

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.

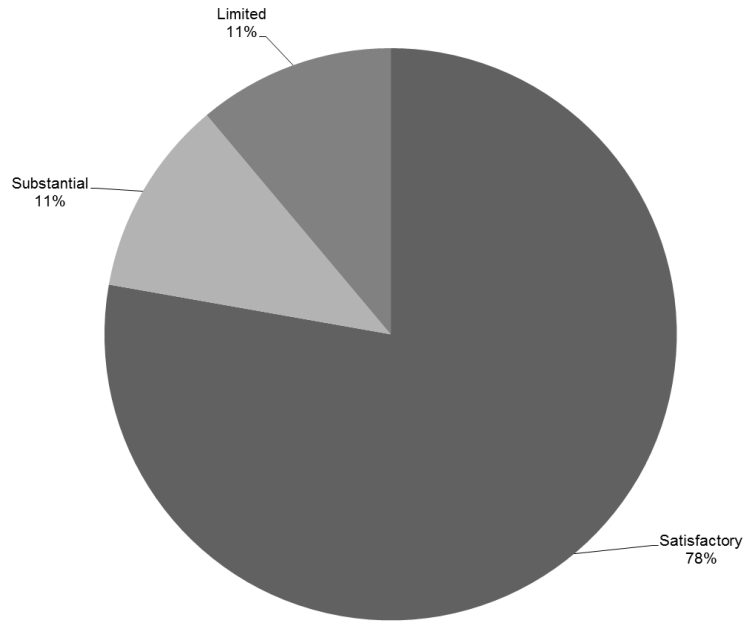
The schedule provided at **Attachment 2** contains a list of all of the 2017/18 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage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

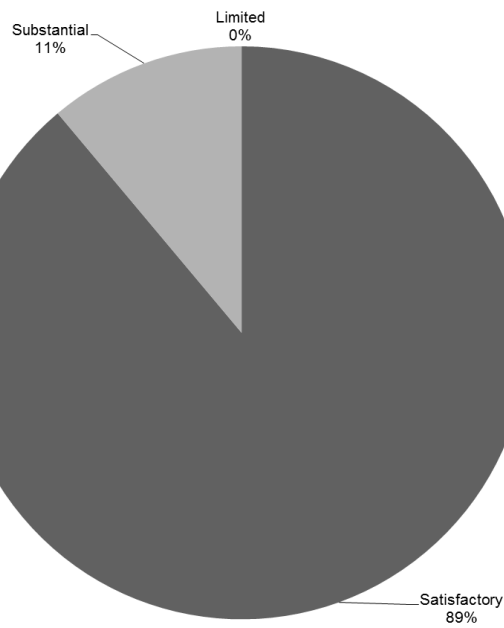
The pie charts below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the audit activity undertaken during the period April 2017 to October 2017.

Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	Risk Managed Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other 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.	<ul style="list-style-type: none"> System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved Control Application – Controls are applied continuously or with minor lapses
Satisfactory	Risk Aware Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other 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.	<ul style="list-style-type: none"> System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger Control Application – Controls are applied but with some lapses
Limited	Risk Naïve Due to an absence of 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.	<ul style="list-style-type: none"> System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls Control Application – Significant breakdown in the application of control

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 (1st April 2017 to 31st 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.