Internal Audit Activity
Progress Report
2017-2018

ARA
AuditRiskAssurance

STROUD DISTRICT COUNCIL

(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**

(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%
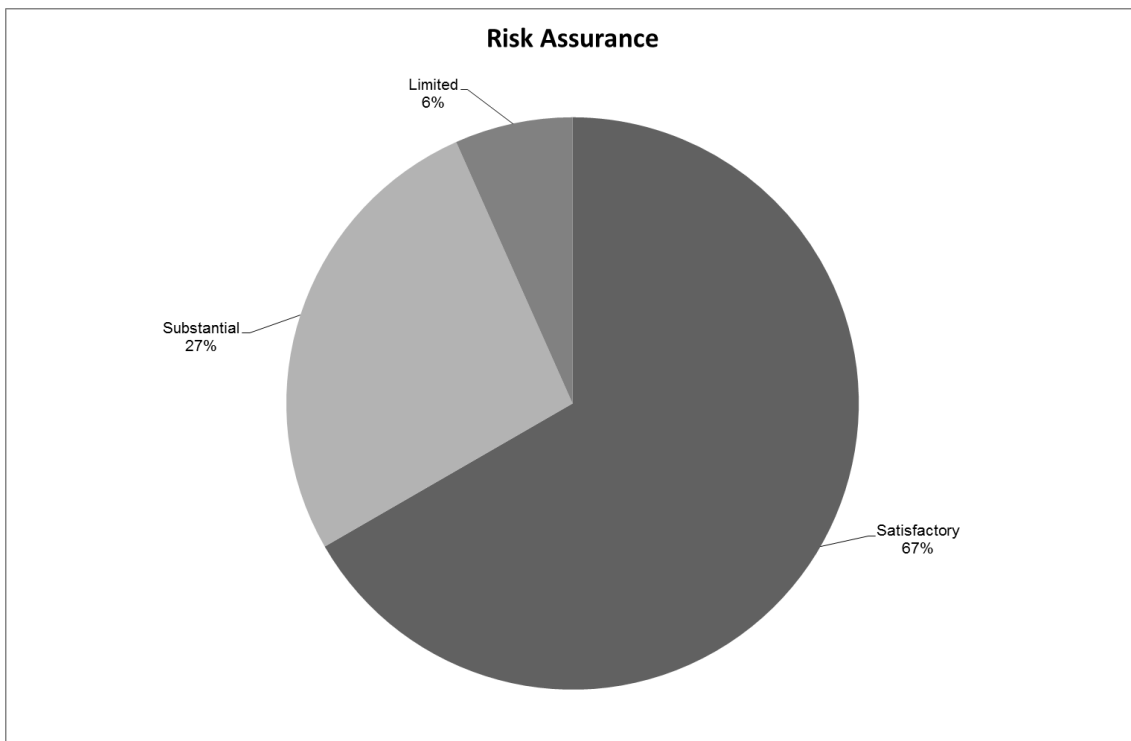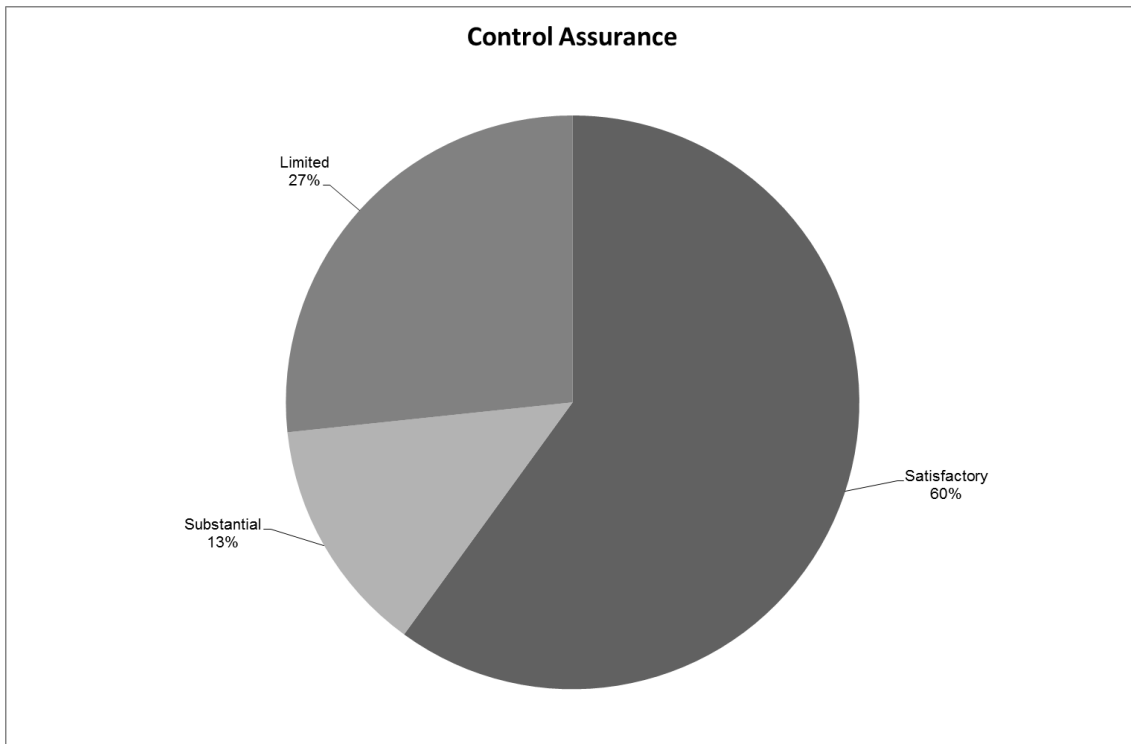
(4b) Limited Control Assurance Opinions

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

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.

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.

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.

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;

➢ 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:

> ➤ 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

➢   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:

➢ 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.

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.