

12 November 2018

AUDIT AND STANDARDS COMMITTEE

A meeting of the Audit and Standards Committee will be held on **TUESDAY 20 NOVEMBER 2018** in the Council Chamber, Ebley Mill, Ebley Wharf, Stroud at **7.00 pm.**



Barry Wyatt
Acting Head of Paid Service

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.

AGENDA

- 1** **APOLOGIES**
To receive apologies for absence.
- 2** **DECLARATIONS OF INTEREST**
To receive declarations of interest.
- 3** **MINUTES**
To approve the minutes of the meeting held on 9 October 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 RECEIPT OF QUESTIONS
Noon on THURSDAY 15 NOVEMBER 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 consider any Risk Management issues.

- 6** **INTRODUCTION OF NEW EXTERNAL AUDITORS**
To welcome Deloitte as the Council's new external auditors and to receive introductions from members of the Deloitte team.
- 7** **HALF YEAR TREASURY MANAGEMENT ACTIVITY REPORT 2018/19**
To receive a report on Treasury Management activities during the first half of the 2018/19 year and to seek Council approval.
- 8** **INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2018/19**
To receive an update on the activity of Internal Audit.
- 9** **MEMBERS' QUESTIONS**
See Agenda Item 4 for deadline for submission.

Members of Audit and Standards Committee

Councillor Nigel Studdert-Kennedy (Chair)
Councillor Skeena Rathor (Vice-Chair)
Councillor Rachel Curley
Councillor Stephen Davies
Councillor Keith Pearson

Councillor Simon Pickering
Councillor Mark Reeves
Councillor Tom Williams
Councillor Penny Wride

AUDIT AND STANDARDS COMMITTEE

9 October 2018

7.05 pm – 8.31 pm

3

Council Chamber, Ebley Mill, Stroud

Minutes

Membership

Councillor Nigel Studdert-Kennedy (Chair)	P	Councillor Simon Pickering	P
Councillor Skeena Rathor (Vice-Chair)	P	Councillor Mark Reeves	P
Councillor Rachel Curley	A	Councillor Tom Williams	P
Councillor Stephen Davies	P	Councillor Penny Wride	P
Councillor Keith Pearson	P		

A = Absent P = Present

Officers in attendance

Head of Finance and Section 151 Officer	Head of Community Services
Head of Audit, Risk and Assurance Shared Service (ARA)	Community Services Manager
Head of Legal Services and Monitoring Officer	Democratic Services Officer

AC.015 **APOLOGIES**

An apology for absence had been received from Councillor Curley.

AC.016 **DECLARATIONS OF INTEREST**

There were none.

AC.017 **MINUTES**

RESOLVED That the Minutes of the meeting held on 26 July 2018, are approved as a correct record.

AC.018 **PUBLIC QUESTION TIME**

There were none.

AC.019 **STANDING ITEMS**

(a) Work Programme

- Letting of commercial space/properties – Councillor Pickering would have a discussion with officers and an information sheet circulated. If members had further concerns then a report could go to committee.
- The costs of running our housing stock.

- The Council's external auditors Deloitte had been invited to attend the additional meeting on 20 November 2018.
- Management updates on ICT and the Multi Service Contract would be provided at January's meeting.

(b) Risk Management – refer to Procurement Update report.

(c) Task and Finish Group (Ethical Audit) – the Head of Legal Services gave a verbal update on the event held on 27 September 2018 and would circulate notes. The event was well received.

AC.020

PROCUREMENT UPDATE

The Head of Legal Services and Monitoring Officer outlined the above report. The procurement framework currently in place was fit for purpose but the major concern was the lack of forward planning by the management team. Exemptions were used and signed off at Director level which could have been avoided if there were forward planning.

Members were very disappointed that officers did not realise the seriousness of not following the procurement process, which could be the subject of legal challenge and ultimately bring the Council into disrepute. Also the process should ensure value for money and bring money into the district. The decision box on the report was not worded strongly enough.

The Chair proposed a motion to change the decision box which was seconded by Councillor Davis and supported by all members.

Various contracts were discussed including the heat source pumps, solar panels, car parking and Ubico. The Head of Audit Risk Assurance (Chief Internal Auditor) suggested that the Corporate Team should set up an assurance framework.

RECOMMENDED TO COUNCIL **The Corporate Team be reminded of the importance, without exception, of ensuring:**

- Forward planning for any procurement, whether a completely new service or a renewal (as opposed to an extension) of contract;**
- All procurements undertaken are recorded in writing and documents are retained in line with the Council's documentation retention policy; and**

All applications for exemptions (granted or otherwise) to the Council's Procurement and Procedure Rules be reported to the Audit & Standards Committee as part of the regular procurement updates.

AC.021

INTERNAL AUDIT ACTIVITY 2018/19

The Head of Audit Risk Assurance (Chief Internal Auditor) provided an update on the above report, drawing members' attention to the reports on Legacy Software and Multi-Service Contract both of which had provided a limited opinion on the control environment. Revised recommendation implementation dates had been agreed with the Head of Community Services and a follow up report would be presented at January's committee regarding the Multi-Service Contract. In addition, a management

update on the status of the ICT action plan delivery would be provided at the January Committee.

Officers confirmed that there is a lot of engagement with Ubico and information on overspends and underspends is received monthly with an explanation of why. A finance officer also regularly attends their meetings. There are currently too many KPI's, these will be reviewed with Ubico so that they are meaningful and demonstrate the Council receives value for money.

The Council has a Whistle Blowing Policy which staff could confidentially use if they felt they were being pressured into making uncomfortable decisions. This would lead to investigations being undertaken.

Councillor Davis requested a list of Key Business Applications for January's meeting. He also raised concern that the Council could be running various old IT systems behind the latest versions. He asked are we paying for everything we ran and are we going to have an unexpected unplanned bill for maintenance/software for equipment we are still running? The question would be asked of the ICT Manager and the reply would be circulated and published.

Councillor Wride was concerned that settlement payments to 8 officers had been made, and asked if any settlement payments had been listed from April – June.

- RESOLVED**
- a. **Accept the progress against the Internal Audit Plan 2018/19;**
 - b. **Accept the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date; and**
 - c. **Request senior management attendance at the January meeting of the Committee to provide an update on the actions taken in relation to the recommendations made in the Legacy Software and Multi Services Contract follow-up audit reports.**

AC.022

MEMBERS' QUESTIONS

There were none.

The Council's external auditors, KPMG had sent their Annual Audit Letter 2017/18 which had been circulated to members and published onto the Council's website.

An additional meeting was agreed to take place at 7.00 pm on Tuesday, 20 November 2018 to discuss Treasury Management and also to meet the Council's new external auditors Deloitte.

Finally the Chair thanked the Head of Legal Services and Monitoring Officer for all of her help over the years and wished her good fortune in her new job.

The meeting closed at 8.31 pm.

Chair

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

20 NOVEMBER 2018

5a

WORK PROGRAMME

Proposed Meeting Date	Report Description	Responsible Officer / Member
29 January 2019	Internal Audit Activity Progress Report 2018/19	Head of Audit Risk Assurance (ARA)
	Annual Summary of Certification of Grant Claims and Returns 2017/18	Deloitte
	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
	Standing Items a. To consider the work programme for 2018/19. b. To consider any Risk Management issues. c. To receive a verbal update on the Task and Finish Group (Ethical Audit).	Members
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	Deloitte
	Internal Audit Activity Progress Report 2018/19	Head of Audit Risk Assurance (ARA)
	Internal Audit Plan 2019/20	Chief Internal Auditor
	Standing Items a. To consider the work programme for 2018/19. b. To consider any Risk Management issues. c. To receive a verbal update on the Task and Finish Group (Ethical Audit).	Members

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

20 November 2018

7

Report Title	HALF YEAR TREASURY MANAGEMENT ACTIVITY REPORT 2018/19
Purpose of Report	To provide an update on treasury management activity as at the first half of the financial year 30/09/2018.
Decision(s)	The Audit and Standards Committee (a) RECOMMENDS that the Council APPROVES the treasury management activity half year report for 2018/2019, and (b) RECOMMENDS that the Council APPROVES the proposal to increase the limit for investment in property funds to £10m set out in paragraph 15.
Consultation and Feedback	Link Asset Services Limited
Financial Implications & Risk Assessment	The increase in the limit for investment in property funds is a change in the risk appetite of the Council and creates an opportunity to generate additional returns on the Council's investments. Any investments placed must be in line with the treasury management strategy and the principles of security, liquidity and yield. Andrew Cummings, Head Of Finance & Section 151 Officer Tel: 01453 754115 Email: andrew.cummings@stroud.gov.uk
Legal Implications	The Council is required to comply with professional codes, legislation and guidance to accord with regulations issues under the Local Government Act 2003. Nicola Swan, Interim Head of Legal Services & Monitoring Officer Tel: 01453 754369 Email: nicola.swan@stroud.gov.uk

Report Author	Graham Bailey, Principal Accountant Tel: 01453 754133 E-mail: graham.bailey@stroud.gov.uk
Chair of Committee	Councillor Nigel Studdert-Kennedy Tel: 01453 821491 E-mail: cllr.nigel.studdert-kennedy@stroud.gov.uk
Options	Further options to increase return on investments are under consideration for inclusion in the 2019/20 Treasury Management Strategy.
Performance Management Follow Up	A third quarter report and a full 2018/19 annual report.
Appendices	A – Prudential Indicators as at 30 Sept 2018 B – Explanation of prudential indicators

Background

1. Treasury management is defined as: ‘The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.’
2. This report is presented to the Audit and Standards Committee to provide an overview of the investment activity and performance for the first half of the financial year, (and to report on prudential indicators and compliance with treasury limits). A mid year report is essential under the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management (revised 2017).

Discussion

3. The primary requirements of the Code are:
 - A review of the Treasury Management Strategy Statement (TMSS) and Investment Strategy
 - A review of the Council’s investment portfolio for 2018/19
 - A review of the Council’s borrowing strategy for 2018/19
 - A review of compliance with Treasury and Prudential Limits for 2018/19
 - Other Treasury issues

Treasury Management Strategy Statement and Investment Strategy update

4. The TMSS for 2018/19 was approved by Council on 22 February 2018. The Council’s Investment Strategy, which is incorporated in the TMSS, outlines the Council’s investment priorities as follows:
 - Security of Capital
 - Liquidity
 - Yield

5. The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current low interest rate environment the Council is seeking to invest for longer periods of up to a year, with highly credit rated financial institutions, using Link's suggested creditworthiness approach, which includes a sovereign credit rating and Credit Default Swap (CDS) overlay.
6. A breakdown of the Council's investment portfolio as at 30 September and 30 June 2018 is shown in Table 2 of this report. Investments and borrowing during the year have been in line with the Strategy.

Investment Portfolio 2018/19

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

TABLE 1: Average Interest Rate Compared With Benchmark Rates

Period	Investment Interest Earned	Average Net Investment £'000	Average Interest Rate	Benchmark 7 day LIBID	Benchmark 3 month LIBID
01/04/18 - 30/06/18	£56,547	£36,344	0.63%	0.36%	0.51%
01/07/18 - 30/09/18	£76,772	£44,086	0.70%	0.59%	0.68%
Total	£133,319	£40,236	0.66%	0.48%	0.60%

8. Table 2 below shows the investments and borrowing position at the end of September 2018.
9. The approved limits as set out in the Treasury Management Strategy report to Council 22 February 2018 within the Annual Investment Strategy have been complied with during the first half year of 2018/19.
10. Funds were available for investment on a temporary basis. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme and canal project. The authority holds £7m core cash balances for investment purposes (i.e. funds that potentially could be invested for more than one year).

TABLE 2: Investments & Borrowing

	Jun 2018 £'000	Sep 2018 £'000
Federated Prime Rate	2,429	3,984
Deutsche	0	3,750
Goldman Sachs	4	1,743
Standard Life	1	2
Money Market Funds Total	2,434	9,479
Bank of Scotland	1,500	1,500
Lloyds	6,449	6,458
Lloyds Banking Group Total	7,949	7,958
NatWest	105	6001
Royal Bank of Scotland	3,007	7
RBS Banking Group Total	3,112	6,008
Goldman Sachs	4,000	4,000
Standard Chartered	4,000	2,000
Santander	7,062	7,066
Barclays Bank Plc	4,510	4,518
Svenska Handelsbanken	2	2,001
Other Banks Total	19,574	19,585
Coventry Building Society	4000	4000
TOTAL INVESTMENTS	<u>£37,069</u>	<u>£47,030</u>
Local Authority	2,000	2,000
PWLB	103,717	103,717
TOTAL BORROWING	<u>£105,717</u>	<u>£105,717</u>

Borrowing

11. The Council's Capital Financing Requirements (CFR) for 2018/19 is £112.180m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (External Borrowing) or from internal balances on a temporary basis (Internal Borrowing). The Council has external borrowing of £105.717m as at 30 September 2018. There is also £6.647m of internal borrowing.

Compliance with Treasury and Prudential Limits

12. It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Treasury and Prudential Indicators are outlined in the approved TMSS.

13. During the period to 30 September 2018 the Council has operated within the treasury limits and Prudential Indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix A.

Increasing return on investments

14. Following on from the problems faced by the Council and many public sector organisations throughout the country regarding Icelandic investments the Council has adopted a risk-averse approach to treasury investments. There is a financial cost to this approach, and it is time to adopt a different risk profile for the Council's investments and the first step towards this is taken in this half-year report.
15. An amendment to the maximum sum the Council can invest in a property fund from £3m to £10m is proposed. This will amend the 2018-19 Treasury Management Strategy and it signals a necessary increase in risk appetite. This proposal is in line with the need identified in the Budget Strategy 2019/20 – 2022/23 report to October 2018 Strategy and Resources Committee for increased income generation. Other options to widen the range of permitted investments will be included within the 2019-20 Treasury Management Strategy.
16. The increase in the Prudential limits for property funds makes it possible for such investments to take place. Before any investments are placed members will be informed of the possible funds and their characteristics including potential returns and risks.

Capital Strategy

17. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: -
 - a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed
 - the implications for future financial sustainability
18. The Capital Strategy will be considered at Strategy and Resources Committee, and full Council, as part of the budget proposals in January 2019.

Prudential Indicators as at September 2018

Prudential Indicator	2018/19 Indicator £'000	Actual as at 30 June 2018 £'000	Actual as at 30 Sept 2018 £'000
Capital Financing Requirement (CFR)	112,180	112,364	112,364
Gross Borrowing	107,717	105,717	105,717
Authorised Limit for external debt	130,000	105,717	105,717
Operational Boundary for external debt	122,000	105,717	105,717
Principal sums invested > 365 days	7,000	0	0
Maturity structure of borrowing limits			
Under 12 months	25%	2%	2%
12 months to 2 years	50%	0%	0%
2 years to 5 years	75%	3%	1%
5 years to 10 years	100%	0%	2%
10 years and above	100%	95%	95%

Explanation of prudential indicators

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

Gross borrowing – compares estimated gross borrowing in February 2018 strategy with actual gross borrowing as at 30 June 2018 and 30 September 2018.

Capital financing requirement (CFR) – the capital financing requirement shows the underlying need of the Council to borrow for capital purposes as determined from the balance sheet. The overall positive CFR of £112,364m provides the Council with the opportunity to borrow if appropriate. No external borrowing is planned for 2018/19.

Authorised limit for external debt - this is the maximum limit for gross external indebtedness. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cashflows. This limit has not been breached in the period 1 April 2018 to 30 September 2018.

Operational boundary for external debt – this is set as the more likely amount that may be required for day to day cashflow. This limit has not been breached in the period 1 April 2018 to 30 September 2018.

Upper limit for total principal sums invested for over 365 days – the amount it is considered can prudently be invested for a period in excess of a year. Current policy only permits lending beyond 1 year with other Local Authorities up to a maximum of 3 years.

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

**AGENDA
ITEM NO**

20 NOVEMBER 2018

8

Report Title	INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2018/19
Purpose of Report	To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2018/19.
Decision(s)	The Committee RESOLVES to: <ul style="list-style-type: none"> • Accept the progress against the Internal Audit Plan 2018/19; and • 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 directly from this report. Andrew Cummings – Head of Finance & S151 Officer Tel: 01453 754115 Email: andrew.cummings@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 legal framework concerning the requirements regarding internal audit are set out in the opening section of the report. The Committee should ensure it is satisfied that the steps proposed are sufficient to alleviate the risks identified; it is open to the Committee to request further information to ensure that an informed decision can then be made. Nicola Swan, Interim Head of Legal Services & Monitoring Officer Tel: 01453 754369 Email: nicola.swan@stroud.gov.uk

Report Author	Theresa Mortimer, Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754111 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 2018/19. These are scheduled to be presented to Audit and Standards Committee at the January, May and July 2019 meetings.
Background Papers/ Appendices	Appendix A – Internal Audit activity progress report 2018/19. Background papers: <ul style="list-style-type: none"> ➤ Internal Audit Plan 2018/19; ➤ PSIAS; and the ➤ CIPFA Local Government Application Note for the UK PSIAS.

1.0 Background

- 1.1 Members approved the Internal Audit Plan 2018/19 at 10th April 2018 Audit and Standards Committee meeting. In accordance with the 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 2018/19 at **Appendix A** summarises:
- The progress against the Internal Audit Plan 2018/19, including the assurance opinions on the effectiveness of risk management and control processes;
 - The outcomes of the Internal Audit activity during the period October 2018 to November 2018; and
 - Special investigations/counter fraud activity.
- 1.3 The report is the second progress report in relation to the Internal Audit Plan 2018/19.

Internal Audit Activity Progress Report 2018-2019



(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 2018/19 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 October 2018 to November 2018; and
- Special investigations/counter fraud activity.

(4) Progress against the 2018/19 Internal Audit Plan, including the assurance opinions on risk and control

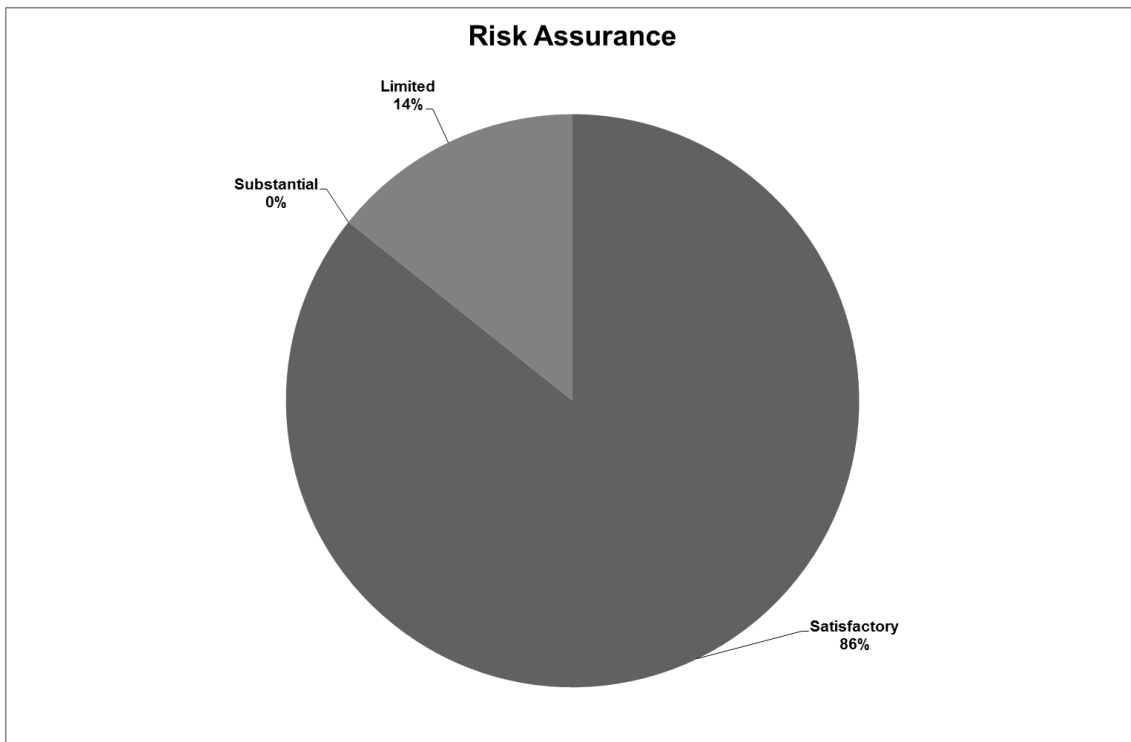
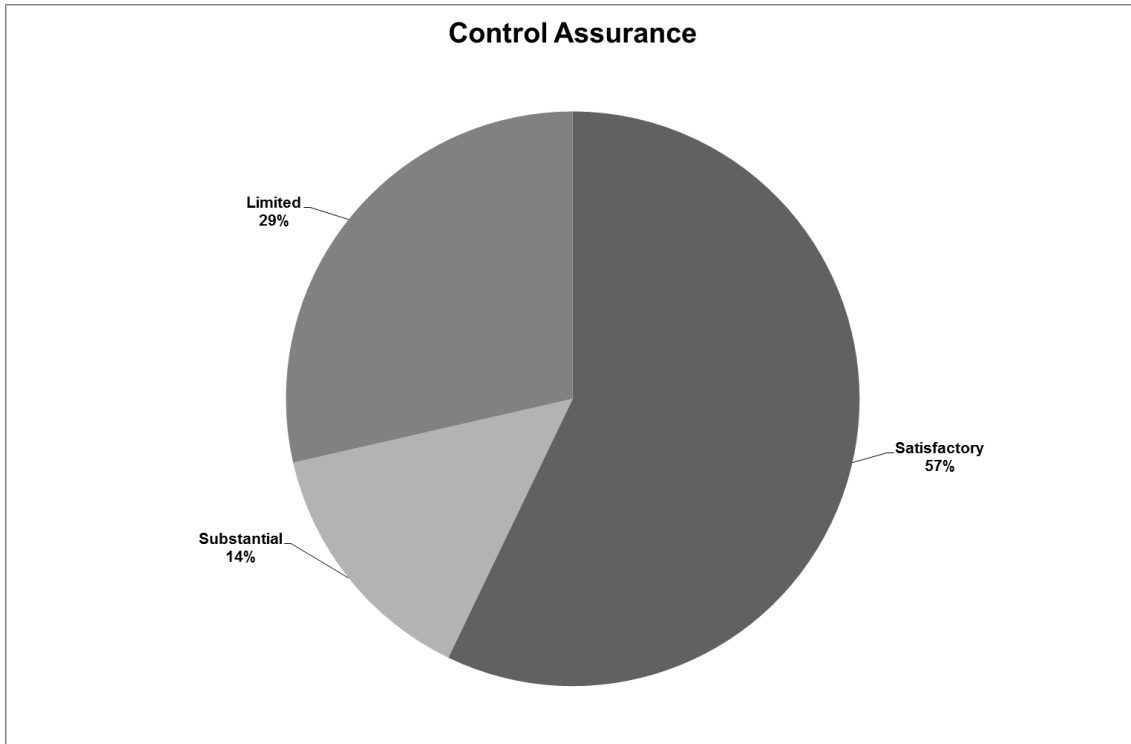
The schedule provided at **Attachment 1** provides the summary of 2018/19 audits which have not previously been reported to the Audit and Standards Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2018/19 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Standards Committee. Explanations of the meaning of these opinions are shown in the below table.

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

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

The pie charts below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the audit activity undertaken during the period April 2018 to November 2018.



(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 October 2018 to November 2018, no limited assurance opinions on control have been provided on completed audits from the 2018/19 Internal Audit Plan.

(4d) Satisfactory Control Assurance Opinions

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

(4e) Internal Audit Recommendations

During the period October 2018 to November 2018 Internal Audit made, in total, **2** recommendations to improve the control environment, **0** of these being high priority recommendations (**100%** of these being accepted by management) and **2** being medium priority recommendations (**100%** accepted by management).

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

(4f) Risk Assurance Opinions

During the period October 2018 to November 2018, please note that no limited assurance opinions on risk have been provided on completed audits from the 2018/19 Internal Audit Plan.

Completed Internal Audit Activity during the period October 2018 to November 2018

Summary of Satisfactory Assurance Opinions on Control

Service Area: Finance

Audit Activity: Treasury Management

Background

Treasury management is defined as the management of an 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 high value of transactions, which can be made on a daily basis. As at 31st March 2018, the Stroud District Council (SDC) statement of accounts 2017/18 confirmed the Council held £30.55m of investments (including long and short term investments and cash and cash equivalents) and £105.7m of borrowings (long and short term).

SDC has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice as part of the Financial Regulations set out in the Constitution.

Scope

The objectives of the audit were to review:

- The Council treasury management strategy, policy and procedure to confirm compliance with the CIPFA Code of Practice; and
- The processes and internal controls in operation for the:
 - Day to day operation and management of the function (including transaction decision making, authorisation and audit trail);
 - Use of brokers and specialist advisers;
 - Reconciliation of control accounts; and
 - Performance reporting to relevant stakeholders.

The audit scope considered Council compliance with the recently released CIPFA Treasury Management in the Public Services: Code of Practice (2017 Edition).

The 2017 Code replaced the previous 2011 Edition.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

The Member approved SDC Treasury Management Strategy, Treasury Management Policy Statement and Treasury Management Practices (TMPs) for 2018/19 were confirmed as in accordance with the CIPFA Code of Practice 2017, satisfying all requirements of sections 4-7 of the Code.

Treasury management reporting arrangements (to Members) for 2017/18 were also confirmed as in accordance with the CIPFA Code of Practice. Audit sample testing of prudential indicators reported in 2017/18 found those tested were in line with supporting audit trail and accurately calculated.

Internal Audit completed a process review of both investments and borrowings and identified that there is opportunity to improve segregation of duty controls between the deal function (Front Office) and the Treasury Administration function (Back Office). Internal Audit observations included:

- The treasury management dealer receives the confirmation note from the counterparty prior to approval, allowing an opportunity for adaptation of key documents;
- The treasury management dealer despatches the approved dealing mandate and Standard Settlement Instructions (SSIs) to counterparties on behalf of SDC where required, which includes the bank details to be paid to. This is already signed by the Section 151 Officer and therefore allows the dealer to set up accounts with new brokers and potentially change the information within the instructions; and
- The dealer receives and stores the counterparty Standard Settlement Instructions that includes the counterparty's bank settlement details that are used to check bank details of investments.

As a result of the above findings there is a risk that unauthorised transactions could be performed without early detection.

Internal Audit sample tested 15 2018/19 investment transactions to ensure they were within the necessary counterparty limits, correct to the cash flow, matched to supporting documents (deal confirmations and deal tickets), had been authorised correctly and matched to bank transactions.

Internal Audit found that all sampled cases had been completed as intended and were supported by the necessary documentation and information within the banking system.

No borrowing transactions had occurred within 2018/19 to the point of audit and therefore no sample testing could be completed.

Internal Audit review did find two discrepancies between the listed TMPs and the current operational treasury management practices:

- The TMPs list that £25,000 is used as a minimum bank cash reserve, however in operation £15,000 is being used. Internal Audit was informed by the Senior Accountancy Officer and Principal Accountant that £15,000 is an appropriate minimum bank cash reserve to mitigate potential risks; and
- The TMPs state that SSIs are sent by SDC to the counterparties for all deals. Internal Audit found this not to be the case and SSIs are only issued for new counterparties or if SDC needs to change its details contained within the SSIs.

The above points have been debriefed with the Principal Accountant, for consideration and risk assessment as to whether TMP update is required or if the operational processes require change.

Treasury management control account reconciliations between Logotech (the treasury management system) and the Agresso general ledger for investments were confirmed as complete, accurate and up to date for 2018/19 at the point of audit. The borrowing reconciliations however, had not been completed for 2018/19 as at August 2018 no new borrowing transactions had been completed. Bank reconciliations are completed monthly and were up-to-date at the point of the audit.

Internal Audit identified that the treasury management spreadsheet, which is the preferred service method of monitoring treasury management activity, is not reconciled to Logotech or the general ledger. As heavy reliance is placed upon the treasury management spreadsheet, it is important to ensure that the spreadsheet is an accurate representation of the true treasury position and therefore suitable checks should be in place.

SDC have a suitable fidelity guarantee insurance policy in place at the point of audit.

Conclusion

Internal Audit review found that the SDC treasury management activity is compliant with the CIPFA Treasury Management in the Public Services: Code of Practice (2017 Edition), including having an appropriate strategy, policies and practices.

Sample testing concluded that the process as intended had been completed for sampled 2018/19 investments, with no borrowings completed in 2018/19 to date.

Audit walkthrough and testing has identified opportunities where treasury management controls could be further strengthened (segregation of duty for deal confirmations and standard settlement instructions and reconciliation breadth). Two recommendations have been raised within the audit report.

Management Actions

Management have responded positively to the recommendations made.

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

Service Area:	Finance
Consultancy Activity:	Insurance Tender Outcomes 2018

Background

Stroud District Council's (SDC) insurance contracts were due to expire 30th September, 2018. In the previous year's renewal (2017/18), their incumbent insurers had increased their property premiums rate by 68% representing an additional annual premium cost of £253,705. The reason they gave was adverse property claims experience. This premium was unaffordable for SDC so the only option for the last year of the insurance contract was to increase the excess on the property policy from £5,000 to £50,000 in order to secure a more affordable premium (£311,913.73).

Carrying such a high excess on their Property policy was financially unsustainable for SDC as reserves would be needed to cover this high excess level, therefore they commissioned an insurance tender consultancy service via the Audit Risk Assurance (ARA) shared service to oversee, provide the technical challenge and manage the tender process.

Project Objective

To achieve best value premiums for the whole insurance programme and in particular to revert back to the £5,000 property excess at an affordable premium rate.

Procurement Process

The tender was undertaken via the Crown Commercial Service Insurance framework and advertised on the Supplying the South West Procurement portal.

Insurance Broker

SDC use the services of a broker, Marsh UK. The ARA Insurance Consultant worked together with the broker to compile the invitation to tender (ITT) and scoring mechanism to reflect the cover and to score in areas that are important to SDC e.g. guaranteed rates.

Actions taken by the ARA Insurance Consultant

- Identification of the key insurable risks and then meetings with relevant staff to obtain and collate all documentation that would demonstrate to the potential bidders that SDC was a good risk. The main focus was the property and in particular the social housing. Following conversations with the property staff it was clear that they had good systems and processes in place and were committed to managing the property risks well. Where the consultant highlighted areas that could be improved and this would be looked on favourably by the insurers e.g. a rolling programme of property reinstatement valuations, the staff were receptive to implementation.
- Review of the existing insurance cover, i.e. levels of excess cover and aggregates to ensure that the programme was still fit for purpose.
- Arrangements for an Insurers Day and devising an Insurer Briefing Document to complement the day. Insurer days have proved to be very beneficial to both parties. It provides an opportunity for key stakeholders in the Council to meet the insurers and for both parties to ask questions. The Insurer day worked particularly well for Stroud. Five insurers attended which was very encouraging. The feedback from the insurers was that they could see that the staff who attended knew their areas of business well and demonstrated good risk management in their individual services.
- Worked with the staff at SDC to compile the data required for the ITT for the whole of their insurance programme.
- Worked with the staff at SDC and Marsh to ensure that the ITT reflected the cover required by SDC.
- Worked with Marsh to evaluate the bids.

Outcome of the Tender

SDC received bids from six insurers: Zurich Municipal, Risk Management Partners, Travelers, Protector Forsikring, Aspen and Maven. It was pleasing to see that a number of insurers were interested in the business.

The outcome was a great success achieving 42% savings across the whole insurance programme on the previous year's premium cost but 56.6% savings if the comparison is made on a like for like basis with the premium quoted for the 2017/18 renewal for the £5,000 property excess.

The most pleasing result was the reduction of the annual property premium by £297,728.09 whilst reverting back to the original level of £5,000 property excess.

Summary

The overall like for like annual savings for the 2018/19 renewal compared with previous year's renewal are £344,715.98 (excludes Insurance Premium Tax (IPT)) which over the term of the first 3 years of the contract (awarded on a 3 + 2 basis) is £1,034,147.94.

The successful outcome of this tender was due to SDC being able to give assurance to insurers that they were managing insurable risk well. This resulted in reducing the insurers risk so they were then able to reflect that in their premium quotes.

Summary of Special Investigations/Counter Fraud Activities

Current Status

During 2018/19 to date 13 potential irregularities have been referred to Internal Audit, 12 of which have previously been reported to the Audit and Standards Committee. All but two of these cases relate to tenancy issues. The details of the non-tenancy cases have been closed and were reported to Audit and Standards Committee at the last update.

In respect of the tenancy cases ARA has liaised with Gloucestershire Counter Fraud Unit (CFU) to investigate the potential irregularities. Of these cases referred in 2018/19 five have now closed with varying outcomes, details of which were reported previously.

In addition ARA continued to work on four cases brought forward from 2017/18. Two of these cases have now closed, and have previously been reported.

ARA previously reported a commissioned piece of work, through the CFU, on Right to Buy which identified an additional six cases 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 2018/19 data collections have been successfully uploaded to the Cabinet Office during October 2018 and data matching reports will be provided for investigation from January 2019 onwards. Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

In addition, there is an annual data matching exercise undertaken relating to matching the electoral register data to the single person discount data held within the council. Once all relevant data has been uploaded onto the NFI portal, a data match report is instantly produced and available for analysis.

Progress Report including Assurance Opinions

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Standards Committee	Comments
Council Wide	Workforce - Programme Management	High	Audit in Progress				Position statement to Audit and Standards
Council Wide	Workforce Plan - Transitional Arrangements	High	Audit in Progress				Consultancy
Council Wide	Capital Programme Limited Assurance Follow Up	High	Planned				
Council Wide	Procurement	High	Final Report Issued	Satisfactory	Satisfactory	09/10/2018	Brought Forward from 17/18 plan
Council Wide	Legacy Software	High	Final Report Issued	Satisfactory	Limited	09/10/2018	Brought Forward from 17/18 plan
Development Services	Food Hygiene Inspections	High	Audit in Progress				
Customer Services	Business Continuity	High	Planned				
Customer Services	Business Rates Evaluation List	High	Planned				
Customer Services	Multi Services Contract Follow Up	High	Final Report Issued	Limited	Limited	09/10/2018	
Customer Services	Subscription Rooms - Risk Management	High	Planned				
Customer Services	Homelessness	High	Audit in Progress				Brought Forward from 17/18 plan
Customer Services	The Pulse Dursley Limited Assurance Follow Up	High	Audit in Progress				
Finance	Banks Automated Clearing System (BACS)	High	Final Report Issued	Satisfactory	Satisfactory	26/07/2018	
Finance	Budget Savings	High	Audit in Progress				
Finance	Communications (Publication of Financial Information)	High	Audit in Progress				
Finance	Debt Collection and Recovery	High	Planned				Terms of Reference issued
Finance	Insurance	High	Cancelled				Refer to insurance tender consultancy review
Finance	Local Government Pension Scheme (LGPS) Limited Assurance Follow Up	High	Draft Report Issued				
Tenant & Corporate Services	Competency Framework	High	Planned				
Tenant & Corporate Services	Contract Management (Mechanical and Electrical Payment Mechanisms)	High	Final Report Issued	Satisfactory	Substantial	09/10/2018	
Tenant & Corporate Services	Depooling of Rents	High	Audit in Progress				Consultancy
Tenant & Corporate Services	General Data Protection Regulations (GDPR)	High	Planned				
Tenant & Corporate Services	HRA Delivery Plan - Budget Savings	High	Planned				
Tenant & Corporate Services	IR35s - Off Payroll Working Through An Intermediary	High	Audit in Progress				
Tenant & Corporate Services	Property Maintenance	Medium	Planned				
Tenant & Corporate Services	Risk Management (Contracts)	High	Planned				
Tenant & Corporate Services	Settlements	High	Final Report Issued	Satisfactory	Satisfactory	09/10/2018	
Finance	Treasury Management	High	Final Report Issued	Satisfactory	Satisfactory	20/11/2018	
Tenant & Corporate Services	ICT Action Plan	High	Planned				