a broad and effective assessment of Ubico Ltd performance.

## **Conclusion**

Public Spaces has successfully introduced three new chargeable waste collection services during the second half of 2015-16 and the new waste and recycling services during 2016-17, alongside managing the closure of the multi services contract with the previous contractor and the procurement of the service to the new provider.

Public Spaces management and officers have focussed their resources on ensuring, with the introduction of the new services and a new contractor, that residents' waste and recycling is collected and other areas of the service provision maintained. It is pleasing to report that they have achieved this overall, however, as with all new services there has been challenges and issues.

Issues have been identified by Internal Audit in the management of the service provision and therefore improvements are required with the governance arrangements, financial management of the service provision and performance management of the service to ensure effective control of the contract.

## **Management Actions**

Management have responded positively to the five high and four medium priority recommendations made to support a robust and effective governance / contractual framework.

## Summary of Special Investigations/Counter Fraud Activities

### Current Status

During 2017/18 to-date (1<sup>st</sup> April 2017 to 31<sup>st</sup> October 2017) there have been four potential irregularities referred to Internal Audit, all relating to tenancy issues. Two of these cases have been closed, both of which have previously been reported to Audit and Standards Committee.

Internal Audit is currently working with relevant officers within the Council on the other two cases, which involve allegations of sub-letting. High level investigation outcomes will be provided to the Audit and Standards Committee once concluded.

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.

### 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.

Work to review the NFI matches has recently been commissioned by Audit, Risk Assurance (ARA) through the Gloucestershire Counter Fraud Unit. The high level outcomes of the review will be provided to the Audit and Standards Committee.

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.

As above, the high level outcomes of the review will be provided to the Audit and Standards Committee.

**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	Final Report Issued	Satisfactory	Satisfactory	28/11/2017	Brought Forward from 2016/17 plan
Council Wide	ICT Business Process follow up	High	Planned				Terms of Reference agreed / commencing Nov
Council Wide	Capital Programme	High	Draft Report Issued				
Council Wide	Contract Management	High	Planned				
Council Wide	Gifts and Hospitality	High	Planned				
Council Wide	Information Governance	High	Consultancy				Reported in annual report
Council Wide	Members Allowances and Expenses	Medium	Audit in Progress				
Council Wide	Post Project Reviews	High	Planned				
Council Wide	Procurement	High	Planned				
Council Wide	Legacy software	High	Planned				Terms of Reference agreed / commencing Nov
Council Wide	Data Protection	High	Consultancy				Integrated into Information Governance
Council Wide	Critical ICT systems back up	High	Planned				New Activity
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	Audit in Progress				
Customer Services	Multi Services Contract	High	Final Report Issued	Not Applicable	Not Applicable	28/11/2017	
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	Brought Forward
Finance	Budget Setting	High	Audit in Progress				
Finance	Cash and Bank	High	Audit in Progress				
Finance	General Ledger	High	Audit in Progress				
Finance	National Non Domestic Rates (NNDR)	High	Final Report Issued	Satisfactory	Satisfactory	28/11/2017	
Council Wide	IT Disaster Recovery follow up	High	Planned				Terms of Reference agreed / commencing Nov
Finance	Benefits Uprating 2017/18	High	Final Report Issued	Substantial	Substantial	12/09/2017	
Finance	Council Tax Opening Debit - 2017/18	High	Final Report Issued	Satisfactory	Satisfactory	12/09/2017	
Finance	Local Government Pension Scheme Regulations (LGPS) Regulations 2014	High	Final Report Issued	Satisfactory	Limited	12/09/2017	Brought Forward from 2016/17 plan
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	
Council Wide	Banks Automated Clearing System (BACS)	High	Final Report Issued	Satisfactory	Satisfactory	04/07/2017	
Council Wide	Network Access Controls	High	Final Report Issued	Satisfactory	Satisfactory	12/09/2017	Brought Forward from 2016/17 plan



**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**AGENDA  
ITEM NO**

**28 NOVEMBER 2017**

**9**

<b>Report Title</b>	<b>LIMITED ASSURANCE - LOCAL GOVERNMENT PENSION SCHEME INTERNAL AUDIT – MANAGEMENT UPDATE</b>
<b>Purpose of Report</b>	To inform members of the progress made to date against agreed Management Actions.
<b>Decision(s)</b>	The Committee <b>RESOLVES</b> to: Accept the report and note the progress made against the audit recommendations
<b>Consultation and Feedback</b>	Internal Audit findings are discussed with Service Heads/Managers. Management responses and updates to recommendations are included in this report.
<b>Financial Implications and Risk Assessment</b>	Whilst there are no financial implications arising directly from this report, the nature of the Audit Area requires the Council to administer its responsibilities in accordance with LGPS guidance and regulations. This may require the Council to redirect resources to this area in response to the audit report's findings. These are expected to be managed within existing budgets. David Stanley – Accountancy Manager (Section 151 Officer) Tel: 01453 754100 Email: <a href="mailto:david.stanley@stroud.gov.uk">david.stanley@stroud.gov.uk</a>
<b>Legal Implications</b>	None (Ref:KT/LEG143c161117)
<b>Report Author</b>	Theresa Mortimer Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754319 Email: <a href="mailto:theresa.mortimer@stroud.gov.uk">theresa.mortimer@stroud.gov.uk</a>
<b>Options</b>	None
<b>Performance Management Follow Up</b>	In accordance with the Public Sector Internal Audit Standards 2017 (PSIAS) and reflected within the Audit and Standards Committee work programme, Internal Audit reports on progress against the approved Internal Audit Plan 2017/18. These are scheduled to be presented to the Audit and Standards Committee at the February 2018 and April 2018 meetings. Should members wish for a further update on progress, this can be included within the work programme of the committee.
<b>Background Papers/ Appendices</b>	Appendix A - Internal Audit Activity Progress Report 2017/18 (12 September 2017)

## **1. INTRODUCTION**

- 1.1 The Internal Audit Progress Report, presented to Audit and Standards Committee in September 2017, included a split opinion report on the Local Government Pension Scheme Regulations 2014.
- 1.2 This report provides members of the committee with an update as to the progress against the agreed management actions in response to the Limited Assurance opinions concerning:
  - Assumed pensionable pay (APP) calculations
  - Additional annual leave scheme
  - Pensionable pay calculations
  - Contractual changes – communication with GCC Pensions team
- 1.3 The detailed follow-up report can be found in Appendix A.

**Report to Audit and Standards Committee 28<sup>th</sup> November 2017 on actions taken in relation to key recommendations made in the Local Government Pension Scheme (LGPS) 2014 audit report**

**Lead Officers: David Stanley - Accountancy Manager and Acting Section 151 Officer, Graham Bailey - Principal Accountant and Lucy Powell - HR Manager**

**Presenting officers: As above**

**Summary of Audit Area**

In April 2014 the LGPS was revised. The new scheme known as LGPS14 is a career average pension scheme rather than a final salary scheme. The Local Government Association (LGA) provided guidance on the requirements of the new regulations for both payroll and HR.

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 31 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 members' actual benefits for the year are calculated, allocated and notified to the member by 31 August following the end of each financial year.

**Summary Terms of Reference of the Audit**

The objectives of the audit were to:

- Confirm 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;
- Review year-end CARE report, processes, controls and accuracy; and
- Review the completion of leaver forms.

### **Risks**

- Provisions of the 2014 scheme are incorrectly implemented;
- Information on average salaries is not collected, impacting on future pension calculations;
- Inaccurate or invalid payments;
- Poor audit trail to evidence operation of processes and authorisations; and
- Claims for maladministration or fines from the Pension Regulator due to non-compliance with the Pension Regulations.

### **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 were 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 the Council 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 the Council and therefore they remain unresolved. As a result, individuals concerned had 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 (APP) 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 1<sup>st</sup> 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.

The Internal Audit report raised five High Priority and Four Medium Priority recommendations for management action. The High Priority recommendations included the requirement for management to:

- Investigate how the Northgate Payroll System calculates APP for both sick leave and maternity leave. Changes should be requested to ensure that it conforms to the LGPS guidance. Changes should be tested prior to going live. Retrospective adjustments should be made to cases where errors have occurred.
- Review the treatment of purchase of additional leave to ensure compliance with LGA guidance. The Leave Market policy will need to be reviewed to reflect the changes and consideration should be given to removing the choice of whether the employee can choose whether or not their purchased leave is pensionable or not. If the choice remains then Internal Audit would suggest some rewording to make it easier to understand.
- Calculate the potential underpayment to HMRC since April 2014 and make arrangements to repay this amount.
- Regarding last year's return representations should be made to Pensions to be furnished with the queries so that they can be resolved. In future years SDC should consider requesting a snap shot of the Pension database which might highlight where there is a mismatch in the number of records. This may enable queries to be resolved in advance.
- Action training in both Finance and HR to ensure relevant officers fully understand the LGPS legislation, to support the accurate completion of Pension returns.

**Action taken as at the end of October 2017 and/or proposed**

**Calculation of Assumed Pensionable Pay (APP)**

A detailed analysis of the calculation of APP by the Northgate Resourcelink payroll system has been conducted. The audit suggested that the APP varied each month, and that in itself was incorrect. In fact, the correct detailed calculation of APP does vary from month to month.

The system calculation of APP is operating correctly for sickness absences, and for maternity absences that do not include Occupational Maternity Pay (OMP) or Keeping In Touch (KIT) days.

Where APP has been calculated incorrectly, the impact is for the employer to pay more than would otherwise be the case, whilst the employee pays the correct amount.

Northgate has accepted that the system is operating incorrectly for APP calculations including OMP and/or KIT days. We await their response around when the system program will be corrected, and how we might make manual corrections in the meantime.

Also, a check is being conducted to ensure there is no detrimental impact on the employees pension entitlement.

**Treatment of purchase of additional leave**

Following the audit, advice on the subject of purchase of additional leave was obtained from expert tax advisers. They were in disagreement with the conclusion drawn in the audit. Their advice was that this was a salary sacrifice scheme.

Rather than there being an underpayment of tax on the pension contributions, they determined and agreed with HMRC that there had been an overpayment of pension contributions. This implied an over claim of tax relief on pension contributions. The tax advisers negotiated and agreed with HMRC a sum of £862.27 to settle the over claim of tax relief liability.

This means that HR will need to redesign the purchase of additional leave scheme to reflect the fact that it has been designated a salary sacrifice scheme by HMRC. Pension contributions will only be payable on reduced salary.

In the meantime, advice from the Gloucestershire Pension Fund (GPF) was sought regarding correction of previous years over payment of pension contributions. Part of the advice from GPF is to raise the question with the Local Government Association, as not all eventualities are covered by the regulations. We are currently awaiting a response from the Local Government Pension Scheme and the tax advisers.

### Potential underpayment to HMRC

As mentioned above, our tax advisers agreed a settlement figure of £862.27 with HMRC, and it was paid over on 26<sup>th</sup> July 2017.

### Representations to the pension fund regarding last year's return

Following the completion of the statement of accounts full feedback on prior year pension annual returns mismatched records was requested as a matter of urgency. We have recently received the following:

Year	Rows Mismatched	Employees
2014/15	99	52
2015/16	32	19
2016/17	43	19
	174	

We are currently working through these records to resolve the differences between the two systems. 89 rows have been corrected through merging rows of data, 17 rows will be corrected through issuing a starter form, and 68 rows of data involving 20 employees require more detailed investigation to resolve.

We also requested a snapshot of current records from the GPF system to compare with our own system. A snapshot of records on 6 October 2017 is currently being reconciled to our own system and these will be worked through to ensure the systems are in parallel.

It is planned to request a further snapshot of the GPF system prior to year end, to ensure data matching before the annual return is submitted.

A medium priority recommendation of the audit was to request data from GPF to check all service history of current and deferred members of the GPF. It is planned to do this, and work through these records once the other recommendations have been implemented, with the aim of completing in time for the next triennial review.

### Training of payroll and HR staff

Administration of payroll returned to Finance from Northgate in April 2016. Administration of pensions is divided between payroll and HR. The pensions aspect of the administration was brought back in-house from Northgate to HR in 2015.

As part of returning the payroll to finance some pensions training was arranged in 2015. This training whilst useful was pitched at a high level much of it of interest to pension fund administrators. There is a definite need for administration level training.

We have asked GPF if they would provide some training or accept visits from our staff to discuss particular issues. Their resource position does not allow for this. However, we believe the benefits would far outweigh the costs if such an arrangement could be put in place.

Meanwhile, GPF have suggested pursuing South West Employers to arrange administration level training for all employers who are part of the Gloucestershire scheme. We have made an approach to South West Employers and are awaiting their response.



**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**AGENDA  
ITEM NO**

**28 NOVEMBER 2017**

**10**

<b>Report Title</b>	<b>REVIEW OF AUDIT RISK ASSURANCE (ARA) SHARED SERVICE</b>
<b>Purpose of Report</b>	To inform members of the progress made against the objectives of the Audit Risk Assurance Shared Service.
<b>Decision(s)</b>	The Committee <b>RESOLVES</b> to: Accept the report and note the progress made against the original service objectives.
<b>Consultation and Feedback</b>	<ul style="list-style-type: none"> <li>➤ External Quality Assessment undertaken by the Chartered Institute of Internal Auditors on ARA's conformance to the Public Sector Internal Audit Standards (PSIAS) 2017; and</li> <li>➤ Client feedback surveys.</li> </ul>
<b>Financial Implications and Risk Assessment</b>	Whilst there are no financial implications arising directly from this report, members are reminded that the objectives of the shared service included a target of a minimum 3% efficiency saving across the shared service. David Stanley – Accountancy Manager (Section 151 Officer) Tel: 01453 754100 Email: <a href="mailto:david.stanley@stroud.gov.uk">david.stanley@stroud.gov.uk</a>
<b>Legal Implications</b>	None (Ref: KT/C13.11.17)
<b>Report Author</b>	Theresa Mortimer Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754319 Email: <a href="mailto:theresa.mortimer@stroud.gov.uk">theresa.mortimer@stroud.gov.uk</a>
<b>Options</b>	None
<b>Performance Management Follow Up</b>	Should members wish for a further update on the shared service, this can be included within the work programme of the Committee.
<b>Background Papers/ Appendices</b>	Internal Audit and Risk Management Shared Service (Agenda Item 10, Audit And Standards Committee 03 February 2015)

**1. INTRODUCTION**

- 1.1 At their meeting in February 2015, the Council agreed to enter into a Shared Internal Audit and Risk Management Service with effect from 01 April 2015.
- 1.2 This report provides members with an evaluation of the service, which was agreed would be presented to Audit and Standards Committee in the 2017/18 Civic Year.
- 1.3 Appendix A contains the evaluation of the Audit Risk Assurance Shared Service.

# **Audit Risk Assurance (ARA) Shared Service Evaluation of Effectiveness**

**October 2017**

## Contents

Background.....	3
What were the Shared Service Business Case Objectives? .....	4
Have the Business Case Objectives been met? .....	5
How is the Shared Service Governed? .....	8
Review of Internal Audit's Effectiveness 2016/2017 .....	8
Conclusion .....	14

## Appendices

- Appendix 1 – Shared Service Structure
- Appendix 2 – Summary Evaluation against Business Case objectives

## Background

Discussions had taken place over many years between the various Councils within Gloucestershire regarding the benefits of joint working between the authorities' respective internal audit teams. Following the successful partnering agreement between Gloucester City Council (GCiC) and Stroud District Council (SDC) for the management of the internal audit team in SDC, in December 2010 GCiC and SDC entered into a formal shared internal audit service, known as G A A P for the provision of an internal audit service to both Councils. Due to the success of this internal audit shared service arrangement between GCiC and SDC, the S151 Officers of GCC, SDC and Gloucestershire County Council (GCC) agreed to consider extending the shared service arrangement to include GCC and review the opportunities available to:

- Formally share internal audit and risk management services between the three Councils; and
- Bring the management of an extended shared service under one manager.

In February and March 2015, the three Councils recommended the introduction of a new shared service, with GCC becoming the host authority under a section 101 collaboration agreement, and agreed to GCiC staff, including those based at SDC, being transferred to GCC under TUPE arrangements. Whilst all staff were TUPE transferred to GCC on 1st June 2015, the new shared service, re-branded Audit Risk Assurance (ARA) did not become fully operational under the new Head of Service until 1st May 2016.

The development and implementation of ARA has been designed to re-profile the service to address changing demands to meet customer and business requirements. However the environment demands that the service stays ahead of the game and, together with all parts of our shared service partner organisations and external clients achieve more with fewer resources. To do this, we needed not only a different structure, but also a new way of working, which were built around the following principles:

- Being open and honest with ourselves and with our customers;
- Strong relationships with everyone that we do business with;
- Working as a team, because we are stronger collectively than as individuals;
- A positive, can-do and problem-solving approach;
- Clear leadership and direction at all management levels; and
- Openness to new ways of working.

## What were the Shared Service Business Case Objectives?

The business case objectives represented a real opportunity to provide:

- Economies of scale from the employment of a single Head of Service (Chief Internal Auditor), across the three authorities;
- Pool expertise to strengthen business delivery to the benefit of the clients;
- Provide critical mass and improved business resilience e.g. enabling the risk of sickness and vacancies to be better managed;
- Enhanced ability to undertake thematic reviews across the three authorities to share best practice across the shared service;
- Present succession planning, career opportunities and development for staff;
- Optimal use of resources through a modern collaborative approach;
- Economies of scale through shared training and procurement;
- Increased capacity, flexibility and specialist knowledge from pooling staff resources; and
- Benefits of adopting common day to day audit reporting and procedural approaches driven by a single Audit Management System for the shared service, along with common audit committee reporting protocols/methodologies/formats.

Opportunities for financial savings during the first year of the shared service i.e. 2015/2016, were limited given the transition phase required. During the second year of operation, i.e. 2016/17, it was agreed that the restructure and rationalisation of processes and procedures would target a minimum 3% saving across the shared service. This is within the context of continuing to deliver a quality, professional service. There is however, an expectation that the shared service will continue to focus on opportunities for further efficiencies.

The duration of the agreement is initially to be for a three year period (from commencement date 1<sup>st</sup> June 2015) and shall continue in force thereafter, unless and until one year's notice in writing is given by any of the Councils to withdraw from the agreement.

This report provides the outcomes of reviewing the effectiveness of the shared service against its original business case objectives.

## **Have the Business Case Objectives been met?**

### **Restructure and rationale**

The restructure of the shared service was effective from 1st April 2016 and can be found at Appendix 1 with the restructure being focused around three primary themes:-

1. review of the management arrangements for the shared service (SS);
2. delivery of the most efficient and effective service for each partner authority and external clients; and
3. delivery of a minimum 3% savings target from 2016/17 across the shared service.

#### **1. Review of Management Arrangements**

The approved Business Case included the proposal for the employment of a single Chief Internal Auditor. The new post of Head of the Shared Service is the nominated Chief Internal Auditor for all shared service partner organisations and external clients and the Head of the County Council's Insurance Services function.

The remit of the SS is to provide an internal audit and risk management service to the three partner organisations and external clients (currently Gloucestershire Police). The employment of a single Chief Internal Auditor provided the opportunity to review the level of management capacity within the structure. In order to maintain an appropriate level of management capacity, the post of Audit, Risk Management and Value for Money Officer was deleted and a new post of a Group Manager was created.

This new post acts as the deputy to the Head of the Shared Service. The creation of a deputy post is also in accordance with the External Quality Assessment of Gloucestershire County Council's internal audit function which was undertaken by the Chartered Institute of Internal Auditors during May 2015. They advised that the creation of a deputy role was required to enable the ongoing effective delivery of the shared service.

#### **2. Delivery of the most efficient and effective service for each partner organisation and external client.**

In order to ensure compatibility of roles, retain and improve on the current level of service delivery to the appropriate standards, improve business resilience, present succession planning and staff development opportunities, the following changes have been implemented:-

- One of the Senior Auditor's posts which was held vacant was deleted and a new post of Principal Auditor created. This enabled the portfolio area of the two district councils to be effectively managed. There is now a Principal Auditor based at each of our partner sites, who acts as the client lead, in order to gain a thorough understanding of the Council's culture, services provided and risk profile to help inform our service provision, provide on site presence and visibility, enable early response to questions / queries and build key stakeholder relationships to help us meet client expectations;
- The Audit and Assurance Officer posts were deleted and replaced by a Senior Auditor post and a Trainee Internal Auditor post. All of these posts are career graded posts, to facilitate the recruitment and retention of staff and support the SS's workforce succession plan;
- The vacant part time Audit and Assurance Officer post was deleted and replaced by a full time Senior Auditor post, to increase the number of audit/risk productivity days provided;
- Whilst the vast majority of staff within ARA have professional qualifications in relation to internal auditing, accountancy, risk management, counter fraud, banking, business administration etc., professional qualifications are currently being undertaken in relation to internal auditing and data analytics, to ensure that the service continues to develop and maintains the relevant skills and competencies to provide a high quality, credible, added value service;
- Continuing Professional Development (CPD) is also a key priority to ensure that all staff are kept 'up to date' with any new ways of working, changes in legislation etc. which ensures the activity is correctly focused. As part of staff performance development reviews, relevant training is identified and provided accordingly;
- ICT and Counter Fraud contracts have been developed and implemented with third party providers to provide and/or supplement the relevant technical skills required;
- The shared service uses IDEA, a powerful and user-friendly data analysis tool designed to help auditors perform data analysis quickly to help improve audits and identify control breakdowns;

- Significant participation in national and regional internal auditing, fraud, risk management networks / groups, such as the Counties Chief Internal Auditors Network (CCAN), Midland Counties Heads of Internal Audit Group (MCHIAG), District Council's Chief Internal Auditing Group, Fraud and ICT networks and ALARM (The Public Risk Management Association) and participate in focused task groups in order to share good practice, and participate in benchmarking exercises;
- Member of the National Anti Fraud Network (NAFN) Data and Intelligence Service. As a member of NAFN we are part of the largest shared service in the country. NAFN provides data, intelligence and best practice services for all teams within member organisations. NAFN is recognised by key government departments and agencies as the preferred single point of contact for specialist data enquiries. This enables us to establish secure, central links to information providers and deliver a faster service;
- The Audit and Risk Support Officer and Audit and Risk Technical Officer posts were both renamed Audit and Risk Technical Officers, to reflect their more technical support role and consistency, also enabling more productivity from the auditors; and
- The requirement within all job profiles is that all internal audit and risk management staff will be rotated / located based on service need and demand, to enhance business and personal resilience.

### **3. Delivery of a minimum 3% savings target from 2016/17 across the shared service.**

The target of a minimum 3% savings target was best secured through the restructure and rationalisation of processes and procedures. This was within the context of continuing to deliver a quality, professional service and ensuring that an investment in training essential to the recruitment and retention of staff. Whilst the savings target of £4k were met, the restructure created additional productivity which provided an extra four audit activities within the original number of 515 audit days purchased.

In addition, the partnership continues to focus on opportunities for further efficiencies.



## How is the Shared Service Governed?

A Shared Services Board (SSB) has been created comprising of the s151 Officers (or duly authorised senior financial representative) in each Council, to initially oversee the implementation of the s101 collaboration agreement, charging/funding arrangements and functional reporting requirements, quality, performance, risks and consider major strategic changes to the service. The Board meet on a quarterly basis. The Head of ARA reports operationally to the SSB and functionally to the relevant Audit Committees. No performance, concerns or service delivery issues have been raised by the SSB.

## Review of Internal Audit's Effectiveness 2016/2017

### (1) **External Assessment of the effectiveness of Internal Audit (Covers all Shared Service Partners and Police)**

The 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 Public Sector Internal Audit Standards (PSIAS) 2017, 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 assessors 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'.*
- *"I have to say we struggled to find anything to comment on and, were it not for the one issue, this would be as near perfect a report as it's possible to produce - well done!!"*
- *"It was a very enjoyable and interesting EQA. You have established a very effective and highly regarded Internal Audit service, and I wish you well with the new challenges you will face with implementation of the shared service, which I am sure will be another success story".*

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

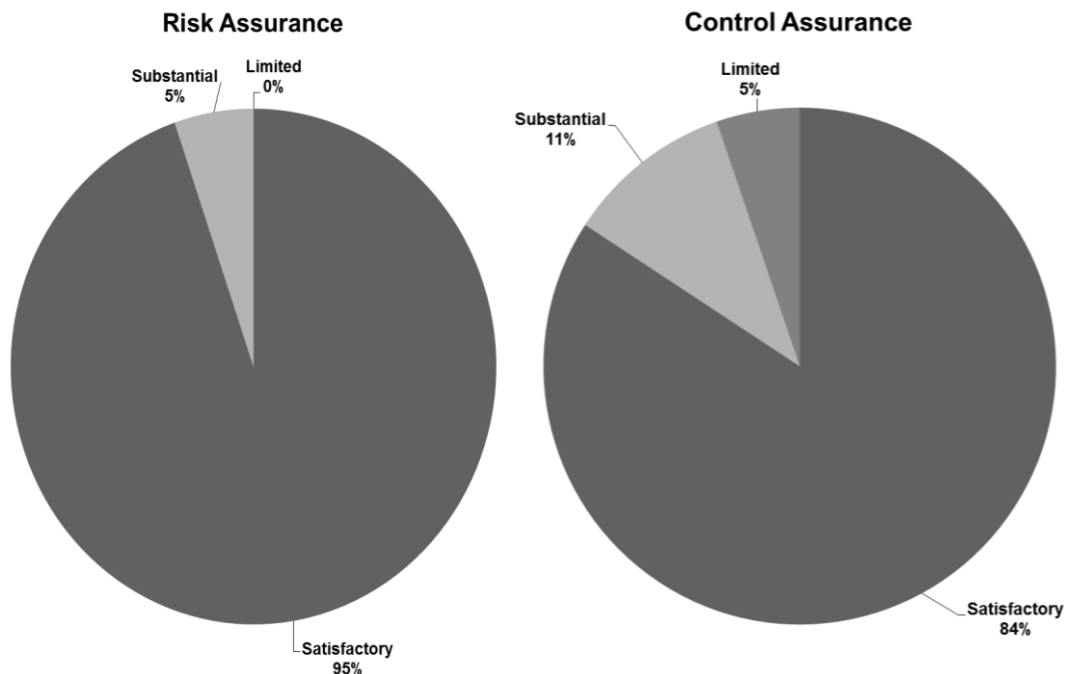
During 2016/17 the Chief Internal Auditor assessed Internal Audit's performance against the Internal Audit Quality Assurance and Improvement Programme (QAIP) as required by the PSIAS. The QAIP confirmed compliance against the PSIAS.

## (2) Internal Audit Activity undertaken compared to that planned

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%.

## (3) Internal Audit Assurance Opinions on Risk and Control

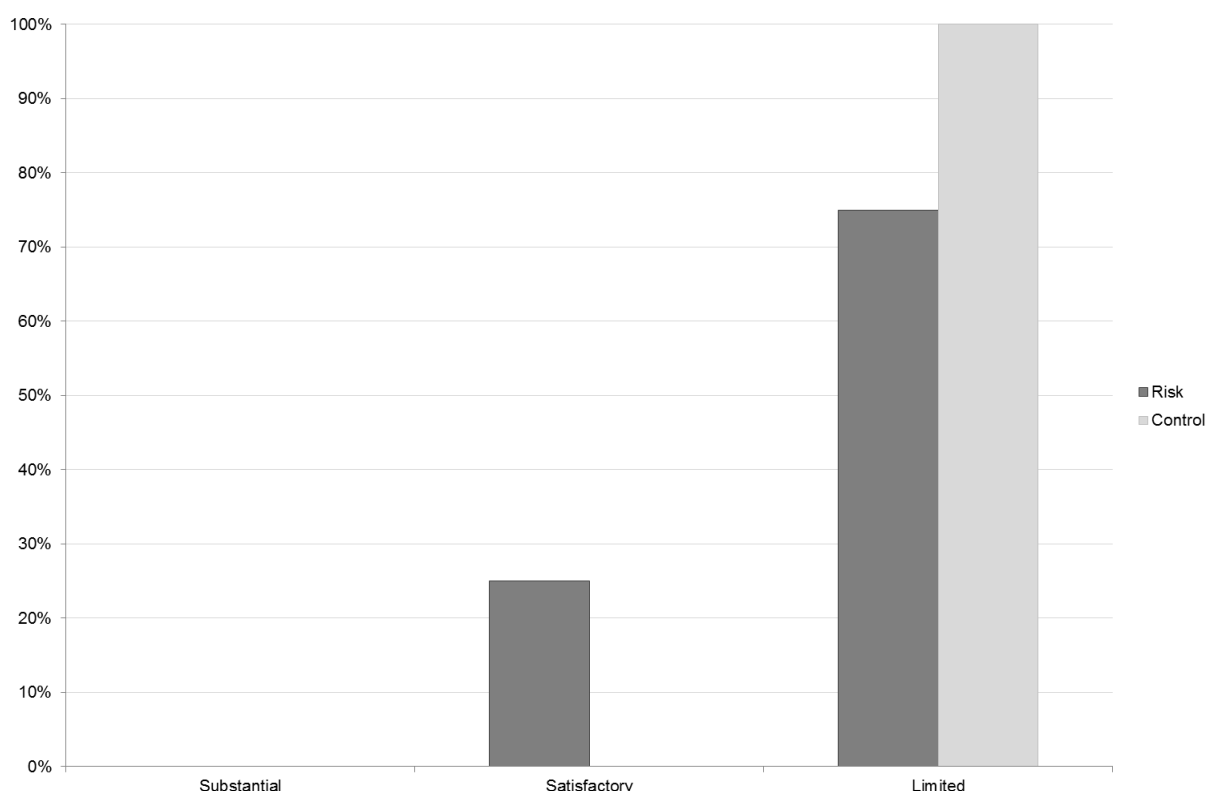
The pie charts below show the summary of the risk and control assurance opinions provided within each category of opinion.



#### (4) Consultancy Activity (where no opinions were provided)

The reduction in limited assurance opinions during 2016/2017 is due to audit activity more focused on 'adding value' and therefore providing consultancy activity to support business improvement e.g. HRA, BACS Direct Debit, ICT Disaster Recovery and Business Continuity and the Multi Services Contract.

**However please note that if these activities had been undertaken as audit assurance work, limited opinions would have been provided on these reviews.**

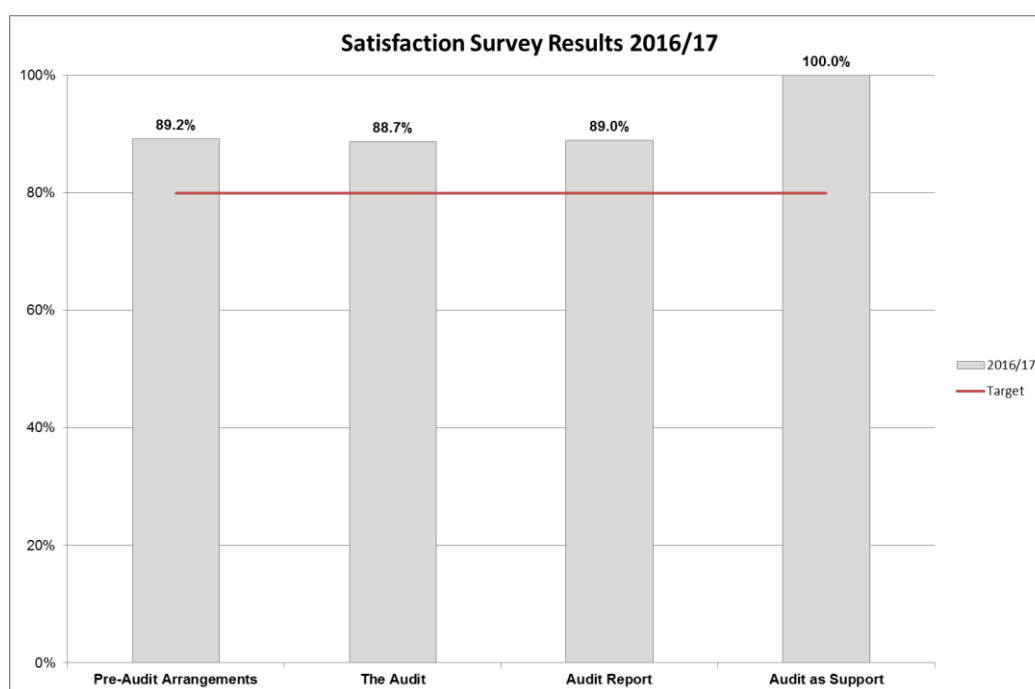


#### (5) Internal Audit recommendations made to enhance the control environment

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

## (6) Internal Assessment - Customer Satisfaction Survey results 2016/17

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 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.

## **(7) Additional Audit Risk Assurance work undertaken within Budget / Days**

The following is a list of activities undertaken in addition to that covered above all within budget and procured days:

- Developed the Annual Governance Statement and Local Code of Corporate Governance based on revised principles;
- Reviewed, developed and implemented a revised Governance Assurance Framework;
- Responded to client requests on 'lessons learnt' i.e. BACS and additional assurance activity i.e. HRA.
- Developed an Anti-Fraud and Corruption Policy/Strategy, Anti-Money Laundering Policy and Anti-Bribery Policy and communicated via Proud of Stroud sessions and via the website;
- Self assessment against the Chartered Institute of Public Finance and Accountancy (CIPFA's) role of the Chief Financial Officer (CFO);
- Self assessment against the Risk Management ISO 31000 principles;
- Supported the development of the Corporate Risk Management Policy Statement, Strategy and toolkit and supporting SDC Officers to implement, as required;
- Developed the Chair of the Audit and Standards Committee's Annual Report to Council;
- Counter Fraud Activity including participation in the Cabinet Office's National Fraud Initiative, and working closely with Tenant services on tenancy fraud; and
- Developing and implementing contracts with Gloucestershire Fraud Hub to enable support with counter fraud activity across all partner sites.

## Conclusion

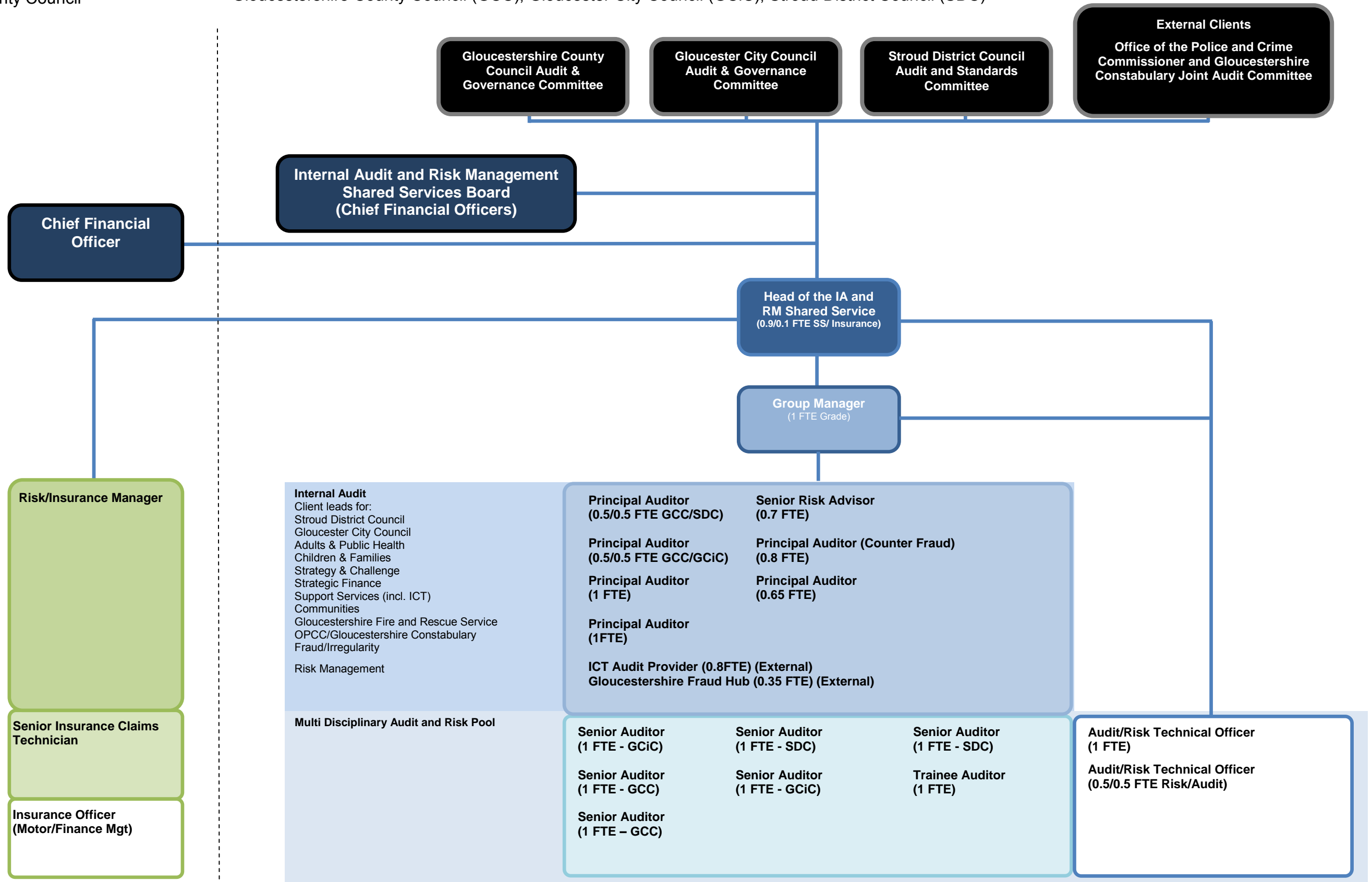
Effective corporate governance is a fundamental feature of any successful public sector organisation. The trend for strengthening governance arrangements has resulted in the joint CIPFA / Society of Local Authorities Chief Executives (SOLACE) good practice publication / guidance *'Delivering Good Governance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

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

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

In conclusion, based on the evaluation against the original shared service business case and the annual review of the effectiveness of internal audit, it is recommended that the Audit and Standards Committee consider whether the shared service has made a positive contribution to the Council's overall governance and control arrangements.

**Audit Risk Assurance (ARA) - Internal Audit and Risk Management Shared Service**  
Gloucestershire County Council (GCC), Gloucester City Council (GCiC), Stroud District Council (SDC)



Staff will be rotated / located based on service need and demand

- All posts are on Gloucestershire County Council terms and conditions

<b>Insurance</b> 2.6 FTE	<b>Audit</b> 17 FTE	<b>Risk</b> 1.2 FTE
-----------------------------	------------------------	------------------------



Business Case Objectives	Evaluation Outcome
➤ Economies of scale from the employment of a single Chief Internal Auditor, across the three authorities;	Achieved
➤ Pool expertise to strengthen business delivery to the benefit of the clients;	Achieved
➤ Provide critical mass and improved business resilience e.g. enabling the risk of sickness and vacancies to be better managed;	Achieved
➤ Enhanced ability to undertake thematic reviews across the three authorities to share best practice across the shared service;	Achieved
➤ Present succession planning, career opportunities and development for staff;	Achieved
➤ Optimal use of resources through a modern collaborative approach;	Achieved
➤ Economies of scale through shared training and procurement;	Achieved
➤ Increased capacity, flexibility and specialist knowledge from pooling staff resources; and	Achieved
➤ Benefits of adopting common day to day audit reporting and procedural approaches driven by a single Audit Management System for the shared service, along with common audit committee reporting protocols/methodologies/formats.	Achieved

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**AGENDA  
ITEM NO**

**28 NOVEMBER 2017**

**11**

<b>Report Title</b>	<b>HALF YEAR TREASURY MANAGEMENT ACTIVITY REPORT 2017/18</b>
<b>Purpose of Report</b>	To provide an update on treasury management activity as at the first half of the financial year 30/09/2017.
<b>Decision(s)</b>	<b>The Committee:</b> 1. <b>RECOMMENDS</b> to Council that it approves the Treasury Management Activity Half-year Report for 2017/2018, and 2. <b>RESOLVES</b> the amendment to investment duration to 2 years for up to £3million with government supported banks, as set out in paragraph 17 of this report.
<b>Consultation and Feedback</b>	Capita Asset Services Limited
<b>Financial Implications &amp; Risk Assessment</b>	David Stanley, Accountancy Manager (Section 151 Officer) Tel: 01453 754100 Email: david.stanley@stroud.gov.uk
<b>Legal Implications</b>	None (Ref: KT/c13.11.17)
<b>Report Author</b>	Graham Bailey, Principal Accountant Tel: 01453 754133 E-mail: <a href="mailto:graham.bailey@stroud.gov.uk">graham.bailey@stroud.gov.uk</a>
<b>Chair of Committee</b>	Councillor Nigel Studdert-Kennedy Tel: 01453 821491 E-mail: <a href="mailto:cllr.nigel.studdert-kennedy@stroud.gov.uk">cllr.nigel.studdert-kennedy@stroud.gov.uk</a>
<b>Options</b>	None
<b>Performance Management Follow Up</b>	A third quarter report and a full 2017/18 annual report.
<b>Appendices</b>	A – Prudential Indicators as at 30 Sept 2017 B – Explanation of prudential indicators

**Background**

1. Treasury management is defined as: ‘The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.’
2. This report is presented to the Audit and Standards Committee to provide an overview of the investment activity and performance for the first half of the financial year, (and to report on prudential indicators and compliance with treasury limits). A mid year report is essential under the Code of Practice for Treasury Management (the Code).

## **Discussion**

3. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code in November 2009, and it was adopted by this Council on 21 January 2010. This half year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
  - A review of the Treasury Management Strategy Statement (TMSS) and Investment Strategy
  - A review of the Council's investment portfolio for 2017/18
  - A review of the Council's borrowing strategy for 2017/18
  - A review of compliance with Treasury and Prudential Limits for 2017/18
  - Other Treasury issues

## **Treasury Management Strategy Statement and Investment Strategy update**

4. The TMSS for 2017/18 was approved by Council on 23 February 2017. The Council's Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:
  - Security of Capital
  - Liquidity
  - Yield
5. The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current low interest rate environment the Council is seeking to invest for longer periods of up to a year, with highly credit rated financial institutions, using Capita's suggested creditworthiness approach, which includes a sovereign credit rating and Credit Default Swap (CDS) overlay.
6. A breakdown of the Council's investment portfolio as at 30 September and 30 June 2017 is shown in Table 2 of this report. Investments and borrowing during the year have been in line with the Strategy.

## Investment Portfolio 2017/18

7. In accordance with the Code, it is the Council's priority to ensure security and liquidity of investments, and once satisfied with security and liquidity, to obtain a good level of return. The investment portfolio yield for the half year is shown in the table below:

**TABLE 1: Average Interest Rate Compared With Benchmark Rates**

<b>Period</b>	<b>Investment Interest Earned</b>	<b>Average Net Investment</b>	<b>Average Interest Rate</b>	<b>Benchmark 7 day LIBID</b>	<b>Benchmark 3 month LIBID</b>
01/04/17 - 30/06/17	£43,103	£33.207m	0.52%	0.11%	0.17%
01/07/17 - 30/09/17	£45,235	£36.120m	0.49%	0.11%	0.18%
<b>Total</b>	<b>£88,338</b>	<b>£36.120m</b>	<b>0.49%</b>	<b>0.11%</b>	<b>0.18%</b>

8. The Local Area Mortgage Scheme investment of £1m which matured on the 24<sup>th</sup> April 2017 at 3.8% with Lloyds is excluded from the above table. If this interest is included the interest earned is £91k at an average interest rate of 0.XX%.
9. Table 2 below shows the investments and borrowing position at the end of September 2017.
10. The approved limits as set out in the Treasury Management Strategy report to Council 23 February 2017 within the Annual Investment Strategy have been complied with during the first half year of 2017/18.
11. Funds were available for investment on a temporary basis. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme and canal project. The authority holds £8m core cash balances for investment purposes (i.e. funds that potentially could be invested for more than one year).

**TABLE 2: Investments & Borrowing**

	Jun 2017 £'000	Sep 2017 £'000
Federated Prime Rate	1,900	3,264
Deutsche	1	0
Goldman Sachs	1	1
Standard Life	0	2,034
<b>Money Market Funds Total</b>	<b>1,902</b>	<b>5,299</b>
Bank of Scotland	3,000	0
Lloyds	4,425	6,428
<b>Lloyds Banking Group Total</b>	<b>7,425</b>	<b>6,428</b>
Royal Bank of Scotland	1,007	4,008
<b>RBS Banking Group Total</b>	<b>1,007</b>	<b>4,008</b>
Goldman Sachs	8,000	8,000
Standard Chartered	2,000	2,000
Santander	4,604	4,607
Barclays Bank Plc	1	1
Svenska Handelsbanken	1,500	7,802
UBS	2,000	0
Rabobanks	2,000	2,000
<b>Other Banks Total</b>	<b>20,105</b>	<b>24,410</b>
<b>TOTAL INVESTMENTS</b>	<b><u>£30,439</u></b>	<b><u>£40,145</u></b>
Local Authority	2,000	2,000
PWLB	104,717	104,717
<b>TOTAL BORROWING</b>	<b><u>£106,717</u></b>	<b><u>£106,717</u></b>

**Borrowing**

12. The Council's Capital Financing Requirements (CFR) for 2017/18 is £113.984m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (External Borrowing) or from internal balances on a temporary basis (Internal Borrowing). The Council has external borrowing of £106.717m as at 30 September 2017. There is also £4.740m of internal borrowing.

## **Compliance with Treasury and Prudential Limits**

13. It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Treasury and Prudential Indicators are outlined in the approved TMSS.
14. During the period to 30 September 2017 the Council has operated within the treasury limits and Prudential Indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix A.

## **MIFID II**

15. The Markets in Financial Instruments Directives is EU legislation that changes, from 3 January 2018, the regulatory environment for local authorities using certain financial investment types. Local authorities have been classified as retail rather than professional investors which will limit the range of investments available. There is an option within the legislation for local authorities to opt up to the professional classification on an institution by institution basis. The Council meets the criteria to opt up to professional status and so will do so to maintain the range of investments available. An example of where the Council is opting up is with Money Market Funds.

## **Pension Pre-Payment**

16. The Council agreed with the Pension Fund to pay 3 years' pension lump sums in 4 instalments (Apr, Jul, Oct & Jan) during 2017-18. The cash value of these prepayments is £6.497m, rather than £6.809m if paid annually over 3 years, a cash saving of £312k. An estimated £50k of interest will be foregone.

## **Increasing return on investments**

17. The current Treasury Strategy approved in February 2017 commits the Council to following Capita Asset Services (CAS) advice in terms of the length of investment permitted. It is recommended that the Strategy is amended to allow up to £3m to be invested with UK government supported banks for up to a period of 2 years (which is currently beyond the duration advised by CAS) . Any such investment being justified on the rate of return available, and being achievable from a cash flow perspective, and subject to specific approval by the Section 151 officer.

## Prudential Indicators as at September 2017

Prudential Indicator	2017/18 Indicator £'000	Actual as at 30 June 2017 £'000	Actual as at 30 September 2017 £'000
Capital Financing Requirement (CFR)	113,984	112,088	112,720
Gross Borrowing	107,717	106,717	106,717
Authorised Limit for external debt	128,000	106,717	106,717
Operational Boundary for external debt	120,000	106,717	106,717
Limit of fixed interest rates based on net debt	100%	100%	100%
Limit of variable interest rates based on net debt	25%	0%	0%
Principal sums invested > 364 days	8,000	0	0
<b>Maturity structure of borrowing limits</b>			
Under 12 months	25%	1%	1%
12 months to 2 years	50%	0%	0%
2 years to 5 years	75%	1%	1%
5 years to 10 years	100%	2%	2%
10 years and above	100%	96%	96%

### **Explanation of prudential indicators**

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

**Gross borrowing** – compares estimated gross borrowing in February 2017 strategy with actual gross borrowing as at 30 June 2017.

**Capital financing requirement (CFR)** – the capital financing requirement shows the underlying need of the Council to borrow for capital purposes as determined from the balance sheet. The overall positive CFR of £113,984m provides the Council with the opportunity to borrow if appropriate. No external borrowing is planned for 2017/18.

**Authorised limit for external debt** - this is the maximum limit for gross external indebtedness. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cashflows. This limit has not been breached in the period 1 April 2017 to 30 September 2017.

**Operational boundary for external debt** – this is set as the more likely amount that may be required for day to day cashflow. This limit has not been breached in the period 1 April 2017 to 30 September 2017.

**Upper limit for fixed and variable interest rate exposure** – these limits allow the Council flexibility in its investment and borrowing options. Current investments are either fixed rate term investments or on call. Borrowing is at a fixed rate.

**Upper limit for total principal sums invested for over 364 days** – the amount it is considered can prudently be invested for a period in excess of a year. Current policy only permits lending beyond 1 year with other Local Authorities up to a maximum of 3 years.