STROUD DISTRICT COUNCIL
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Council Offices Ebley Mill Ebley Wharf Stroud Gloucestershire GL5 4UB

28 March 2018

AUDIT AND STANDARDS COMMITTEE

A meeting of the Audit and Standards Committee will be held on **TUESDAY 10 APRIL 2018** in the Council Chamber, Ebley Mill, Ebley Wharf, Stroud at **7.00 pm.**

David Hagg
Chief Executive

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

A G E N D A
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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 6 February 2018.

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 RECIEPT OF QUESTIONS
Noon on THURSDAY 5 APRIL 2018
Questions must be submitted in writing to the Chief Executive, Democratic Services, Ebley Mill, Ebley Wharf, Stroud and sent by post or by Email: democratic.services@stroud.gov.uk.

5   STANDING ITEMS
(a) To consider the work programme for 2018/19.
(b) To receive a verbal update on Risk Management.

6   FIRST REPORT OF TASK AND FINISH GROUP (ETHICAL AUDIT)
To receive a report from the members of the Task and Finish Group and agree the terms of reference.

7   EXTERNAL AUDIT PLAN 2017/18
To receive an oral update 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.

9   RISK BASED INTERNAL AUDIT PLAN 2018/19
To approve the Annual Risk Based Internal Audit Plan 2018-19 as detailed in Appendix A.

10   ANNUAL REPORT OF THE AUDIT AND STANDARDS COMMITTEE (PREPARED BY THE CHAIR FOR AGREEMENT PRIOR TO PRESENTATION TO COUNCIL)
To agree the Audit and Standards Committee Annual Report 2017-2018 and recommend approval to Council.

11   MEMBERS' QUESTIONS
See Agenda Item 4 for deadline for submission

Members of Audit and Standards Committee

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

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AUDIT AND STANDARDS COMMITTEE

6 February 2018

7.00 pm – 8.56 pm

3

Council Chamber, Ebley Mill, Stroud

Minutes

<u>Membership</u>

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	P	Councillor Penny Wride	A
Councillor Colin Fryer	P		

A = Absent   P = Present

<u>Other Councillors present</u>
Councillor Doina Cornell

<u>Officers in attendance</u>

Accountancy Manager and Acting Section 151 Officer	Head of Audit Risk Assurance (ARA)
Head of Legal Services and Monitoring Officer	Democratic Services Officer
Principal Accountant	Principal Procurement Officer

<u>Also present</u>
Darren Gilbert from KPMG, the Council's External Auditors.

AC.034   **APOLOGIES**

Apologies for absence had been received from Councillors Keith Pearson and Penny Wride.

AC.035   **DECLARATIONS OF INTEREST**

There were none.

AC.036   **MINUTES**

RESOLVED   **That the Minutes of the meeting held on 28 November 2017, are approved as a correct record.**

AC.037   **PUBLIC QUESTION TIME**

There were none.

Audit and Standards Committee
6 February 2018   3 of 94   Subject to approval
at the next meeting

AC.038   **STANDING ITEMS**

(a)   To consider the work programme.

The meeting of this committee which was due to take place on Tuesday 17 July 2018 will now take place on 26 July 2018.

An item on the Code of Conduct will be added to the programme for a future meeting.

(b)   To receive a verbal update on Risk Management

As agreed at the last meeting, this item will be a standard item on the agenda for every meeting. The Monitoring Officer reminded Committee of the points covered in the Chairman's email to the Committee to the effect that this will provide an opportunity for Committee to identify any strategic risks which it may want to consider in detail at future meetings.

Members were concerned that the Risk Register was not being completed or kept up to date in all cases. Each Committee's Performance Monitoring Champions also needed to identify any items of particular concern and feed back into this Committee. Responsible Officers or the Performance Monitoring Champions could be asked to attend, when necessary, to further explain any issues regarding strategic risks.

AC.039   **REVIEW OF ETHICAL FRAMEWORK**

The Monitoring Officer recommended the establishment of a task and finish group to review the Council's ethical framework for members.

Councillor Baxendale proposed a motion that a decision to set up a task and finish group be deferred until the next meeting in order for it to be considered by the Group Leaders. He commented that the Constitution Working Group should be reconvened to consider this. This was seconded by Councillor Fryer.

Members discussed the motion and advice was provided by the Monitoring Officer. The Monitoring Officer reminded the Committee that the ethical framework was the responsibility of the Committee and should be reviewed by the Committee on a regular basis. She highlighted that a recent review particularly of some elements of the framework had not taken place; this was an opportunity for the Committee to take a lead on the standards element of its terms of reference.

When Councillor Baxendale's motion was put to the vote, there were 3 votes for, 3 votes against and 1 abstention. The Chairman used his casting vote against the motion.

In line with the recommendation of the Monitoring Officer, the Committee then resolved to establish a task and finish group to consider the proposed review outlined in the report and for it to report back to Committee with suggestions on what to cover to its next meeting on 10 April 2018. Members of this preliminary meeting of the group were proposed to include Councillors Studdert-Kennedy, Curley or Tom Williams, Pearson Davies, and Baxendale (subject to their availability).

Audit and Standards Committee
6 February 2018   4 of 94   Subject to approval
at the next meeting

RESOLVED   **to establish a task and finish group to consider member standards of conduct as outlined in the Report.**

AC.040   **EXTERNAL AUDIT PLAN 2017/18**

Mr Darren Gilbert of KPMG, the Council's external auditors, presented this item. The Plan sets out the responsibilities of the Council under the Code of Practice on Local Authority Accounting in 2017/18. He explained that a draft statement of accounts needed to be prepared by the end of May and signed in July. Significant risks had been identified which required specific audits.

AC.041   **ANNUAL REPORT ON GRANTS AND RETURNS 2016/17**

KPMG presented this report which summarised the results of work carried out on the Council's 2016/17 grant claims and returns, which included:

- Certifying the Council's 2016/17 Housing Benefit Subsidy claim.
- The pooling of housing capital receipts 2016/17.
- Housing and Communities Agency (HCA) compliance report on a specific housing development project. This return was still to be submitted.

AC.042   **INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2017/18**

The Head of ARA presented this report which informed members of the internal audit activity progress in relation to the approved internal audit plan 2017/18. She explained an audit had been completed on the discretionary housing payment scheme. Internal Audit and Gloucestershire Fraud Unit is currently supporting the relevant service areas on counter fraud activity, which includes the introduction of a Council Tax, Housing Benefit and Council Tax Support Penalty and Prosecution Policy.

RESOLVED   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.**

AC.043   **ANNUAL GOVERNANCE STATEMENT 2016/17 IMPROVEMENT PLAN – PROGRESS REPORT**

The Head of ARA explained that this report provided an update on the actions taken to address the key governance areas identified as part of the 2016/2017 annual review of governance arrangements operating within the council. It was highlighted that the ICT Strategy had been updated and a report will be forthcoming once all work had been carried out. An Information Sheet on the ICT Strategy work will be circulated to Members.

RESOLVED   **That Committee has reviewed and considered the actions taken to address the governance improvement areas identified.**

Audit and Standards Committee
6 February 2018   5 of 94   Subject to approval
at the next meeting

AC.044   **3rd QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2017/18**

The Principal Accountant presented the report which provided an update on treasury management activity for the third quarter of this financial year and gave an explanation of tables contained in the report.

RESOLVED   **To approve the treasury management activity third quarter report for 2017/18.**

AC.045   **TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2018/19**

The Principal Accountant presented this report which fulfils three key requirements of the LGA2003. It sets out the prudential indicators for 2018/19 – 2020/21 and also sets out the treasury strategy for this period. The current and planned borrowing position was explained.

RECOMMENDED TO COUNCIL
1. **Adopt the prudential indicators and limits for 2018/19 to 2020/21;**
2. **Approve the treasury management strategy 2018/19, and the treasury prudential indicators;**
3. **Approve the investment strategy 2018/19, and the detailed criteria for specified and non-specified investments; and**
4. **Approve the MRP Statement 2018/19.**

AC.046   **MEMBERS' QUESTIONS**

There were none.

The meeting closed at 8.56 pm.

Chair

Audit and Standards Committee
6 February 2018   6 of 94   Subject to approval
at the next meeting

STROUD DISTRICT COUNCIL

AUDIT AND STANDARDS COMMITTEE

10 APRIL 2018

WORK PROGRAMME

Proposed Meeting Date	Report Description	Responsible Officer / Member
26 July 2018	Annual Governance Statement and Local Code of Corporate Governance 2017/2018	Chief Internal Auditor
	External Audit Report 2017/18	KPMG
	2017/18 Statement of Accounts	Acting Section 151 Officer/Chief Internal Auditor
	Treasury Management Performance Q1 2018/19	Principal Accountant
	Annual Report on Internal Audit Activity 2017/2018	Chief Internal Auditor
	Task and Finish Group (Ethical Audit) Report	Chair/Monitoring Officer
9 October 2018	Review of Audit Shared Service	Chief Internal Auditor
	Further Internal Audit Management Update – Local Government Pension Scheme	Chief Internal Auditor
	Treasury Management Half Year Review	Principal Accountant
29 January 2019	Internal Audit Activity Progress Report 2017/18	Chief Internal Auditor
	Annual Summary of Certification of Grant Claims and Returns 2017/18	KPMG
	Annual Governance Statement 2017/18 Improvement Plan	Chief Internal Auditor
	Treasury Management Activity 2017/18	Principal Accountant
	Treasury Management, Annual Investment, and MRP Strategy 2018/19	Principal Accountant
7 May 2019	Annual Report of the Audit and Standards Committee (prepared by the Chairman) for agreement prior to presentation to Council	Chair
	External Audit Plan 2017/18	KPMG
	Internal Audit Activity Progress Report 2017/18	Chief Internal Auditor
	Internal Audit Plan 2018/19	Chief Internal Auditor

STROUD DISTRICT COUNCIL	**AGENDA ITEM NO**
AUDIT AND STANDARDS COMMITTEE	
10 APRIL 2018	**6**

Report Title	**FIRST REPORT OF TASK & FINISH GROUP (ETHICAL AUDIT)**
Purpose of Report	To agree the terms of reference of the Group
Decision(s)	**The Committee RESOLVES that the terms of reference of the Task and Finish Group (Ethical Audit) are as outlined in section 2 of the report.**
Financial Implications	There are no financial implications arising directly from this report. David Stanley – Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk
Legal Implications	Failure of the Council to meet is legal duty to promote and maintain high standards of conduct opens the Council to legal challenge as well as reputational risk. K Trickey, Head of Legal Services and Monitoring Officer Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk
Report Author	K Trickey on behalf of the Task and Finish Group (Chair Cllr Studdert-Kennedy; Cllr Baxendale; Cllr Pearson; Cllr Tom Williams; Cllr Wride)

1. INTRODUCTION

1.1 Further to the Committee's decision to set up a Task and Finish Group to review the Council's ethical framework (as defined in the report to the last Committee meeting), the appointed members met to consider its specific terms of reference.

2. TERMS OF THE REVIEW

2.1 The Group recognises that the Audit and Standards Committee should seek assurance that the Council fully understands the high standards of conduct required of its members and is satisfied that there is a framework in place to ensure that such standards are upheld by the Council. With this in mind, the Group proposes that its review should comprise an assessment of (a) the content of the Members' Code (in particular the general requirements) and (b) the existing investigations and determinations procedure; in both cases, with a view to the Group making recommendations on changes (if any) to the framework to ensure that relevant standards are promoted and upheld by the Council.

2.2   In respect to (a) the Group considers pertinent questions include:

- Are the general principles / requirements in the Code (e.g. confidentiality and respect for others) rather than simply interests, properly understood amongst members?
- Is the existing Members' Code of Conduct given appropriate regard by Members? If not, what would address such? Would strengthening the consequences of breaching the Code help?
- Do the various protocols within the Constitution add value? For example, are the Member / Officer and Member / Member protocols fit for purpose?
- Would it be helpful to include key protocol provisions within a revised Code so there is only one point of reference for standards?
- Are there other issues which need including in the Code (e.g. on social media which are currently addressed in Member Guides)?

2.3   Turning to (b), the investigations procedure, the Group considers a review should be undertaken of the role of the Committee as part of the complaint process and the use of sanctions in terms of improving standards and discouraging breaches. It was noted that whilst codes of conduct vary amongst parish and town councils and differ to that of the District Council, the investigation procedure still applies to them.   Consequently, the Group proposes to seek the views of parish and town councils when considering this part of the audit.

2.4   The Group also proposes to:

- seek views from a variety of stakeholders including all Council members; officers; complainants; and the independent standards panel members and
- report back with its findings or (if the review is not concluded) progress, to the committee at its first meeting in 2018/19 (i.e. 26 July 2018).

2.5   In terms of the members of the group, the existing members are content to continue, although the Committee is asked to confirm the membership as part of the acceptance (or otherwise) of the terms of reference set out in paragraphs 2.1 to 2.5 of this report.

STROUD DISTRICT COUNCIL

AUDIT AND STANDARDS COMMITTEE

10 APRIL 2018

Report Title	INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2017/18
Purpose of Report	To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2017/18.
Decisions(s)	The Committee RESOLVES: • To accept the progress against the Internal Audit Plan 2017/18; • Requests 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 Capital Programme, Post Project Reviews and The Pulse Dursley audits; and • To accept the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date.
Consultation and Feedback	Internal Audit findings are discussed with Service Heads/Managers. Management responses to recommendations are included in each assignment report.
Financial Implications and Risk Assessment	There are no financial implications arising from the report. David Stanley, Accountancy Manager (Section 151 Officer) Tel: 01453 754100 Email: david.stanley@stroud.gov.uk Risk Assessment: Failure to deliver an effective Internal Audit service will prevent an independent, objective assurance opinion from being provided to those charged with governance that the key risks associated with the achievement of the Council's objectives are being adequately controlled.

Legal Implications	The key point to note is that appropriate steps as outlined in the report should be taken to effectively manage any strategic risks where possible and therefore minimise the prospects of legal challenge. (Ref: KT/r153/c253/d263) Karen Trickey, Head of Legal Services and Monitoring Officer Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk
Report Author	Theresa Mortimer, Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754319 Email: theresa.mortimer@stroud.gov.uk
Options	There are no alternative options that are relevant to this matter.
Performance Management Follow Up	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.
Background Papers/ Appendices	**Appendix A** – Internal Audit activity progress report 2017/18. **Background papers:** ➢ Internal Audit Plan 2017/18; ➢ PSIAS; and the ➢ CIPFA Local Government Application Note for the UK PSIAS.

1.0 Background

1.1 Members approved the Internal Audit Plan 2017/18 at 11th 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 February 2018 to March 2018;

- Special investigations/counter fraud activity; and

- The Subscription Rooms – Financial Reporting Error report.

Internal Audit Activity
Progress Report
2017-2018

ARA
Audit Risk Assurance

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(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 Plan, including the assurance opinions on the effectiveness of risk management and control processes;

- The outcomes of the Internal Audit activity during the period February 2018 to March 2018;

- Special investigations/counter fraud activity; and

- The Subscription Rooms - Financial Reporting Error report.

(4) Progress against the 2017/18 Internal Audit Plan, 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 table below.

The Subscription Rooms - Financial Reporting Error report – **Attachment 3.**

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.	• 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.	• 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.**	• **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**

3

(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 March 2018.

Control Assurance

Limited
27%

Satisfactory
60%

Substantial
13%

Risk Assurance

Limited
6%

Substantial
27%

Satisfactory
67%

4
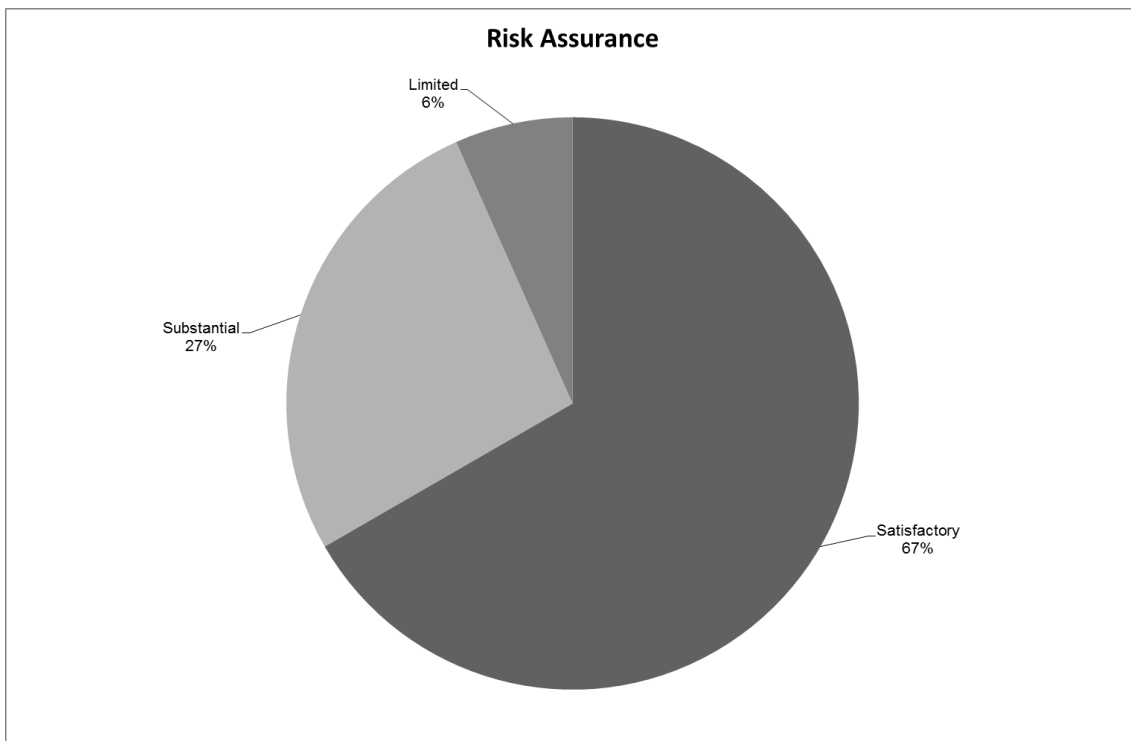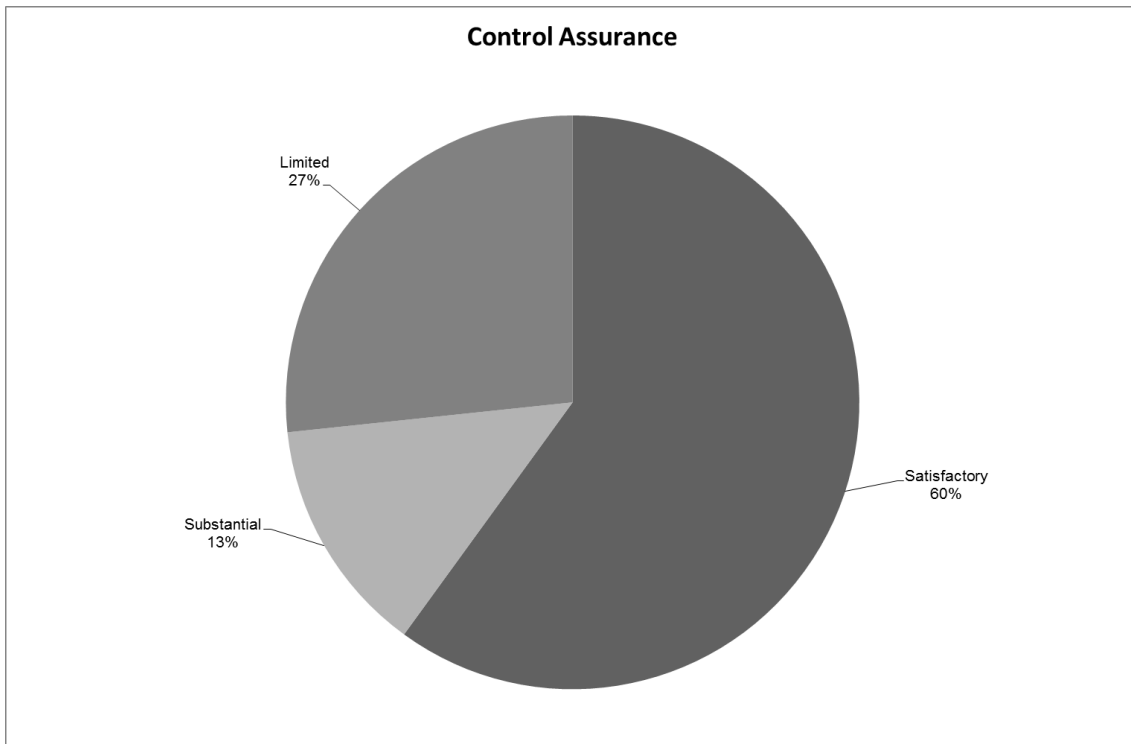
(4b)   Limited Control Assurance Opinions

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 February 2018 to March 2018, three audit reviews have been provided with a limited assurance opinion on control which relate to the Capital Programme, The Pulse, Dursley and Post Project audit reviews.

It is important to note that whilst a limited assurance opinion has been provided in these instances, management have responded positively to the recommendations made and actions are being taken to address them.

(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 February 2018 to March 2018 Internal Audit made, in total, **37** recommendations to improve the control environment, **18** of these being high priority recommendations and **19** being medium priority recommendations (**95%** accepted by management). Two of the three recommendations made within the Post Project Review audit were not accepted by management, as they were deemed to be within their risk appetite.

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

There was one limited assurance opinion on risk during the period February to March 2018 which related to Capital Programme. The monitoring of the implementation of the recommendations to manage the risks identified is owned by the relevant manager and helps to further embed risk management into the day to day management, risk monitoring and reporting processes.

Completed Internal Audit Activity during the period February 2018 to March 2018

Summary of Limited Assurance Opinions on Control

Service Area:	**Council Wide**
Audit Activity:	**Capital Programme**

Background

A capital programme is a set of capital projects that a council plans to undertake within a given timetable and should be based on an approved Capital Strategy, which in turn should be linked to the council's Asset Strategy.

The development of a capital programme, as per Chartered Institute of Public Finance and Accountancy (CIPFA) best practice, involves the following key activities:

➢ Setting the parameters;

➢ Identifying and developing project proposals;

➢ Evaluating and prioritising project proposals; and

➢ Finalising and approving the programme and confirming the funding.

The council's medium term General Fund capital programme has planned expenditure of approximately £20m for the period 2017-18 to 2020-21.

Scope

The audit review focused on the systems and processes relating to the General Fund capital programme. The specific objectives of the audit were to review and provide assurance as to whether:

➢ Capital strategies and plans have been developed, aligned, documented and approved;

➢ The process for making capital bids, evaluation criteria and funding options are clearly documented and published;

➢ Capital proposals are supported with appropriate documentation to ensure each one is aligned to council strategies and provides for an effective assessment of its feasibility, options and funding requirements; and

➢ Capital projects are subject to appropriate authorisation and monitoring.

Risk Assurance – Limited

Control Assurance – Limited

Key findings

The council has identified its corporate objectives within the approved 2017-2021 Corporate Delivery Plan and which also highlights the council's capital proposals for this period. In addition the council's 2017-2021 Medium Term Financial Plan was developed and approved by 26th January 2017 Strategy and Resources Committee, which refers to the capital proposals in the capital programme and the relevant revenue financing costs.

Alongside the above Plans, Asset Management has documented a 2016-2021 Corporate Asset Management Strategy that was approved by 7th July 2016 Strategy and Resources Committee. The document details how the council will manage its property assets to achieve its corporate objectives.

The council's Investment Strategy (which is due to form part of the Corporate Asset Management Strategy) was drafted in May 2017 by the previous Head of Asset Management, but has not yet been finalised at the point of audit. In addition the five year Maintenance Plan (2017-2022) for Housing Revenue Account (HRA) properties has been highlighted as one of the essential supporting documents to the Corporate Asset Management Strategy. However, it too has not yet been finalised and published to customers and stakeholders.

A Capital Strategy, which forms the basis of the capital programme and is the foundation for proper long-term planning of capital investment and how it is to be delivered, has not yet been documented, approved and published by the council. The Interim Section 151 Officer and the Accountancy Manager presented a Budget Strategy 2017-18 to 2020-2021 report to 13th October 2016 Strategy and Resources Committee. This highlighted that a Capital Strategy would be prepared and completed by January 2017, which 'will assist the council in setting out the longer term priorities around capital expenditure and financing'.

During 2017 it became apparent that guidance issued by the Department for Communities and Local Government (DCLG) and CIPFA would be revised. Following consultation in the latter half of 2017, final guidance has been issued in the form of "The Prudential Code for Capital Finance in Local Authorities (2017 Edition)" and "Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition)". As a result, it is now a mandatory requirement for local authorities to produce a Capital Strategy against the revised guidance.

Corporate Team supported the introduction of Project Management Guidance in 2015, as prepared by the Business Projects Manager in consultation with the Section 151 Officer. This guidance included project planning, options appraisal and a requirement to produce full business cases. Elements of these project management stages had been included in the council's previous Capital Strategy. It was expected that the Project Management Guidance and review of projects by the Business Projects Manager would provide a mechanism to identify, review, and assess potential capital schemes.

The council has approved a capital programme for 2017-2021, which was formed from the results of residents and business surveys and through three budget workshops involving the Administration's group leaders, Chairs and Vice Chairs of service committees and Corporate Team.

A review by Internal Audit of six new capital projects from the 2017-2021 capital programme totalling £14m established that five projects did not have a business case, feasibility study or options appraisal to confirm their viability and to enable their evaluation and prioritisation by a Capital Board before being added to the capital programme for Member approval.

It was acknowledged in the Medium Term Financial Plan report to 26th January 2017 Strategy and Resources Committee that each new capital project on the capital programme will require a detailed business and project plan, which could lead to additional costs. In addition the Chairman of the Strategy and Resources Committee stated that the capital programme as presented represented a 'statement of intent' and that a capital project would not progress unless its viability was later proven.

It is noted that concerns were raised at the January 2017 Strategy and Resources Committee and February 2017 full Council by Conservative Members based on the level of detail supporting the presented capital programme. However, although all 21 Conservative Members did not approve the capital programme the motion was carried with the approval of all other political parties.

An evaluation criterion for capital proposals and guidance concerning the processes and controls for capital schemes has not been documented and published by the Acting Section 151 Officer in accordance with Financial Regulations.

The progress on individual capital projects have been reported to the appropriate committees in June 2017 and regular capital project monitoring reports are to be provided throughout the financial year.

Conclusion

CIPFA has published a best practice guide for Capital Strategies and Programming (2014), which details the development of a capital programme and provides a flowchart that provides an overview of the capital programme process. The council's current process is not fully aligned to this – specifically relating to the absence of both an approved Capital Strategy and formal evaluation of a capital project (with audit trail of capital proposal bid, detailed feasibility assessment and prioritisation) before it is included in the capital programme.

The council's current capital programme approach (used for the capital programme 2017-2021) may result in a negative impact to the council's forward financial planning and adverse revenue implications resulting from placing a capital proposal on the capital programme before it has been determined as viable and financial amounts fully confirmed. In addition there is a risk that a different viable capital project may not have been considered for inclusion in the capital programme (i.e. wider capital project opportunities may be forgone or delayed). Due to the capital programme residual risk position, the audit has resulted in limited assurance for both risk identification maturity and control environment.

There is no cross cutting risk relating to the overall management of the capital programme on the Corporate Risk Register.

Management Actions

Internal Audit has raised two high and one medium priority recommendations that are aimed at strengthening the capital programme governance framework and ensuring alignment with CIPFA best practice.

Service Area: Council wide

Audit Activity: Post Project Reviews

Background

Post project reviews are a very useful and powerful way of adding a continuous improvement mechanism to ensure that each succeeding project is more successful.

Post project reviews typically involve the project team and key stakeholders meeting together and reviewing what went well and what improvement areas were identified during the project. The output is then fed back into future project management arrangements.

To endorse the above, effective project management practices such as PRINCE2 derives its methods from seven core principles. Collectively these principles provide a framework for good practice. One of these principles relates to 'learning from experience' whereby Project Managers should take lessons from previous projects into account.

Scope

This review was undertaken to determine whether the council has a robust framework in place to ensure that post project reviews are undertaken for key projects / decisions.

The specific objectives of the audit were to provide assurance on the following areas:

➢ Project management guidance is up to date and is available to Project Managers; and

➢ Post project reviews have been promptly performed and the findings documented and made available for future projects.

Risk Assurance - Satisfactory

Control Assurance – Limited

Key findings

The Business Projects Manager, who left the council's employment in March 2017, was responsible for the implementation of the corporate project management methodology during 2014-15. This post has not been replaced and discussions between Internal Audit, the Directors and Accountancy Manager established that ownership and overall responsibility for the council's corporate project management methodology, policy and processes has not currently been determined.

Project management guidance dated October 2015, which includes the completion of a post project review, is held on the council's intranet that is accessible to all council officers. A review of the guidance by Internal Audit established that it is out of date particularly as there is reference to the roles and responsibilities of the Business Projects Manager post that is no longer operating.

A review by Internal Audit of seven selected completed projects and from discussions held with the appropriate Project Manager / Lead Officer, Internal Audit established:

➢ All seven projects were recorded and managed on the risk and performance management system (Excelsis);

➢ A formal post project review had not been completed before the start of this audit for six projects; and

➢ The one completed post project review had not been stored in a central repository so present and future Project Managers / Lead Officers could not access and review the findings of the review.

The Directors, Accountancy Manager and Project Managers / Lead Officers advised Internal Audit that they had, where appropriate, verbally discussed the management and issues affecting their project(s) with their counterparts or senior management to support them in delivering their project successfully.

Conclusion

A post project review is a very useful and effective way of adding a continuous improvement mechanism to help make each succeeding project more successful.

Internal Audit has raised three high priority recommendations that are aimed at providing accountability and ownership for the council's corporate project management arrangements. In addition that there is a mechanism that provides assurance for the completion of post project reviews and that the results of these reviews are utilised in future projects, in particular they are shared with officers not just at director level.

Management Actions

The three high priority recommendations raised by Internal Audit and Corporate Team responses are detailed below:

Recommendation 1

Establish and document overall ownership and accountability for leading on the corporate project management methodology, policy and processes.

Corporate Team response:

The Head of Business Service Planning will update the current documentation however it is not practical for one officer to have overall responsibility on an ongoing basis due to the significant planned reduction in staffing levels as part of the work force plan. Therefore this recommendation is not accepted. However capital projects are reported to committees on a regular basis this should minimise risk in this area.

Recommendation 2

Review the corporate project management guidance and update, where appropriate, and thereafter regularly maintain to ensure that it remains current. In particular emphasize the importance of promptly completing a formal post project review, the repository where the document should be filed and provide a template. Once completed, relevant awareness communications are provided to staff.

Corporate Team response:

The Head of Business Service Planning will update the current documentation however it is not practical for one officer to have overall responsibility on an ongoing basis due to the significant planned reduction in staffing levels as part of the work force plan.

Recommendation 3

An appointed oversight officer(s), who is not the Project Manager / Lead Officer for specific projects, should ensure that a formal post project review has been correctly and timely performed for each project and stored in a central repository such as the risk and performance management system.

Corporate Team response:

There is no evidence of failure regarding the lack of project reviews that may be as a result of Corporate Team and committee and ad hoc groups reviewing projects. We accept the risk of not having a separate oversight officer as we do not have the capacity and that the Project Manager will undertake the project review.

Internal Audit's view

Internal Audit's expectations are that the recommendations that have not been agreed, and therefore the associated risks accepted, should be documented as a corporate risk in the risk and performance management system (Excelsis) to demonstrate that the risk(s) have been formally considered and are within the council's risk appetite.

Service Area:	Cultural Services
Audit Activity:	The Pulse, Dursley

Background

The Dursley swimming pool building was extended during 2016-17 to accommodate a new fitness extension and to turn the facility into a leisure centre. The objectives for the extension were to:

➢ Help the council deliver against the Corporate Delivery Plan aims of jobs and growth and health and well being; and

➢ Increase income to reduce the overall subsidy from the council in its operation of the facility to nil by 2022.

For 2017-18 a budgeted income of approximately £1m is expected to be generated by The Pulse, which equates to a net subsidy from the council of approximately £283k.

Scope

The principal objective of the audit was to provide assurance that the operating control environment was effective in ensuring that all income due had been collected, in particular:

➢ Leisure facility and activity product prices including discounts or concessions have been correctly approved and updated to the leisure facility management system;

➢ Income received is securely stored, correctly processed and accounted for within the leisure facility management and council accounting systems;

➢ Outstanding debts are correctly managed and recovered; and

➢ Refunds are correctly applied against policy and are approved.

A review of the BACS Direct Debit collection process was not performed as this was undertaken as part of the 2017-18 BACS audit.

Risk Assurance - Satisfactory

Control Assurance – Limited

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Key findings

Income reconciliation

An income matching exercise is performed by the Duty Manager to confirm that all income processed through the leisure management system is accounted for within the council's financial accounting system records. This does not however represent an effective reconciliation of the income control general ledger account as previously recommended by Internal Audit in the May 2013 audit of Dursley Pool.

As a result of a lack of formal income reconciliation and concerns raised by the General Manager during the audit, Internal Audit completed the income reconciliations from April 2017 to November 2017, which highlighted net variances / differences of approximately £9,500 (more income credited against that actually processed) made-up of duplicated transactions, journal posting differences, income not posted to the general ledger and cash differences. The General Manager is in the process of investigating these variances / differences to establish their reason and to implement the appropriate amendments, where necessary.

Cash and card differences for the period April 2017 to November 2017, which require to be determined from the General Manager's investigations, have not been processed to the under / over general ledger account as required for visibility, transparency and control purposes. Instead they remain on the income control general ledger account and are included within the above highlighted variance / difference. There is no documentary evidence to confirm:

➢ That these differences have, in the majority of cases, been fully investigated and where appropriate corrections made; and

➢ They have been subject to management review to confirm the level of differences is within the service's risk appetite and there are no adverse trends or training issues.

Banking

At the point of this audit there was a lack of segregation of duties in the cashing-up of income, banking and reconciliation process, which was being performed by a Duty Manager. Therefore there is an increased risk that cash could be misappropriated without early detection.

Internal Audit identified that potential efficiency and control improvements to the cash-up and banking processes could be introduced. Details of these have been discussed and separately reported to the General Manager for consideration.

Risk management

At the point of this audit only one operational risk relating to recruitment had been formally recognised in the risk management and performance system (Excelsis) for The Pulse. Operational financial risks and the acceptance by management of risks, highlighted in this audit, have not been formally documented in accordance with Stroud District Council's Risk Management Policy Statement and Strategy. Although The Pulse management is aware of the operational risks it faces there is a lack of documentary evidence to demonstrate to senior management that there is a clear understanding of its risks and the effectiveness of how they are being managed.

Security arrangements

A review of the amount of cash held on the premises for the period April 2017 to August 2017 and the security arrangements for the keys to the safes were confirmed as being managed in accordance with the council's insurance policy conditions. Access to the merchant copy of customers' debit and credit card transaction slips and cashing-up records however were not being held securely in accordance with the insurance policy. The Duty Manager has confirmed that appropriate action is now being taken to correct this issue.

Charging

The General Manager provided verbal assurance that the Director (Customer Services) had been presented with and approved the updated 2017-18 leisure facility prices, however documentary evidence of the approval was not retained by the General Manager. In addition there was no signed evidence of the person updating the leisure facility prices to the leisure management system or the independent check of the updates. A sample check of 20 leisure facility prices by Internal Audit confirmed that these had been correctly updated to the leisure management system.

Debt management

The General Manager confirmed that she had discussed and agreed the unpaid direct debit collection arrangements with Legal Services. A review of outstanding debts by Internal Audit, at the point of the audit, confirmed that they were being appropriately managed and subject to management review. However, a communications protocol between The Pulse and Revenue and Benefits, who are managing debts that have exhausted The Pulse debt recovery process, has not been determined and agreed. As a result the appropriate Duty Manager is not fully aware as to the position of these debtor accounts.

Refunds

All staff that have access to the leisure management system are able to process a refund or credit a customer's account, although these transactions should first be authorised by the General Manager.

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There is currently no report produced from the leisure management system to enable the General Manager to confirm that all refunds / credits have been presented to her and have been authorised. Tests undertaken by Internal Audit highlighted that the level of refunds / credits is low, but a review of the completed forms highlighted that of the three, one for approximately £300 had not been authorised by the General Manager.

Conclusion

The level of income received and processed has significantly increased by approximately £300k during the nine months to December 2017 against the equivalent period last year following the opening of the new leisure facility extension. In addition the recent software enhancement / upgrade to the leisure management system has enabled localised management of the direct debit function, which has improved the control over this operation.

This review has mainly highlighted the absence of two key financial controls, which has resulted in Internal Audit providing a limited assurance opinion in respect of the control environment, as follows:

➢ Reconciliation of the income control general ledger account and effective management oversight; and

➢ Segregation of duties in the cash-up, banking and income reconciliation processes.

The potential impact of the absence of the above controls is that income is not correctly accounted for and there is a risk of unauthorised activity.

The Pulse management are aware of the operational risks effecting the service, but have not formally documented all their risks and mitigating controls to demonstrate to senior management that risks are being effectively managed or accepted within their risk appetite.

Improvements / enhancements are also required for the management of refunds, clarification of the debt recovery policy and the evidencing of the application of the agreed controls.

Management Actions

Internal Audit has raised three high and four medium priority recommendations in order to improve and strengthen the control environment; these have been accepted in full.

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Summary of Satisfactory Assurance Opinions on Control

Service Area:	**Council Wide**
Audit Activity:	**ICT Business Processes (Follow Up)**

Background

The original ICT Business Process internal audit was completed in 2016/17 and the final report issued in May 2017. The audit identified a number of areas of non-compliance with relevant guidance. Seven audit recommendations were raised – three high priority and four medium priority. Management update was subsequently provided to Audit and Standards Committee in November 2017 to confirm the council's progress on audit recommendation implementation and management of the relevant risks.

This follow up review was to provide assurance that the agreed actions from the 2016/17 ICT Business Processes internal audit had been appropriately implemented and confirm the outcomes to the Audit and Standards Committee.

Scope

The scope of this review was to extract the recommendations and agreed management actions from the 2016/17 ICT Business Processes internal audit report and undertake appropriate audit testing to verify their implementation.

Risk Assurance – Substantial

Control Assurance – Satisfactory

Key Findings

Significant progress has been made within 2017/18 to improve ICT Business Process controls at Stroud District Council. This includes the following completed actions relevant to the 2016/17 ICT internal audit recommendations:

➢ Robust password policies have been implemented to prevent unauthorised access to the firewall administration console;

➢ Audit testing confirmed that all unnecessary or potentially insecure Windows services had been disabled;

➢ No accounts possessed Local Administration rights;

➢ Antivirus software has been deployed across the council's PC and Server estate and the relevant management console provides management information on any devices with out of date antivirus software; and

➢ The Systems Center Configuration Manager has been deployed to monitor software patching status.

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Only two medium priority recommendations from the original audit review (regards firewall security patch installation and review of Active Directory user account applied controls) have not been fully implemented at the point of audit follow up. Although not fully implemented, positive progress has been made against both outstanding recommendations and management continue to review the council's position against both areas.

Conclusion

On the basis of the above audit findings, the control environment assurance level has improved to Satisfactory.

Management Actions

No new audit recommendations were raised by the follow up review.

Summary of Substantial Assurance Opinions on Control

Service Area: **Finance**

Audit Activity: **Cash and Bank**

Background

The cash and bank reconciliation and monitoring arrangements represent a key set of controls that have the objective to confirm all the council's financial transactions have been correctly and fully accounted for in its financial accounting system, Agresso.

The Finance team is responsible for carrying out these reconciliations on a regular basis, throughout the financial year.

Receipt of appropriate certification from service area managers for the verification of petty cash balances is completed at year end only.

Scope

The specific objectives of the audit were to provide assurance on the following areas:

➢ The cash and bank procedures are reviewed periodically and updated to account for changes in the processes and controls administering the financial system;

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➢ Petty cash and imprest cash balances are regularly reconciled;

➢ A reconciliation of the cash receipting system to the general ledger is regularly performed and subject to management review;

➢ The bank reconciliation at month end is regularly reconciled to the Agresso general ledger and subject to management review; and

➢ Previous Internal Audit recommendations have been fully implemented.

Risk Assurance - Substantial

Control Assurance – Substantial

Key findings

Internal Audit review and sample testing has confirmed that the monthly bank and cash receipting reconciliations have been completed and subject to management review for the period April to November 2017 (bank reconciliation completed up to December 2017). In addition unmatched items have been and are being investigated and cleared by the Finance Clerical Assistant.

The bank reconciliation procedures manual was updated during July 2017 and has been confirmed as current and complete. However, the cash receipting procedures remain out of date despite a recommendation being raised in the 2016-17 internal audit report for the procedures to be updated.

A certificate was received from appropriate service areas detailing the value of the petty cash or imprest cash balances held as at 31st March 2017 in accordance with the Financial Regulations. However, in six cases the certificate was not signed by the budget owner or independent officer, but by the person responsible for the cash.

Conclusion

The Internal Audit review of the cash and bank control environment confirmed that at the point of this audit the two key financial reconciliations were operating effectively. There is a Finance service area risk recorded in Excelsis (the council's performance and risk management system) FIN23 which states 'If the bank reconciliation is not carried out accurately, regularly and promptly then risk of fraud and inaccurate accounting records'.

Management Actions

Two medium priority recommendations have been raised to further strengthen supporting controls and ensure that:

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> ➢ The cash receipting reconciliation procedures manual is up to date to enable a different Finance officer to complete the reconciliation in the event of unplanned absence of the lead officer responsible for the reconciliation; and

> ➢ Service area management are made fully aware of the requirements and their responsibilities when annually confirming their petty cash and imprest cash balance to Finance.

Summary of Consulting Activity, Grant Certification and/or Support Delivered where no Opinions are provided

Service Area:	**Council Wide**
Audit Activity:	**Critical ICT systems - back up arrangements**

Background

Senior council officers have requested an additional ICT consultancy review, to be delivered as part of the 2017/18 Stroud District Council Internal Audit Plan. The requested remit is review of the 'adequacy of the council's back up arrangements around the critical ICT systems'.

The review is to ensure that the council's critical ICT systems and applications are properly and routinely backed up and would be recovered to ensure a return to normal operations in a timely manner in the event of an incident.

It is noted that this review is not an assurance review and as such does not provide an assurance opinion, focussing instead on providing a timely analysis of the prevailing circumstances and actions to improve the present situation.

Scope

This review is a non-assurance (consultancy) review which considered and encompassed:

> ➢ All council systems, applications and data to confirm minimum back up requirements and the current approach applied (including regularity);

> ➢ That critical business systems have been identified and prioritised for recovery;

> ➢ Backups are routinely tested; and

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> ➤ Assessment of the recovery timescales.

The review also considered the likely timescale for a return to business as usual and therefore the level of risk exposure which the council faces if this is delayed.

Key Findings

The review identified a number of areas of good practice applied by the council, including:

> ➤ ICT provide technical support to ensure all key council applications are regularly backed up;

> ➤ A system to manage data back up regimes has been deployed to manage data backup routines for all council systems;

> ➤ ICT provides centralised technical support for the backup process of ICT critical systems; and

> ➤ Tape media is stored securely in fireproof safes at two offsite locations.

The findings from this review have also identified some areas where improvement is required to ensure reasonable chance of ICT critical systems timely recovery from an incident. The main areas that require attention are:

> ➤ Data backup procedures have not been updated regularly;

> ➤ Review of the regularity of back up tape completion and on and off site storage is required;

> ➤ No review of superuser access rights on the backup system;

> ➤ The failure to assign criticality and ownership for all key ICT systems;

> ➤ Failure to monitor and check the integrity of backup media;

> ➤ No review of user access to the ICT Comms Room; and

> ➤ No timescales or priority has been defined by the business for the recovery of critical council systems.

Conclusion

The matters identified and outlined in the key findings section above put the likelihood of a successful and/or timely recovery of ICT critical systems following an incident at risk.

Seven recommendations have been made within this report for management's consideration and implementation. Implementation of the recommendations would improve the council's position regards both ICT critical systems recovery success and timeliness.

Management Actions

Management have positively responded to all seven (one High and six Medium Priority) recommendations within the report. The latest recommendation implementation deadline agreed by management is 30th November 2018.

Service Area:	Council Wide
Audit Activity:	ICT Disaster Recovery Follow Up

Background

The original ICT Disaster Recovery consultancy review was completed in 2016/17 and the final report issued on 23rd December 2016. The review identified a number of areas of non-compliance with relevant standards. 13 recommendations were raised – five high priority and eight medium priority. The recommendation implementation date of 31st March 2017 was agreed by management for all 13 recommendations.

The follow up review is to provide assurance that the agreed actions from the 2016/17 IT Disaster Recovery consultancy review have been appropriately implemented and confirm the outcomes to Audit and Standards Committee.

It is noted that this review is not an assurance review and as such does not provide an assurance opinion, focussing instead on providing a timely analysis of the prevailing circumstances and actions to improve the present situation.

Scope

The scope of the follow up review was to extract the recommendations and agreed management actions from the 2016/17 IT Disaster Recovery consultancy review report and undertake appropriate review and testing to verify their implementation.

Key Findings

The follow up review has identified progress against some of the original 2016/17 report recommendations, including:

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➢ All council systems are subject to daily backup with copies stored securely in a fireproof safe;

➢ An off-site tape storage facility has been established;

➢ All IT servers are housed in secure locations and both uninterruptable power supplies (UPS) and generators have been deployed to protect IT equipment against power failure;

➢ An external IT Disaster Recovery provider has been contracted to provide IT workplace recovery facilities in the event of a disaster; and

➢ Arrangements have been made to relocate all staff to premises in the event of an incident, which includes the ICT team set up a fall-back data centre from which to recover and restore all council applications.

The review also identified a number of actions from the original 2016/17 report that are still to be implemented. The main areas that require attention are:

➢ Business Continuity Plans have not been matched or integrated into any Disaster Recovery Strategy;

➢ Out of date and incomplete documented IT Disaster Recovery Plan;

➢ Lack of an action plan to capture all enhancements and any new applications;

➢ Technical recovery procedures have not been updated regularly;

➢ Failure to develop manual procedures to supplement key IT systems in the event of a disaster;

➢ There is no programme of regular Disaster Recovery tests;

➢ There has been limited testing to date of the fall back site for server hosting and communication links; and

➢ The absence of Service Level Agreements to clearly define IT recovery services.

Conclusion

Eight out of 13 2016/17 consultancy review recommendations remain outstanding based on the above position. Further progress has been delayed by significant changes in key ICT personnel. In addition, the ICT function only has a finite resource to both support the existing infrastructure, help replace legacy systems and platforms and to develop a robust IT Disaster Recovery capability.

It was clear during the follow up review that the ICT team was fully aware of the outstanding recommendations (including risk awareness) and the need to address them. It is noted that some of the required actions have an impact on areas of the business outside ICT (such as business planning) and will need a co-ordinated effort for implementation.

Management Actions

Management have positively responded to all remaining recommendations within the report. The latest recommendation implementation deadline agreed by management is 30th November 2018.

Service Area:	**Council Wide**
Audit Activity:	**Gifts and Hospitality**

Background

The public is entitled to expect the highest standards of conduct from all employees who work for local government and Stroud District Council's (SDC) 'Code of Conduct' sets out the standards of conduct expected from all employees.

The 'Code of Conduct' requires employees to register any gifts or hospitality, in order to provide openness and transparency and protection for employees against allegations of conflicts of interest or corruption. Any offers of gifts or hospitality regardless of whether or not they were accepted or declined should be recorded in the council's 'Gifts and Hospitality register for Employees' held by Human Resources.

The 'Code of Conduct' applies to all staff working with the council including secondments, temporary assignments, work placements and trainees; employees must comply with the 'Code of Conduct' fully as it forms part of their terms and conditions of employment.

Scope

The objective of this review was to undertake a piece of counter fraud activity to determine the level of employee compliance with the requirements as laid down within the council's 'Code of Conduct for Employees' for the declaration/registration of gifts or hospitality.

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Key findings

It is pleasing to report, in acknowledgement that there may be an increase in the likelihood of gifts or hospitality being offered around the Christmas period, Human Resources in November 2017 took the proactive step of publishing, on the SDC employee intranet, a reminder of the rules regarding gifts and hospitality.

Internal Audit sampled 37 suppliers, who had supplied goods or services to SDC in 2016/17, from:

➢ SDC's Contract Register; and

➢ Creditors on the Agresso Financial system.

In January 2018 the sampled suppliers were contacted by email and asked if they had offered gifts or hospitality to any SDC employee during the last two years (from April 2016 to date). Out of the 37 suppliers contacted, 16 replied, all responding that they had not offered gifts or hospitality to SDC employees.

In February 2018 Internal Audit reviewed the Gifts and Hospitality Register held by Human Resources and found that in 2017/18 (to date) there were 31 declarations of gifts or hospitality. In all cases employees had acted appropriately and within the guidance found in the Employee Code of Conduct.

Out of the 16 suppliers who had responded, none were documented as a supplier on the 31 declarations of gifts or hospitality

Conclusion

Internal Audit conclude that from the findings emanating from the review, employees who declared they were offered a gift or hospitality were compliant with the requirements as laid down within the council's 'Code of Conduct for Employees'.

Service Area:	Customer Services
Audit Activity:	Equality and Rural Analysis (ERA)-Garden and Bulky Waste

Background

An objective of the council is to encourage residents with internet access to register for and pay for council services through this method, rather than contact the council via telephone, letter or face to face. This 'channel shift' provides benefits to both the resident and council in that it is more efficient and economic than other methods operated by the council.

Public authorities are required to have due regard to a number of equality considerations when exercising their functions.   The completion of an Equality Impact Assessment (EIA) or ERA form (an ERA is used by this council), which are normally carried out prior to implementing a policy, demonstrates that the council has considered and identified the potential impact of a change on equality.

Although the completion of an ERA is not required by law they are a way of facilitating and demonstrating compliance with the Public Sector Equality Duty.

In order to facilitate the council's objective for the garden waste service an initial letter dated 4th October 2017 was sent to all residents on 5th October 2017 to subscribers of the service who had not provided an email address to the council, requesting they do so, to enable re-subscription for the service.

Prime correspondence, viewed by Internal Audit, evidences that this letter worried residents and concerns were raised to Councillors, and the council, which has led to a degree of political angst; as these residents, who did not have, or had limited access, to the internet complained that they would not be able to apply for this service.

A Councillor requested information to understand and clarify the position with officers of the council, but was not satisfied with the responses and therefore formally raised her issues with the Chief Executive during December 2017 and January 2018.

Scope

The Chief Executive commissioned Internal Audit on 18th January 2018 to investigate the concerns raised by the Councillor, which were as follows:

➢ "If all the impacts had been assessed, why was the letter of 5th October 2017 sent out in its original form"? and

➢ "Was there additional cost to the council in sending out an additional letter regarding the waste scheme as it does seem that the letter of 5th October was redundant in the light of the EIA"?

Conclusion

The report as presented by Internal Audit to the Chief Executive concluded on the two questions raised by a Councillor as follows:

"If all the impacts had been assessed, why was the letter of 5th October 2017 sent out in its original form"?

The ERA for garden and bulky waste services, signed by both the Customer Services Manager and the Director of Customer Services on 5th October 2017 set out an alternative arrangement for those residents, with limited or no internet access.

Initially a letter dated 4th October 2017 was sent to residents on 5th October 2017, who had not originally supplied an email address, with the primary objective of collecting residents email addresses.

The focus was to meet one of the council's objectives, which would enable enhancements and improvements to the service for those residents with internet access and to the council.

The letter, which was not subject to further review and formal approval by other Service areas or the Director of Customer Services, could have, in Internal Audit's opinion been written more effectively to clearly define the alternative registration options available.
The letter placed too much emphasis on moving residents to an online only service and did not indicate that there would be an alternative method for those residents that did not have internet access. The Director of Customer Services in an email to a Councillor on 27th October 2017 also confirmed that the letter of 4th October 2017 should have stated that there was an alternative option to online garden waste registration.

"Was there additional cost to the council in sending out an additional letter regarding the waste scheme as it does seem that the letter of 5th October was redundant in the light of the EIA"?

The cost of responding to the 50 residents that had written to the Council following its letter of 4th October 2017 where they raised concerns about the council's policy and the lack of an alternative renewal option was estimated by Internal Audit to be £52.

Proposed Management Actions

Internal Audit proposed that protocols could be introduced to mitigate against a similar event occurring in the future that would reduce the risk of resident and Member angst. An option that could be considered is that all key communications to residents are subject to formal review and sign-off by an appropriate senior officer(s), e.g. Marketing / Communications, Director, Legal Services, etc to ensure the tone of the message, purpose and any legal aspects are properly considered and accounted for.

Summary of Special Investigations/Counter Fraud Activities

Current Status

During 2017/18 to date (1st April 2017 to 9th March 2018) there have been four potential irregularities referred to Internal Audit, all relating to tenancy issues. All four of these cases have previously been reported to the Audit and Standards Committee and are now closed.

Audit, Risk Assurance (ARA) through the Gloucestershire Counter Fraud Unit (CFU) has recently commissioned a bespoke piece of work on the Right to Buy (RTB) process at Stroud District Council (SDC) for compliance with current SDC policy and legislation.

24 files were selected for examination, of which six were identified requiring further review. The outcomes will be reported to the Audit and Standards Committee once finalised.

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 data matches between Revenues (Benefit and Council Tax), the Housing System and the Electoral Register has recently been commissioned by Audit, Risk Assurance (ARA) through the Gloucestershire Counter Fraud Unit. This work is ongoing and the high level outcomes of the review will be provided to the Audit and Standards Committee once finalised.

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.

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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	Final Report Issued	Substantial	Satisfactory	10/04/2018	
Council Wide	Capital Programme	High	Final Report Issued	Limited	Limited	10/04/2018	
Council Wide	Contract Management	High	Planned				
Council Wide	Gifts and Hospitality	High	Final Report Issued	Not Applicable	Not Applicable	10/04/2018	
Council Wide	Information Governance	High	Consultancy				Reported in annual report
Council Wide	Members Allowances and Expenses	Medium	Draft Report Issued				
Council Wide	Post Project Reviews	High	Final Report Issued	Satisfactory	Limited	10/04/2018	
Council Wide	Procurement	High	Planned				
Council Wide	Legacy software	High	Audit in Progress				
Council Wide	Data Protection	High	Cancelled				Cancelled based on updated client risk
Council Wide	Critical ICT systems back up	High	Final Report Issued	Not Applicable	Not Applicable	10/04/2018	New Activity
Development Services	Community Infrastructure Levy	High	Audit in Progress				Agreed with manager to commence Q4
Development Services	Licensing (Business Licences)	Medium	Planned				
Customer Services	Homelessness	Medium	Deferred				Defer to 18/19 plan to ensure consideration of
Customer Services	Discretionary Housing Payments	Medium	Final Report Issued	Substantial	Satisfactory	06/02/2018	
Customer Services	Multi Services Contract	High	Final Report Issued	Not Applicable	Not Applicable	28/11/2017	
Customer Services	The Pulse Dursley	Medium	Final Report Issued	Satisfactory	Limited	10/04/2018	
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	Final Report Issued	Substantial	Substantial	10/04/2018	
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	Final Report Issued	Not Applicable	Not Applicable	10/04/2018	
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
Council Wide	Sub Rooms	High	Final Report Issued	Not Applicable	Not Applicable	10/04/2018	New Activity

Control Assurance

Limited
27%

Substantial
13%

Satisfactory
60%

Risk Assurance

Limited
6%

Substantial
27%

Satisfactory
67%
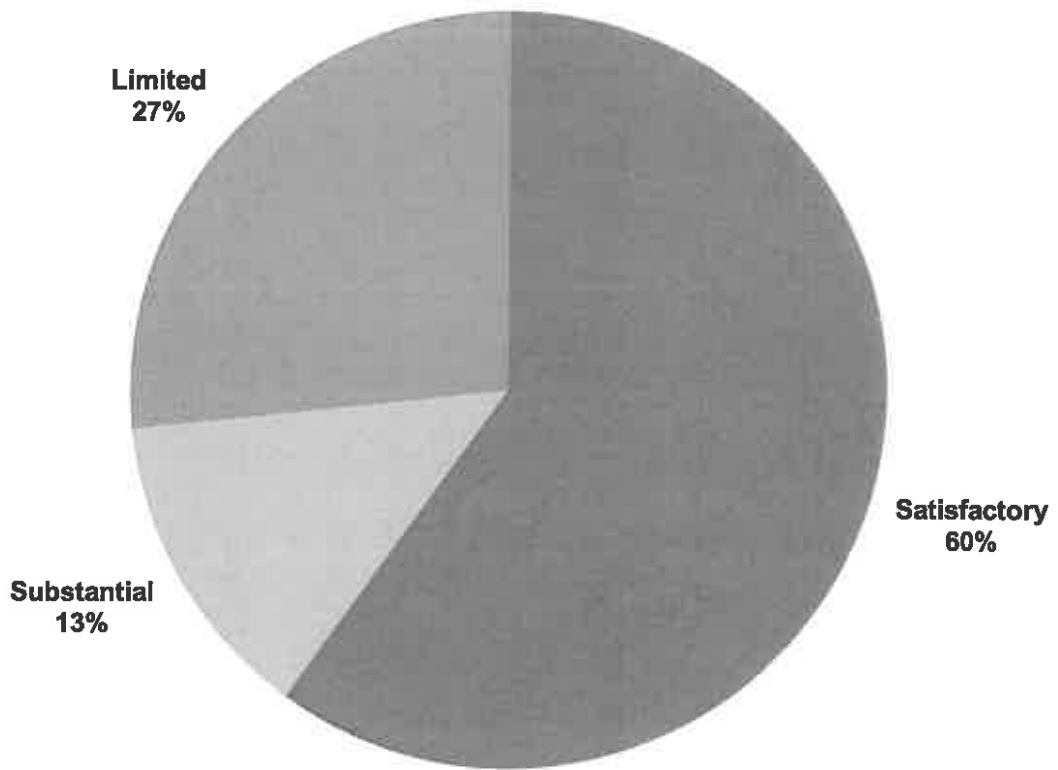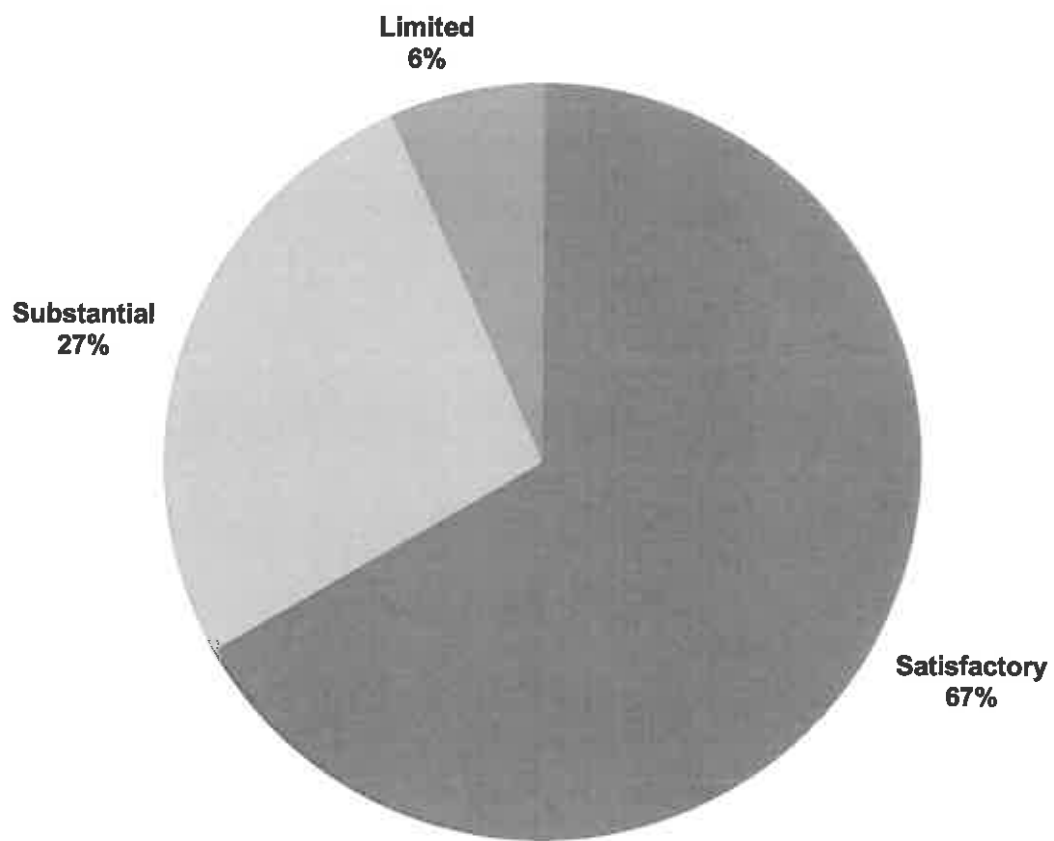
Subscription Rooms – Financial Reporting Error

Distribution

Audit and Standards Committee

Contents

Important

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

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Executive Summary

Introduction

The council's Asset Review Programme identified the Subscription Rooms were due to be reviewed in 2016. Following a report to the Strategy and Resources Committee on 13 October 2016 a Task and Finish Group was constituted to undertake the review.

The work of the Task and Finish Group progressed to an options appraisal that resulted in a recommendation to the Strategy and Resources Committee (5 December 2017). This report detailed the findings of the Task and Finish Group and, in accordance with the council's reporting template, included a section on the 'financial implications' of the report.

Included within the 'financial implications' section of the report, was a table showing the financial budget and outturn position for the Subscription Rooms. This table, the paragraph following the table, and paragraph 1.1 of the report contained errors that overstated the net costs attributable to the Subscription Rooms.

Internal Audit has undertaken an investigation and produced a report covering the:

- ➢ Control failures that offered the opportunity for inaccurate financial reporting; and
- ➢ Actions required to enhance financial reporting clarity and accuracy assurance.

Key Findings

The Internal Audit investigation has highlighted:

Key process and control lapses offered the opportunity for the financial reporting error to occur and go undetected.

Internal controls that formed part of the operating systems were not applied, with the reasons given for not applying the controls being other work pressures. However, operating arrangements must ensure the application of, and compliance with, internal controls at all times.

Internal Audit has worked with the Accountancy Manager to develop an action plan to introduce and enhance controls to help mitigate the risk of a financial reporting error occurring in the future. The areas where enhanced controls will, or have been introduced are:

- ➢ A robust independent check of financial information provided to service managers, Corporate Team, Members and included in committee reports;
- ➢ A structured data extraction and reconciliation process to include the reconciliation of data contained within spreadsheets, to the main financial system in order to ensure data integrity is maintained;
- ➢ The introduction of a formalised process to clarify the purpose for requested financial information, how it will be used and the intended audience. This process will support and ensure financial information provided by the Finance Team is defined, clear and will aid end user understanding;

> ➤ The 'financial implications' section of reports will be completed in light of finance information contained within the report. New financial information will not be introduced into the financial implications section;
> ➤ A formalised process will be introduced to support the monitoring and management of workloads, work prioritisation and resources, particularly at key points within the financial year; and
> ➤ Through a combination of processes including personal verification, internal reporting, performance appraisal, feedback from team meetings, etc., the Accountancy Manager and Senior Managers within the Finance Team will gain assurance that internal controls are effective and complied with.

Conclusion

The information and explanations provided by the Accountancy Manager, which have been verified / evidenced via the Internal Audit investigation, has identified the key reason for the financial reporting error occurring and it going undetected, was due to a number of lapses in internal control.

In mitigation, work pressures have been cited as the main influencing factor for the lapses in internal control. Internal Audit has obtained evidence to show work was being undertaken on the tasks stated, but the extent of the impact of that work cannot be determined retrospectively.

The relationship between workload, work prioritisation, resources and the maintenance of effective internal control and compliance is a key management challenge.

The above said, processes must continue to operate to ensure control is maintained no matter what other pressures may be present.

The examination of the arrangements now introduced by the Accountancy Manager and the successful implementation of the other agreed actions within this report will be tested as part of a formal internal audit follow-up review to be undertaken early on in the next financial year.

Recommendation 1		Category	High

An independent check of financial information provided to service managers, Corporate Team, Members and included in committee reports will be introduced. This check will include the verification of accuracy of the information contained within reports upon which decisions or significant actions will be taken. It will also test the appropriateness of the presentation of the financial information in relation to the main thrust of the report.

A practice note will be produced for the Finance Team to include the bullet points listed in paragraph 7 of the internal audit report. A compliance assurance process will be introduced.

Risk(s)

That financial information used to inform or support key decisions is not accurate, or clear in relation to the matter under consideration.

Management Response

The formalised internal control process implemented for reports stemming from the Finance Team will be extended to all financial information provided to service managers, Corporate Team, Members or included in committee reports. A schedule of the reports or statements containing financial information, with evidence that the internal check and approval has operated, will be maintained by the Finance Team.

A practice note will be produced and circulated to all Finance Team members.

Person Responsible	Accountancy Manager	Completion Date	End Feb 2018

Recommendation 2	Category	High

A structured data extraction process has been introduced to ensure data extracted from the finance systems and imported into spreadsheets is specific to need, accurate, timely and reconciled. This process will also reconcile financial data manipulated and analysed in spreadsheets, to the main finance system to ensure data integrity is maintained.

Risk(s)

The integrity and accuracy of information extracted from the main finance system is not assured leading to inaccurate financial analysis and reporting.
The integrity of financial data is not assured once imported into spreadsheets.

Management Response

A formal process has been introduced as detailed in Appendix A of the Internal Audit Report.
Arrangements are in place to ensure the integrity of data held within spreadsheets.

Person Responsible	Accountancy Manager	**Completion Date**	Actioned

Recommendation 3	Category	High

A formalised process will be introduced to clarify the purpose for requested financial information, how it will be used and the intended audience. This process will support and ensure financial information provided by the Finance Team is defined and clear.

Risk(s)

Financial information is provided in a format that is not appropriate to need or for which conditions or constraints exist which are not made clear to the end user.

Management Response

A formalised process is being introduced to ensure information requesters clearly state the intended purpose of the financial information required. The response from the Finance Team will ensure any conditions or constraints in respect of the financial information is clear and the financial information provided is presented in an appropriate format to aid clarity and understanding.

A version control process has also been implemented for reports.

Person Responsible	Accountancy Manager	**Completion Date**	End Jan 2018

Recommendation 4		Category	High
The 'financial implications' section of reports to be completed in light of finance information contained within the report. New financial information will not be introduced into the financial implications. A practice note will be produced for the Finance Team to include the bullet points listed in paragraph 9 of the internal audit report. A compliance assurance process will be introduced.			
Risk(s)			
Conflicting, inaccurate, misinterpretation of, or potentially misleading financial information being provided.			
Management Response			
A practice note is being produced and circulated to all Finance Team members.			
Person Responsible	Accountancy Manager	**Completion Date**	End Feb 2018

Recommendation 5		Category	High
A formalised process will be introduced to support the monitoring and management of workloads and resources, particularly at key points within the financial year. The process will aid the management and control of requests made by the organisation of the Finance Team, informing effective work prioritisation. Also included will be timely feedback processes to those who request or require financial information.			
Risk(s)			
Inadequate workload and resource management results in internal control failures leading to errors, including inaccurate reporting of financial information.			
Management Response			
During the final accounts process (Mar-May) and production of the annual Statement of Accounts and Audit (May-July), the finance team are unable to respond to information requests without redirecting resources that are concentrated towards a statutory reporting deadline. Finance will undertake early communication with the rest of the organisation to ensure other staff are aware of the limited ability to respond to workload changes.			
Person Responsible	Accountancy Manager	**Completion Date**	End Mar 2018 (in preparation for 2017/18 closedown)

Recommendation 6	Category	High
Through a combination of processes including personal verification, internal reporting, performance appraisal, feedback from team meetings, etc., the Accountancy Manager and Senior Managers within the Finance Team will gain assurance that internal controls are effective and complied with.		

Risk(s)
Internal controls are ineffective or compliance lapses offer the opportunity for error.

Management Response
A process will be introduced to ensure management and supervision is effective in monitoring and maintaining internal controls.

Person Responsible	Accountancy Manager	Completion Date	End Mar 2018

STROUD DISTRICT COUNCIL

AUDIT AND STANDARDS COMMITTEE

10TH APRIL 2018

Report Title	**Risk Based Internal Audit Plan 2018/2019**
Purpose of Report	To present to Members, for their consideration and approval the Annual Risk Based Internal Audit Plan 2018/19.
Decisions(s)	The Committee **RESOLVES** to approve the Annual Risk Based Internal Audit Plan 2018/19 as detailed in Appendix A.
Consultation and Feedback	The Corporate Team, Heads of Service and Service Managers have been consulted on the proposed Plan for 2018/19. The timing of audit work will be planned in conjunction with the appropriate managers to minimise abortive work and time.
Financial Implications and Risk Assessment	The report outlines the Audit Plan for 2018/19 and sets out the process that has been followed. It should be noted that the proposed Audit Plan for 2018/19 is 463 days, a reduction of 52 days over the 2017/18 Audit Plan (a 10% reduction). Whilst this does give rise to a budget saving of around £13k, members, when considering the plan, need to be satisfied that it enables Internal Audit to give the Council an opinion on the overall adequacy and effectiveness of the control environment. As with all audit plans, the Chief Internal Auditor will continue to reassess internal audit resources required against the council's priorities and risks and will amend the Plan throughout the year as required, with any additional activity required above the core provision agreed with the S151 Officer, reporting any key changes to the Audit and Standards Committee. David Stanley, S151 Officer Tel: 01453 754100 Email: david.stanley@stroud.gov.uk Risk Assessment: The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit, through

	the delivery of the Risk Based Annual Audit Plan, plays a vital part in independently and objectively advising the organisation that these arrangements are in place and operating effectively.
Legal Implications	Consideration should be given to ensuring that all strategic risks are addressed within the audit. (Ref: KT/C26318) Karen Trickey, Head of Legal Services and Monitoring Officer Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk
Report Author	Theresa Mortimer Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754319 Email: theresa.mortimer@stroud.gov.uk
Options	The Public Sector Internal Audit Standards (PSIAS) 2017 require the Chief Internal Auditor to produce an Annual Risk Based Internal Audit Plan to determine the priorities of the internal audit activity. The lack of such a Plan would lead to non-compliance with these Standards.
Performance Management Follow Up	In accordance with the PSIAS and reflected within the Audit and Standards Committee work programme, Internal Audit reports on progress against the approved Internal Audit Plan 2018/19. These are scheduled to be presented to the Audit and Standards Committee at the October 2018, January 2019 and May 2019 meetings.
Background Papers/ Appendices	**Appendix A -** Annual Risk Based Internal Audit Plan 2018/19.

Background

1. The work of Internal Audit is carried out in accordance with, and is assessed against, the Public Sector Internal Audit Standards (PSIAS) 2017. These Standards require the Chief Internal Auditor to produce an Annual Risk- Based Internal Audit Plan to determine the priorities of the internal audit activity. The proposed activity should be consistent with the organisation's priorities and objectives and taking into account the organisation's risk management framework, including risk appetite levels set by management and internal audit's own judgement of risks.

2. To ensure that an effective Plan was developed, a consultation process took place with the Audit and Standards Committee, Corporate Team, Heads of Service and Service Managers to establish priorities. The proposed activity from all sources was collated and matched against the internal audit resources available and prioritised accordingly.

3. The Audit Plan is stated in terms of estimated days input to the Council of **463** audit days, which is **52** days (10%) less than 2017/2018, due to savings

required. It should be noted that the impact of the 10% reduction this year has been managed in the main through not undertaking key controls work as these activities have been covered historically each year however, a cyclical programme will need to be put in place for future years and this will impact upon the level of future assurance that can be provided within the budgeted days. In addition, ARA will not be undertaking the annual review, development and implementation of the Annual Governance Statement, Local Code of Corporate Governance and the associated assurance framework and reduced the scope on selected audit activities. (Please see Attachment 2 within Appendix A).

4. The Chief Internal Auditor will however, continue to reassess internal audit resources required against the council's priorities and risks and will amend the Plan throughout the year as required, with any additional activity required above the core provision agreed with the S 151 Officer, reporting any key changes to the Audit and Standards Committee.

5. The PSIAS also require the Annual Risk Based Internal Audit Plan to be reviewed and approved by the appropriate body which in the case of Stroud District Council is the Audit and Standards Committee.

Internal Audit Plan

2018-2019

ARA
AuditRiskAssurance

STROUD
DISTRICT
COUNCIL

Background

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 authorities 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 guidance accompanying the Regulations recognises both the Public Sector Internal Audit Standards (PSIAS) 2017 and the CIPFA Local Government Application Note for the UK PSIAS as representing "public sector internal audit standards". The standards define the way in which the Internal Audit Service should be established and undertakes its functions.

The standards also requires that an opinion is given on the overall adequacy and effectiveness of the Council's control environment comprising risk management, control and governance, which is informed by the work undertaken by the Service.

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

What is Internal Auditing?

The role of the internal auditor is to provide *independent, objective assurance* to management that key risks are being managed effectively. To do this, the internal auditor will evaluate the quality of risk management processes, systems of internal control and corporate governance frameworks, across all parts of an organisation, and to provide an opinion on the effectiveness of these arrangements. As well as providing assurance, an internal auditor's knowledge of the management of risk enables them to act as a consultant and provide support for improvement in an organisation's procedures. For example, at the development stage of a major new system where the internal auditor can help management to ensure that risks are clearly identified and appropriate controls put in place to manage them.

Why is assurance important?

By reporting to senior management that important risks have been evaluated, and highlighting where improvements are necessary, the internal auditor helps senior management to demonstrate that they are managing the organisation effectively on behalf of their stakeholders. Hence, internal auditors, along with senior management and the external auditors are a critical part of the governance arrangements of our organisation, our work significantly contributing to the statutory Annual Governance Statement (AGS).

Development of the 2018/2019 Internal Audit Plan

To enable the above, the Chief Internal Auditor is required to produce an Annual Risk Based Internal Audit Plan to determine the priorities of the internal audit activity. The proposed activity should be consistent with the organisation's priorities and objectives and taking into account the organisation's risk management framework, including risk appetite levels set by management and internal audit's own judgement of risks.

1

How did we develop the plan - Risk Based Internal Audit Planning (RBIAP)

To ensure our internal audit resources continue to be focussed accordingly, particularly during periods of organisational change, it is essential that we understand our clients' needs, which means building relationships with our key stakeholders, including other assurance/challenge providers, in order to gain crucial insight and ongoing 'intelligence' into the strategic and operational change agendas within our organisation.

This insight is not only identified at the initial development stages of the plan but dialogue continues throughout the financial year(s) which increases the ability for the Internal Audit Service to adapt more closely to meet the assurance needs of the council, particularly during periods of significant change.

Our plan therefore needs to be dynamic and should be flexible to meet these needs.

How did we achieve the above?

To ensure that an effective plan is developed, a consultation process took place with the Audit and Standards Committee, Corporate Team, Heads of Service and Service Managers to establish priorities. The proposed activity from all sources was collated and matched against the internal audit resources available and prioritised accordingly.

A flexible audit plan - Risk and Control Assurance Programme

The Audit Plan is stated in terms of estimated days input to the Council of **463** audit days, which is **52** days **(10%)** less than 2017/2018, due to savings required. It should be noted that the impact of the 10% reduction this year has been managed in the main through not undertaking key controls work as these activities have been covered historically each year however, a cyclical programme will need to be put in place for future years and this will impact upon the level of future assurance that can be provided within the budgeted days. In addition, ARA will not be undertaking the annual review, development and implementation of the Annual Governance Statement, Local Code of Corporate Governance and the associated assurance framework and reduced the scope on selected audit activities. (Please see Attachment 2).
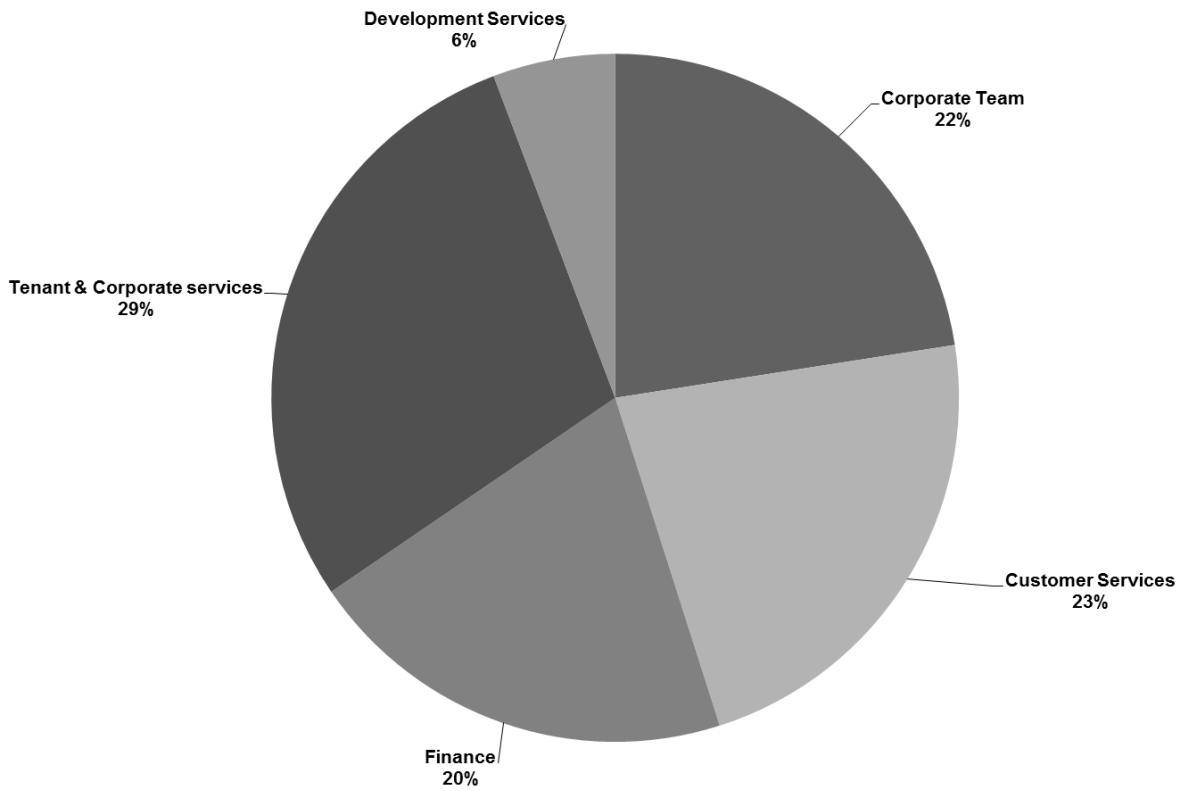
The Chief Internal Auditor will however, continue to reassess internal audit resources required against the council's priorities and risks and will amend the Plan throughout the year as required, with any additional activity required above the core provision agreed with the S151 Officer, reporting any key changes to the Audit and Standards Committee.

Overview of Internal Audit's Risk and Control Assurance Programme
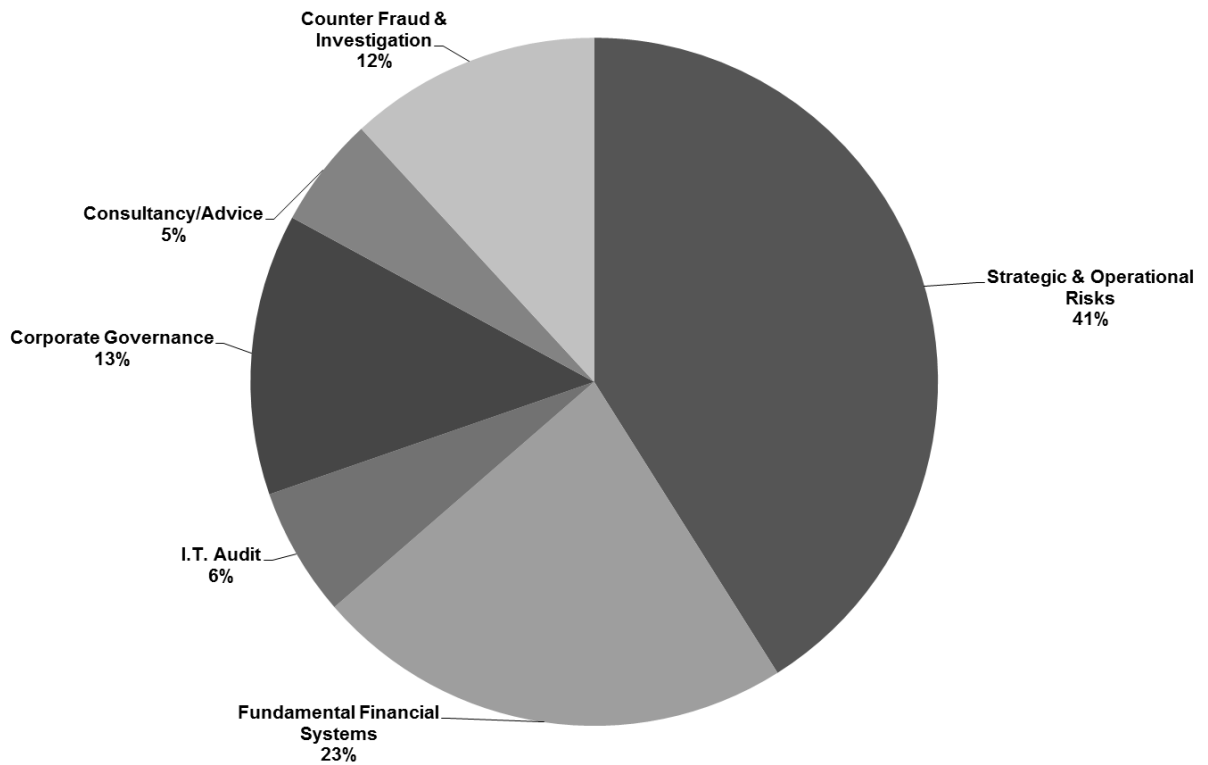
In order to provide a high level overview of the proposed Risk and Control Assurance Programme the pie charts below highlight the allocation of audit resources per:

➢ Functional service area; and
➢ Category of review.

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Percentage of audit days per functional service area

Development Services 6%

Corporate Team 22%

Tenant & Corporate services 29%

Customer Services 23%

Finance 20%

Percentage of audit days per category of review

Counter Fraud & Investigation 12%

Consultancy/Advice 5%

Corporate Governance 13%

I.T. Audit 6%

Fundamental Financial Systems 23%

Strategic & Operational Risks 41%

3

The key points to note within the proposals are:

- There is a proportional split, based on risk, between each of the functional service areas to enable the provision of an audit opinion;

- Continued focus on corporate governance, key financial systems and strategic risks;

- Continued emphasis on procurement and contract management and monitoring arrangements; and

- Taking into consideration other assurance providers.

The detail supporting this overview is attached at Attachment 1 which shows:

- Audit activity per service area;

- Name of the audit activity;

- Reason for the audit i.e. as a result of RBIAP and link to the Council's Corporate Risk Register, statutory requirements etc;

- Outline scope of the review (please note that a detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is continually focused on the key risks and is undertaken within agreed time periods, to ensure our service adds value to the Council); and

- The priority of the audit i.e. priorities 1 and 2. The aim is to focus on priority 1 audits, with the priority 2 audits being reassessed in the eventuality of any new emerging risk areas highlighted where assurances may be required, or where additional fraud investigations/irregularities materialise.

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Customer Services

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Business Continuity	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The Civil Contingencies Act 2004 requires all local authorities to have Business Continuity Management (BCM) arrangements in place, designed to ensure that as far as possible it can continue to operate the critical elements of the service in the event of disruption such as power loss, flooded premises or high staff absence. Internal Audit will provide professional advice and support to aid the planned review of individual service continuity plans to ensure that they are appropriate, realistic and up to date.	**Priority 1**

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Business Rates Valuation List	Identified as part of Risk Based Internal Audit Planning (RBIAP)	Business Rates (also known as National Non-Domestic Rates) are a tax on business properties. The tax is set by the government and business rates collected by local authorities are the way that those who occupy non-domestic property contribute towards the cost of local services. The Valuation Office Agency allocates all non-domestic properties with rateable values so authorities can calculate the Business rate charges. The correct identification of the rateable hereditament which will become the unit of assessment is a matter of great importance to all parties; to the occupier whose liability, in terms of the extent of the hereditament, is established, to the billing authority in connection with charging and collection and not least to the Valuation Officer who is required to compile and maintain correct rating lists. This review will seek to determine whether there are effective arrangements in place for ensuring that all hereditaments within the council's boundaries are included within the Valuation list.	**Priority 1**

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Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Homelessness	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The homelessness legislation places a general duty on housing authorities to ensure that advice and information about homelessness, and preventing homelessness, is available to everyone in their district free of charge. The legislation also requires authorities to assist individuals and families who are homeless or threatened with homelessness.

This audit will review the effectiveness of the systems in operation for processing applications and monitoring homelessness cases and select a sample of cases to review the application process, to ensure compliance with the guidance, and to establish the level of monitoring undertaken once the decision to accept a homeless case has been made. | **Priority 1** |

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Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Multi Services Contract	Identified as part of Risk Based Internal Audit Planning (RBIAP) Audit and Standards Committee request for follow up	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 both in terms of financial and reputational exposure. The annual cost of providing this service is circa £5m. During 2017/18 Internal Audit undertook a consultancy review to advise upon the effectiveness of the council's contract management and monitoring arrangements. The findings emanating from the review resulted in a number of recommendations being made in order to strengthen the governance, financial, performance, and risk management arrangements. This review will seek to determine whether the agreed recommendations have been fully implemented.	**Priority 1**

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Subscription Rooms – Risk Management	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The Subscription Rooms is a Grade II listed building in the centre of Stroud. It is used as an arts and entertainment venue run by the Council and accommodates events of up to 450 people. It currently hosts the Tourist Information Centre. In October 2016 a cross-party Task and Finish Group was established to investigate options for the future use of the Subscription Rooms with a preference that any solution should not only improve cost effectiveness for the public but also seek to retain its availability to the public for cultural use. Two external offers for the freehold of the Subscription Rooms were received, however at its meeting on 5th December the Strategy and Resources Committee decided not to accept either of the offers. In order to: ➣ Enable the freehold of the Subscription Rooms to remain in public ownership ➣ Ensure that the level of Council cost is significantly reduced and: ➣ To promote and enhance the availability of the venue to the public for public arts, community use and education The Council is now advertising a full repairing and insuring lease of the Subscription Rooms (which will exclude the forecourt) for circa 30 years. This review will seek to determine whether there are effective risk management arrangements in place for the future proposals for the Subscription Rooms, and that these are in line with the council's Risk Management Policy Statement and Strategy.	**Priority 1**

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
The Pulse (Dursley Pool) Income Collection	Identified as part of Risk Based Internal Audit Planning (RBIAP) Limited Assurance Follow Up	The Pulse, formerly known as Dursley Pool, is the new swimming pool, gym and studio in Dursley. The Pulse offers a wide range of classes and activities for the local community, as well as public swimming sessions. During 2017/18 Internal Audit undertook a review of the operating effectiveness of the internal control environment in respect of income collection. The findings emanating from the review resulted in a limited assurance opinion being provided. This review will seek to determine whether the high priority recommendations emanating from the review have now been fully implemented.	**Priority 1**

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Workforce Plan – Transitional Arrangements	Identified as part of Risk Based Internal Audit Planning (RBIAP) Consultancy	Due to a reduction in settlement from central government the council has a shortfall in its finances of around £3m in 2021/22. In line with the council's four year budget, it has established a new workforce plan, as the council needs to reduce its headcount by 20% over the next four years. The workforce project links with several other projects, including, but not limited to: ➢ Modernising its ICT to allow more mobile working; ➢ Reducing ICT costs and increasing efficiency by moving to internal wifi and telephone and ICT networks; ➢ Progressing Channel Shift opportunities; and ➢ Maximising the use of the council's estate and facilities to generate income. Due to the significance of the change programme, Internal Audit will provide professional advice and support to the project to ensure that the control environment is not compromised.	**Priority 1**

Development Services

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Food Hygiene Inspections	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The Food Standards Agency (FSA) is the independent regulator that protects consumers through effective food enforcement and monitoring. As a central government department the FSA works with local authorities to help them take proportionate, timely and resolute action in relation to food safety in their area. All food businesses that prepare, produce, cook or sell food are required to register with the council by law and they must comply with strict hygiene standards. The council is responsible for carrying out programmed inspections of premises and advising businesses on legal requirements and best practice, alongside investigating incidents, outbreaks and causes of accidents. This review will seek to determine whether there is a robust framework in place for ensuring that timely food safety inspections are being conducted.	**Priority 1**

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Finance

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Banks Automated Clearing System (BACS)	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The Bank Automated Clearing System (BACS) is a system in the United Kingdom for making payments directly from one bank account to another. There are two types of bank-to-bank payments: Direct Debits and Direct Credits. Direct Debits are typically used for taking regular or recurring payments such as household bills and Direct Credits are typically used for making regular payments such as salaries. During 2016/17 errors in respect of the collection of payments using BACS for Direct Debits occurred in Tenant Services and Benefits. The incident in Tenant Services did not come to light until the error in Benefits arose in December 16. As a consequence of the above a management investigation was undertaken, resulting in a report with an action plan for suggested improvements. During 2017/18 Internal Audit undertook a review of the progress made against the agreed actions. The review confirmed that overall progress had been made on implementing the improvement / action plans, although further work was still needed to strengthen the arrangements in respect of business continuity arrangements and back-up arrangements for the BACSTEL system. This review will seek to determine whether the remaining actions have now been fully implemented.	**Priority 1**

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Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Capital Programme	Identified as part of Risk Based Internal Audit Planning (RBIAP) Limited Assurance Follow Up	A capital programme is a set of capital projects that a council plans to undertake within a given timetable and should be based on an approved Capital Strategy, which in turn should be linked to the council's Asset Strategy. A review of this area was completed during 2017-18. The findings emanating from the review resulted in a limited assurance opinion being given in respect of the risk identification maturity and the control environment. In light of the above, it was agreed that Internal Audit would undertake a follow-up review during 2018/19.	**Priority 1**
Communications (publication of financial information)	Identified as part of Risk Based Internal Audit Planning (RBIAP)	Putting finance at the heart of decision-making is the responsibility of all decision makers, who must understand their responsibility to take financial considerations into account. It is therefore vital that decision makers have access to relevant, reliable and timely information, and that there is a robust framework in place for the release of internal and external financial information. This review will seek to determine whether there is an effective control framework in place for the production of reliable financial information, prior to release to either internal or external parties.	**Priority 1**

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Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Insurance	Identified as part of Risk Based Internal Audit Planning (RBIAP)	All organisations, whether private or public sector, face risks to people, property and continued operations. An organisation will need to determine the balance of risk between the level of self insurance and that which is transferred to an external insurance provider as part of their risk mitigation strategy. It is therefore vitally important to ensure that the analysis of claims and any further mitigating actions/controls are considered/implemented as part of the organisation's wider risk management programme to reduce or prevent re-occurrence, thus minimising the impact of these upon the level of any internal fund balances or future premiums. This review will seek to determine whether the council has an effective control framework in place for the management/monitoring of incidents that have led to claims being upheld; and that any further mitigating actions/controls are considered/implemented as part of the organisation's wider risk management programme.	**Priority 1**

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Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Local Government Pensions Scheme (LGPS)	Identified as part of Risk Based Internal Audit Planning (RBIAP) Limited Assurance Follow Up	In April 2014 the Local Government Pension Scheme (LGPS) was revised. The new scheme known as LGPS14 is a career average pension scheme rather than a final salary scheme. During 2016/17 Internal Audit conducted a review of the council's arrangements for compliance with the revised scheme. The findings emanating from the review highlighted that certain aspects of the of the Local Government Association guidance were not operating as intended, and this led to a split assurance opinion being given over the control environment, with limited assurance being given over four areas that required improvement. This review will seek to determine whether the recommendations emanating from the review have now been fully implemented.	**Priority 1**
Treasury Management	Identified as part of Risk Based Internal Audit Planning (RBIAP)	Treasury Management is defined as the management of the organisation'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. It is a high risk area due to the value of transactions, which can be made on a daily basis. The review will seek to determine whether the council has an effective control framework in place for treasury management that aligns with internal and external regulations and guidance.	**Priority 1**

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Tenant and Corporate Services

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Competency Framework	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The Corporate Change Programme is part of a wider programme to help the council achieve the changes needed to shape the council for the future. One of the programme's initiatives is the introduction of the competency framework. This sets out the behaviours and attitudes required to achieve the council's future aspirations. The competency framework is embedded within the council's recruitment process, the first stage of employment with the council and is detailed as requirements within the Person Specification; this framework is then then continued throughout employment with the council and should be used during quarterly 121 staff supervision meetings. This review will seek to determine whether the competency framework is now embedded within the organisation and is operating as intended.	**Priority 1**
Contract Management (Mechanical and Electrical payment mechanisms)	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The council has let a series of contracts that provide services for mechanical and electrical works, the 2017/18 annual spend is circa £1m. It is important for the council to have effective contract management and monitoring arrangements in place for all of its contracted services. This review will seek to determine whether there are effective arrangements in place for administering payments due under these contracts.	**Priority 1**

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Depooling of Rents	Identified as part of Risk Based Internal Audit Planning (RBIAP) Consultancy	Historically in many local authorities the cost of providing services to shared or communal areas has been part of the general rent that everyone pays. In other words the cost of these services is pooled amongst all tenants even though they are only provided to people who live in flats or shared accommodation. Service charge depooling is a process whereby the landlord stops sharing the costs of these services amongst all tenants and introduces a separate service charge payable only by those tenants who receive these additional services, providing a clear link between what someone pays for shared services and the service they receive. Internal Audit will support the project lead, through the provision of risk and control advice during the delivery of the review project in-year.	**Priority 1**

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Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
General Data Protection Regulations (GDPR)	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The General Data Protection Regulation (GDPR) becomes enforceable from 25th May 2018 and is intended to strengthen and unify data protection for individuals within the European Union (EU) and to address the export of data outside of the EU. Whilst many of the GDPR's main concepts and principles are much the same as those in the current Data Protection Act there are a number of new elements and significant enhancements. There is also the potential for significant fines (up to £20m) to be imposed in the event that the council is found to have broken the law. This audit will review whether the council has an effective control framework in place for ensuring that personal information that is gathered is only used for the purpose for which it was originally intended.	**Priority 1**
HRA Delivery Plan – Budget Savings	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The council's housing service delivers a variety of services to tenants and plays a key role in supporting the strategic aims of the council, including: housing, economic development and health and well being. The council has developed a business plan which sets out the council's considered direction, service priorities, financial model and approach to the management of business risks and opportunities which includes an action plan. This review will seek to determine whether the agreed actions are being actively progressed in line with the stated target delivery dates.	**Priority 1**

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Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
ICT	Identified as part of Risk Based Internal Audit Planning (RBIAP) Assurance required by Audit and Standards Committee	The ICT audits will be identified following the ICT audit needs assessment. The assessment will be compiled by the internal Audit Service ICT audit specialists and will consider input from both council officers and External Audit.	**Priority 1**
IR35s – Off payroll working through an intermediary	Identified as part of Risk Based Internal Audit Planning (RBIAP)	IR35 is tax legislation that is designed to combat tax avoidance by workers supplying their services to clients via an intermediary, such as a limited company, but who would be an employee if the intermediary was not used. Such workers are referred to as 'disguised employees' by Her Majesty's Revenue and Customs (HMRC). The council is responsible for deciding if off-payroll working rules apply when procuring services and if the rules do apply must deduct tax and Class 1 National Insurance Contributions and report them the HM Revenue and Customs. This review will seek to determine whether the council has effective arrangements in place to ensure that it conforms to these regulatory requirements.	**Priority 1**

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Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Risk Management (Contracts)	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The council is committed to securing effective risk management as part of its responsibility to deliver effective public services within its district. It acknowledges that effective risk management helps strengthen its capacity and ability to efficiently meet its corporate priorities and core business and that it enables the council to have a clear understanding of the risks it faces and how to effectively manage them. This review will seek to determine whether risk management is embedded within the management of contracts within Tenant Services and that the risk management arrangements are in line with the council's Risk Management Policy Statement and Strategy.	**Priority 1**
Settlements	Identified as part of Risk Based Internal Audit Planning (RBIAP)	Employees may have claims against their employer under both their contract of employment and under statute. In the United Kingdom, a settlement agreement is a legally binding agreement between an employer and its employee (or ex-employee) under which the employee receives consideration, often a negotiated financial sum, in exchange for agreeing that he or she will nave no further claim against the employer. This audit will seek to determine whether paid settlement agreements have been made in compliance the council's agreed internal policies/procedures, as well as statutory guidance.	**Priority 1**

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Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Property Maintenance	Identified as part of Risk Based Internal Audit Planning (RBIAP)	A comprehensive planned maintenance programme (PMP) is an essential ingredient of successful property management. A PMP can save money and unpleasant surprises in the short-term by identifying and addressing potential defects before they become costly disasters. It will also maintain or increase the value of the property in the longer term by minimising any physical deterioration. Effective PMP planning involves all aspects of maintenance, from regular cleaning, redecorating and gutter clearance to structural surveys and should also take into consideration specialist reports on lifts and services, fire protection and asbestos issues. In addition, significant savings can be made by careful scheduling of tasks that can be undertaken simultaneously, so that expensive fixed costs such as scaffolding can be used to support two or more jobs instead of being repeated several times in just a few years. The council's planned and responsive maintenance budget for 2017/18 was circa £308k. This review will seek to determine whether the council has adequate arrangements in place for undertaking planned and reactive maintenance works in order to protect the value of the council's property and the health and well being of employees and members of the public.	**Priority 2**

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Corporate Team

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Budget Savings	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The Medium Term Financial Plan sets out the council's core budget position to 2021/22 including its intention to deploy its reserves over the coming years to ensure it maintains a balanced budget. An important part of the council's strategy will be to continue to deliver efficiencies and savings over the coming years to remove the dependency of the council on the utilisation of its reserves before they are depleted. A proportion of the savings are categorised as 'savings targets' and will require regular review and reporting to monitor the level of savings that have been achieved. This review will seek to establish whether there are effective budget monitoring and reporting arrangements in place to track the progress of the identified savings targets.	**Priority 1**
Debt Collection and Recovery	Identified as part of Risk Based Internal Audit Planning (RBIAP)	Income can be a vulnerable asset and effective income collection/recovery systems are necessary to ensure that all income/debt due is collected. This review will seek to determine whether there are robust arrangements in place for the management of debt owed to the council, based on the principles of early contact, close monitoring, consistent action and adherence to agreed internal/external collection/recovery procedures.	**Priority 1**

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Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Workforce Plan – Programme Management	Identified as part of Risk Based Internal Audit Planning (RBIAP)	Due to a reduction in settlement from central government the council has a shortfall in its finances of around £3m in 2021/22. In line with the council's four year budget, it has established a phased change programme that seeks to address the known shortfall. This review will seek to determine whether there are effective programme management arrangements in place to deliver the change programme.	**Priority 1**

Counter Fraud

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Fraud Investigation / Detection	To support the Annual Governance Statement (AGS) Protect the Public Purse	Allocation to continue the development and implementation of the council's Anti-Fraud and Corruption arrangements based on latest best practice. This also includes an allocation for increasing the profile and awareness of anti–fraud, conducting pro-active counter-fraud reviews and undertaking investigations as required.	**Priority 1**
National Fraud Initiative (NFI)	Statutory Requirement To support the Annual Governance Statement	To continue to co-ordinate activity as part of the NFI (a national data matching exercise that compares data/records i.e. payroll, licences, housing waiting list, single person discounts, creditors etc.) for a wide range of public services, including ensuring that matches are investigated promptly and thoroughly and reporting of results.	**Priority 1**
Fraud Risk Management	To support the Annual Governance Statement Informs the Risk Based Internal Audit Plan	The CIPFA Counter Fraud Centre has issued guidance on actions to be taken to 'Manage the Risk of Fraud and Corruption' within an organisation. This allocation is to continue to self assess against the criteria set out in the guidance and develop a fraud risk register in order to direct/prioritise our counter fraud and internal audit resources/activity accordingly.	**Priority 1**

Management Activity to Support the Audit Opinion

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
Audit and Standards Committee / Member / Officer and Chief Financial Officer Reporting	Public Sector Internal Audit Standards (PSIAS) Statutory Requirement	This allocation covers Member reporting procedures, mainly to the Audit and Standards Committee, plan formulation and monitoring and regular reporting to and meeting with, the Chair and Vice Chair of the Audit and Standards Committee and the Chief Financial Officer.	**Priority 1**
Provision of Internal Control / General Advice	To support an effective control environment	This allocation allows auditors to facilitate the provision of risk and control advice which is regularly requested by officers within the Council.	**Priority 1**
Quality Assurance and Improvement Programme (QAIP) includes the annual review of the effectiveness of Internal Audit and the external assessment	Public Sector Internal Audit Standards (PSIAS) Statutory Requirement To support the AGS	The Accounts and Audit Regulations 2015 states that Internal Audit should conform to 'proper practices' and it is advised that proper practice for internal audit is currently set out in the Public Sector Internal Audit Standards (PSIAS) 2016. This allocation is to undertake an annual self assessment and when required, commission and deliver an external quality assessment, against the new standards. All outcomes to be reported to the Audit and Standards Committee.	**Priority 1**

Audit	Reason for Audit	Outline Scope (detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is focused on risk)	Priority
External Working Groups	Activity to support the audit opinion	Attendance / work in relation to the Counties Chief Auditor Network (National Group), Midland Counties and Districts Chief Internal Auditors Group and the Fraud and ICT Groups to enable networking and to share good practice.	**Priority 1**
External Audit Liaison	Management activity to support the audit opinion	The External Auditor and the Chief Internal Auditor regularly meet to discuss plans and audit findings, to ensure that a "managed audit" approach is followed in relation to the provision of internal and external audit services.	**Priority 1**
Carry Forwards	Audit Activity outstanding	This allocation provides for the completion of various 2017/2018 audits which require finalising.	**Priority 1**
Recommendation Monitoring	Activity to support the audit opinion	Whilst it is management's responsibility to manage the risks associated with their outcomes/objectives, this allocation enables Internal Audit to monitor management's progress with the implementation of high priority recommendations.	**Priority 1**
Internal Working Groups	Activity to support the audit opinion	Internal Audit is frequently asked to nominate representatives for working groups to advise on risk and control.	**Priority 2**

Stroud District Council-Internal Audit Plan 2018-19

Audit Activity	Service	Type	Category	Identified Activities	Current provision 515 Days	10% Reduction 463 Days	Comments
Deferred activity from 2017/18							
Homelessness	Customer Services	Audit	High-Op	12	12	12	
New activity for 2018/19							
Business Continuity	Customer Services	Consultancy	High-St	15	15	15	
Business Rates - Valuation List	Customer Services	Audit	High-Op	15	15	15	
Subscription Rooms (Risk Management)	Customer Services	Audit	High-St	13	11	11	
The Pulse (Dursley Pool)-Income Collection-Limited Assurance Follow Up	Customer Services	Audit	High-Op	16	16	11	Assume key controls work not required-reduced days/scope.
Multi Services Contract	Customer Services	Consultancy	High-St	17	17	17	
Workforce Plan-transitional arrangements	Customer Services	Consultancy	High-Op	15	15	15	
Food Hygiene Inspections	Development Services	Audit	High-Op	11	0	9	Assume key controls work not required-add back into plan-reduced days/scope.
BACS	Finance	Audit	High-Op	5	5	5	
Capital Programme Limited Assurance Follow Up	Finance	Audit	High-St	11	11	11	
Communications (publication of financial information)	Finance	Audit	High-St	12	12	12	
Insurance	Finance	Audit	High-Op	13	13	13	
Local Government Pension Scheme Limited Assurance Follow Up	Finance	Audit	High-Op	10	10	10	
Treasury Management	Finance	Audit	High-Op	13	13	13	
Budget Savings HRA -Delivery Plan(CCR5)	Tenant and Corporate Services	Audit	High-St	17	16	16	
Contract Management (M & E payment mechanisms)	Tenant and Corporate Services	Audit	High-Op	17	17	17	
Competency Framework	Tenant and Corporate Services	Audit	High-Op	12	11	11	
De-pooling of Rents	Tenant and Corporate Services	Consultancy	High-Op	10	10	10	
ICT Audits (TBC)	Tenant and Corporate Services	Audit	High-St	22	22	22	Core activity only. Any additional activity would be at the contracted day rate.
IR35s	Tenant and Corporate Services	Audit	High-Op	13	13	13	
Information Management (GDPR)	Tenant and Corporate Services	Audit	High-St	17	17	12	Assume key controls work not required-reduced days/scope.
Property Maintenance	Tenant and Corporate Services	Audit	Med-Op	17	0	13	Assume key controls work not required-add back into plan-reduced days/scope.
Risk Management (Contracts)	Tenant and Corporate Services	Audit	High-St	17	17	16	Assume key controls work not required-reduced days/scope.
Settlements	Tenant and Corporate Services	Audit	High-St	8	8	8	
Budget Savings (CCR1)	Corporate Team	Audit	High-St	17	17	17	
Workforce Plan-programme/project management	Corporate Team	Audit	High-St	17	17	17	
Debt Collection-Recovery	Corporate Team	Audit	High-Op	17	17	17	
Other							
Fraud awareness, investigation and detection (including National Fraud Initiative)				35	35	28	Reduce days-Fraud-may need to buy back if in year demand excess of core.
Management (inc Annual Governance Statement -preparation and assurance framework)				51	51	46	Reduce days-AGS not undertaken by CIA in 18/19.
Provision of control advice				4	4	4	
Recommendation monitoring				5	5	5	
External Audit							
Key Controls	Finance	Audit	High-Op	50	50	0	May need to buy back/reprofile if external audit require key control activities.
							It should be noted that the impact of a 10% reduction this year has been managed in the main through not undertaking key controls work as these activities have been covered historically each year however, a cyclical programme will need to be put in place for future years and this will impact upon the level of future assurance that can be provided within the budgeted days.
To complete ongoing activities							
Community Infrastructure Levy	Development Services	Audit	High-Op	6	6	6	
Post Project Reviews	Corporate Team	Audit	High-St	3	3	3	
Licensing	Development Services	Audit	Med-Op/High-Op	10	10	9	
Procurement	Tenant and Corporate Services	Audit	High-St	4	4	4	
Activities not taken forward to the 18/19 plan							
Cashiers Office	Customer Services	Audit	Med-Op	17	0	0	Cover any changes under 'Workforce plan-transitional arrangements'.
Journals	Finance	Audit	High-Op	12	0	0	Consider for next year.
Money Laundering Regulations 2017	Finance	Audit	High-Op	12	0	0	Regulations require regular compliance review. Consider for next year.
Complaints-Tenant Services	Tenant and Corporate Services	Audit	High-Op	12	0	0	Audited during 16/17-recommendations to be taken forward by management.
Disclosure and Barring Service Checks	Tenant and Corporate Services	Audit	High-Op	12	0	0	Consider for next year.
HR Policies - Capability Policy & Grievance and Conflict Resolution Policy and Procedure	Tenant and Corporate Services	Audit	High-Op	17	0	0	Consider for next year.
Leavers	Tenant and Corporate Services	Audit	Med-Op	12	0	0	Consider for next year.
Canal Project (Risk Management)	Corporate Team	Audit	High-Op	12	0	0	Pending future decisions. If required, could be a commissioned activity.
Staff Expenses	Corporate Team	Audit	Med-Op	17	0	0	Consider for next year.
Grants	Corporate Team	Audit	Med-Op	17	0	0	Consider for next year.
Total Days				543	515	463	
10% cash budget reduction						£13,320	

STROUD DISTRICT COUNCIL

AUDIT AND STANDARDS COMMITTEE

10TH APRIL 2018

Report Title	**AUDIT AND STANDARDS COMMITTEE ANNUAL REPORT 2017/18**
Purpose of Report	The Annual Report summarises the activities of the Audit and Standards Committee during 2017/18 and sets out its plans for the next twelve months. This report provides Council with an independent assurance that the Council has in place adequate and effective governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that can be relied upon and which contribute to the high corporate governance standards that this Council expects and maintains.
Decision(s)	That the Audit and Standards Committee: a) **RESOLVE** to agree the Audit and Standards Committee Annual Report 2017/18; and b) **RECOMMEND** to Council the Annual report is approved.
Consultation and Feedback	All Members of the Audit and Standards Committee have been consulted on the report content.
Financial Implications and Risk Assessment	There are no further financial implications arising from this report. David Stanley, S151 Officer Tel: 01453 754100 Email: david.stanley@stroud.gov.uk **Risk Assessment:** Audit committees are a key component of an authority's governance framework. The Audit and Standards Committee's Annual Report is part of the overall internal control arrangements and risk management process. By examining and evaluating objectively the adequacy

	of the control environment through the reports it receives the Committee can, in turn, provide assurances to Council on its governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that inform the Annual Governance Statement.
Legal Implications	None (Ref: KT/C26.3.18) Karen Trickey, Head of Legal Services and Monitoring Officer Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk
Report Author	Theresa Mortimer, Head of Audit Risk Assurance Tel: 01453 754319 Email: theresa.mortimer@stroud.gov.uk
Chair of Committee	Councillor Nigel Studdert-Kennedy Chair of Audit and Standards Committee Tel: 01453 821491 Email: cllr.nigel.studdert-kennedy@stroud.gov.uk
Options	Consideration has been given to not producing an Annual Report however this has been discounted because recommended practice from both the public and private sectors indicates that an audit committee should report directly to the governing body of the organisation. In the case of a local authority, the full Council.
Performance Management Follow Up	In accordance with recommended practice the Audit and Standards Committee will continue to present an Annual Report to Council.
Background Papers/ Appendices	Appendix A – Audit and Standards Committee Annual Report 2017/2018. Relevant public reports presented to the Audit and Standards Committee during 2017/2018 and minutes of those meetings can be found at https://www.stroud.gov.uk/council/meetings/audit-standards-committee.

1.0 Background

1.1 Stroud District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. In discharging this overall responsibility, the Council is responsible for putting in place the proper arrangements for the governance of its affairs.

1.2 A sound corporate governance framework involves accountability to service users, stakeholders and the wider community, within which the Council takes decisions and leads and controls its functions to achieve stated objectives and priorities. It thereby provides an opportunity to demonstrate the positive elements of the Council's business and to promote public confidence.

1.3 Audit Committees are widely recognised as a core component of effective governance. Their key role is independently overseeing and assessing the internal control environment, comprising governance, risk management and control and advising the Council on the adequacy and effectiveness of these arrangements.

1.4 In response to the above, the Audit and Standards Committee was established in September 2009 in line with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This guidance recommends that audit committees should prepare an annual report to the full Council, which sets out the Committee's work on how they have discharged their responsibilities.

1.5 The Annual Report attached at **Appendix A** details the work and achievements of the Audit and Standards Committee during 2017/18 and sets out its plans for the next twelve months.

Audit and Standards Committee
Annual Report
2017-2018

STROUD DISTRICT COUNCIL

Contents

Statement from the Chairman of the Audit and Standards Committee

Effective corporate governance is a fundamental feature of any successful public sector organisation. The trend for strengthening governance arrangements has resulted in the joint Chartered Institute of Public Finance and Accountancy (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.

Audit Committees are 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 response to the above, the council established an Audit and Standards Committee in September 2009 in line with CIPFA's guidance '*Audit Committees – Practical Guidance for Local Authorities and Police - 2013 Edition*'. The Committee's priorities are to maintain and if and where necessary, improve our governance procedures. We are a major source of providing assurance on the council's arrangements for managing risk, maintaining an effective control environment and reporting on internal and external audit functions and financial and non-financial performance. As Chairman, I also consider training and refresher training a key priority for members in order for us to undertake our roles effectively.

The Committee undertakes a substantial range of activities and works closely with the Chief Financial Officer (Section 151 Officer) and both internal and external auditors, in achieving our aims and objectives. We have developed and implemented a work plan for the year to enable key tasks to be considered, undertaken and delivered and to summarise, through our work plan we have:

> ➢ provided independent assurance on the adequacy of the governance, risk management framework and associated control environment;

> ➢ provided independent scrutiny of the council's financial and non financial performance to the extent that it affects the council's exposure to risk and weakens the control environment; and

> ➢ overseen the statutory financial reporting process.

In conclusion, the Committee has continued to make a positive contribution to the council's overall governance and control arrangements, including risk management and is satisfied that the council has maintained an adequate and effective internal control framework through the period covered by this report.

Councillor Nigel Studdert-Kennedy
Chairman of the Audit and Standards Committee

Background

Stroud District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. In discharging this overall responsibility, the council is responsible for putting in place the proper arrangements for the governance of its affairs.

A sound corporate governance framework involves accountability to service users, stakeholders and the wider community, within which the council takes decisions and leads and controls its functions to achieve stated objectives and priorities. It thereby provides an opportunity to demonstrate the positive elements of the council's business and to promote public confidence. Audit Committees are widely recognised as a core component of effective governance.

The Audit and Standards Committee is responsible for overseeing the council's corporate governance, audit and risk management arrangements. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement. The Committee's specific powers and duties are set out in the council's Constitution.

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance to local authorities to help ensure that Audit Committees are operating effectively[1.] The guidance recommends that audit committees should report annually on how they have discharged their responsibilities. The key benefits to the council of operating an effective Audit and Standards Committee are:

 ➢ Maintaining public confidence in the objectivity and fairness of financial and other reporting;

 ➢ Reinforcing the importance and independence of internal and external audit and any other similar review process;

 ➢ Providing a focus on financial reporting both during the year and at year end, leading to increased confidence in the objectivity and fairness of the financial governance arrangements operating within the council;

 ➢ Assisting the co-ordination of sources of assurance and, in so doing, making management more accountable;

 ➢ Providing additional assurance through a process of independent and objective review, via the Internal Audit function;

 ➢ Raising awareness within the council of the need for governance, including ethical governance, internal control and the implementation of audit recommendations; and

 ➢ Providing assurance on the adequacy of the council's risk management arrangements, including the risk of fraud and irregularity.

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[1] CIPFA – Practical Guidance for Local Authorities and Police, 2013

Membership and Meetings

The Committee has enjoyed the benefit of a settled membership over the last two years. This has helped to build and retain the expertise within the Committee, which has led to the Committee being able to demonstrate that they are operating within a best practice framework.

There are nine Members of the Audit and Standards Committee namely:

- ➢ 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

During the 2017/18 Civic Year, the Audit and Standards Committee has met on five occasions, in accordance with its Programme of Work:

- ➢ 11th April 2017
- ➢ 4th July 2017
- ➢ 12th September 2017
- ➢ 28th November 2017
- ➢ 6th February 2018

The Committee is also supported by council officers, principally the Chief Financial Officer (S151 Officer), Monitoring Officer, Head of Audit Risk Assurance (Chief Internal Auditor) and the council's External Auditors (KPMG).

Work Programme

During this period, the Committee has assessed the adequacy and effectiveness of the council's risk management arrangements, control environment and associated counter fraud arrangements through regular reports from officers, the internal auditors (Audit Risk Assurance) and the external auditors (KPMG).

The Committee has sought assurance that action has been taken, or is otherwise planned by management to address any risk related issues that have been identified by the auditors during this period. The Committee has also sought to ensure that effective relationships continue to be maintained between the internal and external auditors and between the auditors and management. The specific work undertaken by the Committee during 2017/2018 is set out below.

Internal Audit Activity

With effect from May 2016, the Internal Audit service is provided by Audit Risk Assurance under a shared service agreement. The Committee has continued to monitor the work of Internal Audit and has:

➢ been provided with an evaluation of the effectiveness of Internal Audit and has noted that the service complies with the Public Sector Internal Audit Standards (PSIAS) 2017. The standards require periodic self-assessments and an assessment by an external person every five years. The Chartered Institute of Internal Auditors (CIIA) (the professional body who sets internal audit standards for public bodies) assessment of Audit Risk Assurance concluded that the work of Internal Audit was in compliance with the required professional standards. The Committee therefore takes assurance that the internal audit practices meet the required standards and continued reliance can be placed on the internal audit arrangements operating within the council;

➢ contributed towards, received and approved the Internal Audit Plan for 2017/18. The plan ensures that internal audit resources are prioritised towards those systems, processes and areas which are considered to be deemed high risk, or which contribute most to the achievement of the council's corporate objectives;

➢ monitored the delivery of the annual Internal Audit Plan through regular update reports presented by the Head of Audit Risk Assurance;

➢ received, considered and monitored the results of internal audits performed and high risk activity identified, in respect of specific areas i.e. Housing Revenue Account (HRA) Balances, the Procurement Action Plan, Review of Council Tax and Business Rates Direct Debit payment issues, Multi Services Contract, Local Government Pension Scheme Regulations and ICT Business Processes and monitored the progress made by management, during the period, to address identified control weaknesses;

➢ considered the council's overall counter fraud arrangements and response in the light of updated national guidance Fighting Fraud and Corruption Locally – The Local Government Counter Fraud and Corruption Strategy 2016 – 2019 which is supported by CIPFA Counter Fraud Centre and approved the revised Anti Fraud and Corruption Policy Statement and Strategy, Anti Bribery Policy and Anti Money Laundering Policy 2017-2019, which reflects this updated guidance;

➢ received updates on the outcomes of special investigations / counter fraud activities undertaken by Internal Audit / Gloucestershire Counter Fraud Unit, along with progress made in the investigation of queries arising as a result of the National Fraud Initiative (NFI) data matching exercise; and

➢ considered the Internal Audit Annual Report of the Head of Audit Risk Assurance, which provided a satisfactory opinion on the effectiveness of the council's internal control environment. The summarised internal audit activity upon which that opinion was based, provide the Committee with reasonable assurance that there is a generally sound system of internal control in place at the council.

Activity relating to Treasury Management

During the year, the Audit and Standards Committee:

➢ received and approved the quarterly Treasury Management activity reports which monitor treasury activity against the 2017-2018 strategy and recommended to full council for approval amendments to the 2017-2018 strategy. Also considered and recommended to full council the annual report setting out the Treasury Management Strategy, the Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2018/2019. This report also set the council's prudential indicators for 2018/19. Treasury Management is a key area for the Committee to monitor and they continue to consider and recommend to full council for approval amendments to the investment strategy in response to constantly changing market conditions.

External Audit Issues

The External Audit service is provided by KPMG. The Committee has monitored the work of the council's external auditors and has:

➢ considered and approved the External Audit Plan 2017/18 which sets out external audit's work to be undertaken on the accounting statements and to provide a value for money opinion. It reported on risks they have identified which would receive attention during the audit, the results of interim work, which did not reveal any material weaknesses, and the dates for the completion of the audit.

➢ considered the External Audit Report 2016/2017 i.e. 'Report to those charged with Governance' in accordance with the requirements of International Standard on Auditing 260 (ISA) which summarises the key findings arising from their audit work in relation to the council's financial statements and work to support the council's arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money (VFM) conclusion). The audit concluded with an unqualified opinion on the financial statements and VFM conclusion;

➢ considered and approved the Statement of Accounts for 2016/17 of the council and received KPMG's audit opinion. The Acting S151 Officer together with the Chairman of the Committee signed a letter of representation on behalf of the Committee and Council to KPMG, to enable the 'unqualified' opinion to be issued;

➢ considered and accepted the Annual Audit Letter 2016/17. This letter summarises the outcome from audit work at the council during this period;

➢ received and considered the Annual Report on grant claims and returns 2016/17. This report summarises the results of the work undertaken on the council's 2016/2017 grant claims and returns; and

➢ received and considered regular external audit progress reports.

Risk Management Activity

During the year the Committee has:

- ➢ considered and approved the new Risk Management Policy and associated framework; and

- ➢ received regular risk management update reports (including the review of the corporate risk register) and being presented with the actions taken by the council to identify and address corporate risks. The Committee recognised that the corporate risk register required further review and enhancement, which is currently being addressed.

Corporate Governance

In relation to corporate governance the Committee:

- ➢ considered and approved the council's 2016/2017 Annual Governance Statement and Local Code of Corporate Governance 2016/2017 which reflects the principles of good governance as per CIPFA / SOLACE Delivering Good Governance in Local Government 2016 edition. The Committee also reviewed the progress made by management to address the significant issues identified in the 2016/17 Annual Governance Statement Improvement Plan; and

- ➢ considered the standards issued during 2016/2017 specifically relating to the review of the council's Member Code of Conduct / ethical framework.

Other

In addition, the Committee:

- ➢ continued to monitor and accept the achievements against the Procurement Action Plan and considered the actions required to further improve the council's performance and contract management arrangements.

Training

The following training was made available to Members of the Audit and Standards Committee in 2017/18 to support the Committee in discharging its responsibilities:

- ➢ Treasury Management (provided by council's treasury advisors – all Councillors invited) – November 2017;

- ➢ Finance Training (open to all councillors) – November 2017; and

- ➢ Risk Based Internal Audit Planning Workshop - January 2018.

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Future Work

During 2018/19, the Audit and Standards Committee will continue with the existing aim of being an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.

In particular, they will continue to support the work of Internal and External Audit and ensure appropriate responses are given to their recommendations, continue to monitor the implementation of the Procurement Action Plan and the effectiveness of the procurement arrangements operating across the council, the issues identified in relation to the Local Government Pension Scheme Regulations, the multi service contract management arrangements and any actions arising from the Annual Governance Statement action plan 2017/2018, to ensure the council continues to adopt the latest good practice.

In addition, with risk management being a key contributor to good governance the Committee will be seeking assurance from management that risk management continues to operate effectively within the council and they will look to Internal Audit to provide the independent assurance that risk continues to be embedded into the council's key business activities.

Conclusion

The Audit and Standards Committee has had a successful year in providing the council with assurances on the strength of its governance and stewardship arrangements and in challenging those arrangements.

The Committee's work programme is a dynamic programme and will continue to be reviewed to ensure the Committee maximises its contribution to the governance and control framework at the same time managing agendas to ensure that all meetings are focused on the key issues.

Details of all reports as noted within this report can be found at
https://www.stroud.gov.uk/council/meetings/audit-standards-committee.