

# 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 December 2018;
- Special investigations/counter fraud activity; and
- The outcome of the car parking review.

#### (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.

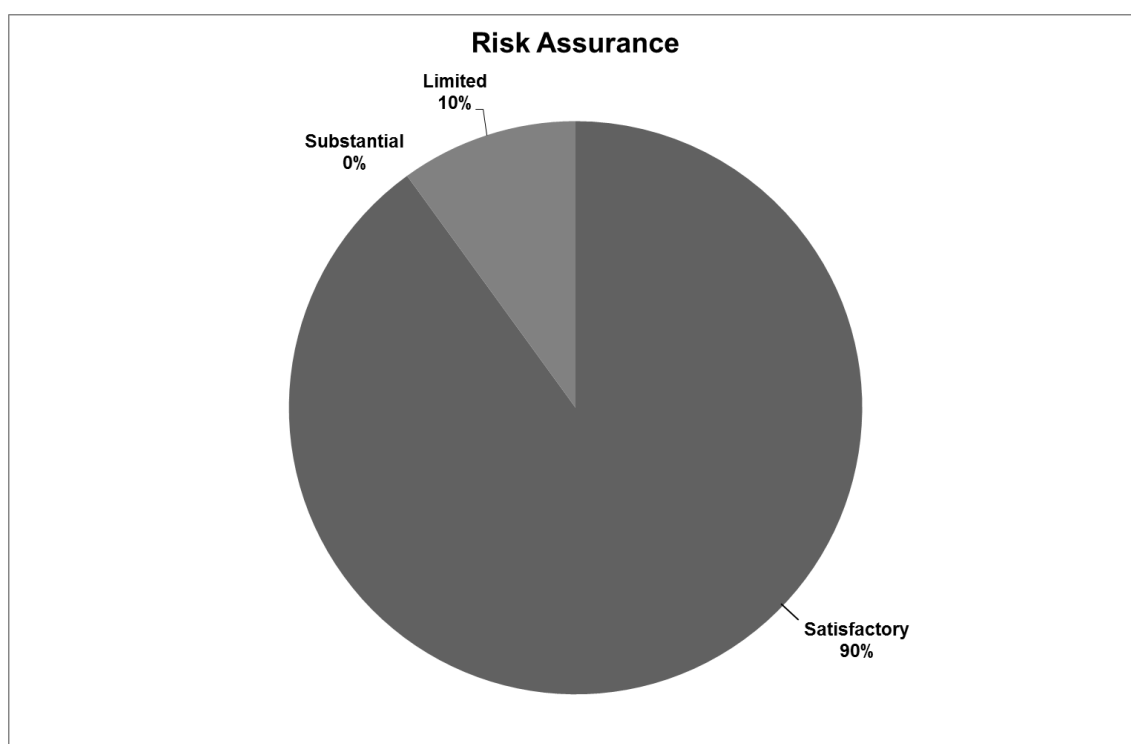
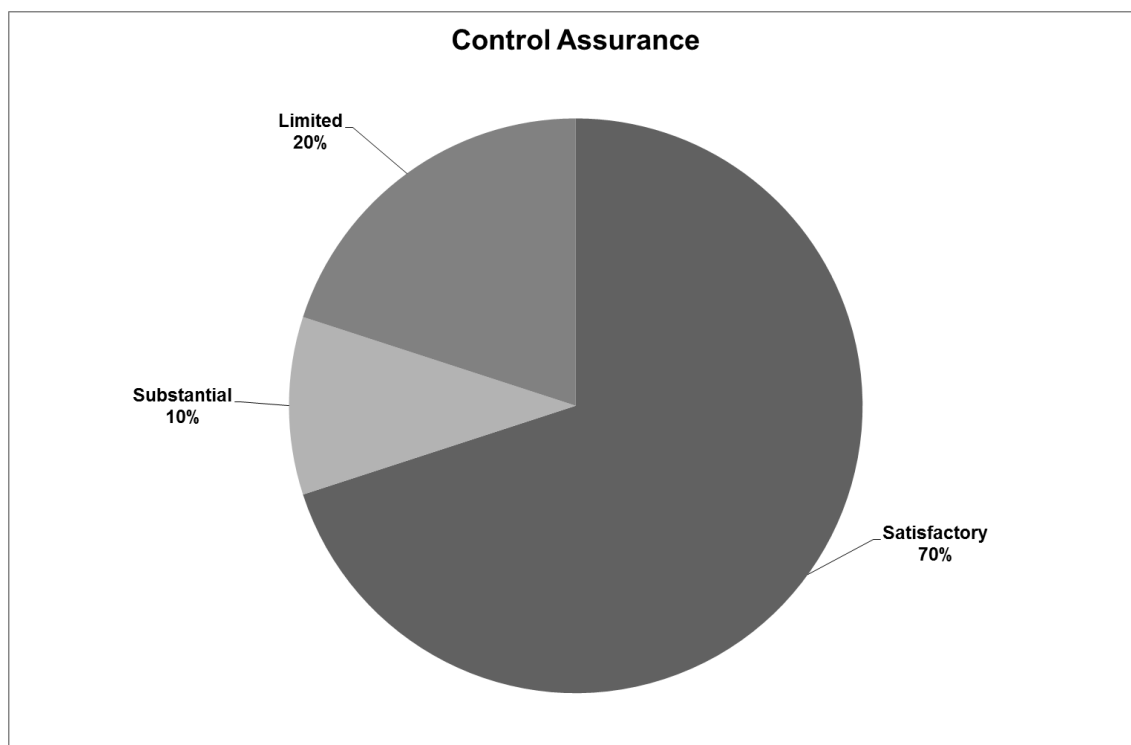
The schedule provided at **Attachment 2** contains a list of all of the 2018/19 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage 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.

The outcome of the car parking review – **Attachment 3**.

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

**(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 - December 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 December 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 December 2018 Internal Audit made, in total, **4** recommendations to improve the control environment, **0** of these being high priority recommendations (**100%** of these being accepted by management) and **4** 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 December 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 December 2018

### Summary of Satisfactory Assurance Opinions on Control

**Service Area:** Development Services

**Audit Activity:** Food Hygiene Inspections

#### Background

The Food Standards Agency (FSA) is the independent regulator that protects consumers through effective food enforcement and monitoring. As a central government department, the FSA works with local authorities to help them take proportionate, timely and resolute action in relation to food safety in their area.

All food businesses that prepare, produce, cook or sell food within the Stroud district are required to register with Stroud District Council (the Council) by law and they must comply with strict hygiene standards.

The Council is responsible for carrying out programmed inspections of premises and advising businesses of legal requirements and best practice, alongside investigating incidents, outbreaks and causes of accidents. As at 1st April 2018 there were 1,217 food premises in the District (information obtained from the Council's Food Service Plan 2018-19).

Environmental Health utilise the Uniform system to record all food operators and manage its inspection routines in accordance with the Council's responsibilities and commitments, Food Safety Code of Practice and Food Law.

#### Scope

This review was undertaken to determine whether there is a robust framework in place for ensuring that timely food safety inspections are being conducted. The period of this review was for the financial year 2017-18 and the period April to November 2018.

#### Risk Assurance – Satisfactory

#### Control Assurance – Satisfactory

#### Key Findings

The Council reported in its 2016-17 annual return to the FSA that 76.18% of all its high and low risk (category A-E) food establishments due an inspection were completed.

This ranked the Council 279 out of 356 food authorities in England, Wales and Northern Ireland and resulted in intervention from the FSA and focus by them on the Council's inspection regime and improvement plan for 2017-18.

The number of food establishment inspections completed against inspections due improved during 2017-18 due to the use of agency workers and the employment of staff to replace those that had left the Council. This improvement resulted in an inspection level of 93.77%, the Council being ranked as 168 and the FSA intervention being closed due to the 'positive performance trend' achieved by the Council.

Management monitoring is undertaken to confirm the quality and consistency of food establishment inspections and level of overdue inspections, but documentary evidence of the reviews have not always been evidenced or retained. Therefore Internal Audit was unable to confirm the completeness and effectiveness of the monitoring regime.

A review by Internal Audit of overdue food establishment inspections as at 17th September 2018 highlighted 46 premises, in categories C, D and E, were more than 28 days over the due date for inspection and 89 unrated (new food establishments) were awaiting inspection. According to the Food Law Code of Practice unrated establishments should be inspected "within 28 days of registration or from when the authority becomes aware that the establishment is in operation", some of the 89 unrated businesses would be in this category.

Since this date management and officers have, during October and November 2018, made a concerted and positive effort in reducing the number of overdue inspections to 39 and 32 respectively. All the rated and 19 of the unrated food establishments' overdue inspections are more than 28 days past their due date which is outside of the FSA requirements.

Two performance measures relating to the compliance of food establishments with food hygiene law and inspections completed are managed and reported on the Council's risk management and performance system Excelsis. The targets for each have not been achieved for the last three years. In addition the actual results are updated annually rather than at least quarterly and there is no inspection performance measure for low risk food establishments. As a result senior management may not be promptly informed of the performance of the service or the completeness of the inspection regime and therefore any corrective measures may be unduly delayed.

The Council's Risk Management Policy Statement and Strategy states that risks should be recorded in the Council's risk register (Excelsis) and kept up to date to demonstrate awareness and mitigation of the risks affecting the service.

A review of the Council's risk register for Commercial Services operational risks established that there was no specific risk relating to the inspection regime for food establishments.

### **Conclusion**

Internal Audit review findings confirmed a positive direction of travel regarding completion of food hygiene inspections for 2018-19 through a review of the level of outstanding inspections as at 17th September, which have been subsequently inspected during October and November 2018. This supports a satisfactory assurance opinion for this audit.

### **Management Actions**

Three Medium Priority recommendations have been raised by Internal Audit as follows:

- Maintain documentary evidence of all management monitoring control checks;
- Prompt update of the results against the two performance measures recorded on Excelsis and the inclusion of an additional performance measure relating to the level of inspections for low risk food establishments; and
- Update the Council's Risk Register to include the operational risk(s) relating to non compliance with regulations / guidance and reflection of managements risk appetite.

These three recommendations have been accepted in full.

**Service Area: Customer Services**

**Audit Activity: The Pulse (Dursley) Limited Assurance Follow Up**

### **Background**

The Pulse, formally known as Dursley Pool, is the new swimming pool, gym and fitness studio in Dursley. The Pulse offers a wide range of classes and activities for the local community as well as public swimming lessons.

In the first full year of operation (2016-17) The Pulse actual income exceeded the budget by approximately £300k, which resulted in a reduction in the subsidy from the Council to approximately £90k, from £270k in 2016-17.

During 2017-18 Internal Audit undertook a review of the operating effectiveness of the internal control environment in respect of income collection.



The findings emanating from the review highlighted material issues with the cash up and banking process resulting in three high and four medium priority recommendations being raised and a limited assurance opinion being provided.

### **Scope**

To provide assurance that the recommendations raised in the 2017-18 audit of The Pulse have been fully implemented or there is an approved action plan to demonstrate how and when they will be implemented.

### **Risk Assurance – Satisfactory**

### **Control Assurance – Satisfactory**

### **Key Findings**

The follow-up review established that three high and two medium priority recommendations had been implemented and the remaining two medium priority recommendations were partially implemented at the point of follow-up as detailed below:

#### **Medium priority recommendation 3 – Cash and card differences.**

#### **Original completion date – April 2018.**

The General Manager has determined that cash differences greater than £50 should be subject to further investigation, which has been confirmed by Internal Audit's review of cash differences for the period April to August 2018.

Regular debit / credit card differences are being highlighted in the income control reconciliations, (up to approximately £700), but there is a lack of documentary evidence to confirm investigations for these differences over £50, has been performed.

It is important that further work is undertaken by officers to fully understand the reason(s) for these differences and to make suitable corrections where appropriate. An additional medium priority recommendation has been raised by Internal Audit to this effect.

The General Manager had, as at 12th November 2018, formally approved the four journals raised by Pulse officers for posting cash and debit / credit card differences to the Under / Over general ledger account. Income differences highlighted in the May 2018 income control reconciliation totalling net £342.59 had not however been subject to a journal to the Under / Over general ledger account at the point of the follow-up. In addition corrections were required to the July 2018 posted difference journal to correctly reflect the net differences for this month.

Internal Audit advised the Duty Manager of the issues and appropriate corrections have now been made.

**Medium priority recommendation 6 – Debt recovery.**

**Original completion date – May 2018.**

The General Manager has drafted manual guidance for the application for unpaid fitness class penalty fees or 'dishonour payments', which was approved by the Interim Section 151 Officer during May 2018. In addition the Interim Section 151 Officer also confirmed with the General Manager that the debt write-off process as detailed in the Financial Regulations should apply.

The process for writing-off / dealing with credit balances on the leisure management system has not, at the point of the follow-up, been formally determined.

The General Manager has provided details of customer debts totalling approximately £1,600 (five customers) for write-off as at July 2018 to the Interim Section 151 Officer for approval. At the point of this follow-up approval has not yet been received, despite repeated contact with the Accountancy Manager, and as a result no further debt recovery action on these cases has been undertaken by The Pulse officers.

The above two recommendations, determined as partially implemented by Internal Audit, will be subject of continuing monitoring by Internal Audit with the General Manager to confirm full completion of the actions.

Internal Audit has provided additional support to the General Manager and officers in the performance of the reconciliations for the period June to September 2018. However, future on-going support should now move towards Finance to avoid Internal Audit becoming part of the front line control and to maintain its independence.

**Conclusion**

Positive progress has been made by management and officers in implementing the recommendations as raised by Internal Audit in the February 2018 audit report. This has resulted in an improved control environment assurance opinion being provided by Internal Audit for this follow-up review from originally 'limited' assurance to 'satisfactory' assurance.

## Management Actions

Positive assurance has been provided to fully implement the two outstanding medium priority recommendations and have agreed to the implementation of an additional medium priority recommendation raised relating to income differences.

**Service Area:** Finance

**Audit Activity:** Local Government Pension Scheme (LGPS) Limited Assurance Follow Up

## Background

In April 2014 the Local Government Pension Scheme (LGPS) was revised. The new scheme known as LGPS14 is a career average pension scheme rather than a final salary scheme.

During 2016/17 Internal Audit conducted a review of Stroud District Council's (the Council) arrangements for compliance with the revised scheme. The findings emanating from the review (report issued June 2017) highlighted that certain aspects of the Local Government Association (LGA) guidance were not operating as intended. This led to a split assurance opinion being given over the control environment, with limited assurance being given over four areas that required improvement as follows:

- Calculation of assumed pensionable pay for individuals on sickness and maternity leave;
- Scheme for staff to purchase additional leave;
- Calculation of final salary for staff leavers who were members of the LGPS prior to 1st April 2014; and
- Reporting of employee contractual changes to Pensions.

As a result five high and four medium priority recommendations were made to support management in the provision of a robust control environment and ensure adherence to LGA guidance.

## Scope

This follow-up review sought to determine whether the recommendations emanating from the original 2016/17 internal audit had now been fully implemented.

**Risk Assurance – Satisfactory**

**Control Assurance – Satisfactory**

**Key Findings**

The follow-up review established that two high and three medium priority recommendations had been implemented. The remaining four audit recommendations (three high and one medium priority) were confirmed as in progress at the point of follow-up as detailed below:

**High priority recommendation 1 – Calculation of Assumed Pensionable Pay (APP).**

**Original completion date – 31st December 2017.**

The previous payroll provider has now informed Finance of the correct process, after operating and initially providing incorrect details, for processing Occupational Maternity Pay (OMP) and Keeping in Touch (KIT) days.

Finance has applied this new process from April 2018 and has introduced a manual control check to confirm that the payroll system is correctly calculating APP for employees in receipt of OMP or KIT days.

Thirty eight employees, up to February 2017, have been identified by the Principal Accountant as affected by the incorrect APP. Further work is required by Finance, in consultation with Pensions Administration, to determine the pension corrections required to each of the employee's pension records. This work has been delayed due to Finance work commitments.

In addition work is also required to establish if there are any other employees affected by this issue from February 2017 to March 2018.

**High priority recommendation 5 – Representations to the pension fund regarding last year's return.**

**Original completion date – 31st May 2017.**

Pensions Administration has provided Finance in October 2017 with details of mismatched employee pension records based on Finance pension annual returns submitted for the financial years 2014/15 to 2016/17. In addition Finance obtained a snapshot from the pensions administration system and compared the report to the payroll system, which also identified a number of discrepancies.

Finance is currently working through the reported differences, which requires a significant amount of their time to identify and resolve.

Forming part of 'business as usual' control checks, Finance has obtained in February 2018 a further snapshot of the pensions administration system to review to the payroll system and is planning to obtain another snapshot in January 2019. In addition, Pensions Administration has provided Finance in May 2018 details of employee pension queries for resolution following Finance submission of the 2017/18 annual pension return.

As at 11th September 2018 the current position regarding resolution of the pension differences highlighted in the different reports are as follows:

	October 2017 Queries from pension annual return.	October 2017 pensions administration system snapshot.	February 2018 pensions administration system snapshot.	May 2018 Queries from pension annual return.
	No. of employees			
Total pension differences	20	49	35	37
Resolved	13	36	21	19
Outstanding	7	13	14	18

Note: Some of the above pension differences highlighted in the reports represents the same employee.

The differences mainly relate to employees that have left the Council, but Pensions Administration has not been informed or where two or more records of an employee are held on the pensions administration system rather than one.

**High priority recommendation 7 – Staff pension training.**

**Original completion date – Ongoing.**

The Principal Accountant targets to book staff pensions training for relevant officers within 2018/19.

**Medium priority recommendation 8 – Exercise to check pre-1st April 2014 service for all active and deferred members.**

**Original completion date – 31st May 2017.**

An initial request was made of Pensions Administration for the appropriate data to perform the exercise, however they were not at the time able to provide the required information.

The Principal Accountant confirmed that a further request for the required information will be made again to the Pensions Administration Manager once all Internal Audit recommendations have been completed.

### **Conclusion**

Progress has been made in implementing the recommendations as raised by Internal Audit in the June 2017 Audit Report.

Three high and one medium priority recommendations remain outstanding (but in progress) as at the point of audit follow-up. Finance should ensure that sufficient resources and time are committed to fully implementing the recommendations and resolving the known employee pension differences identified from the 'business as usual' control checks.

## **Summary of Special Investigations/Counter Fraud Activities**

### **Current Status**

During 2018/19 to date 14 potential irregularities have been referred to Internal Audit, 12 of which have previously been reported to the Audit and Standards Committee. The two new cases relate to revenue and benefit claims, one which has now been closed with no issue and the other is pending further assessment. The cases referred in 2018/19 to date primarily relate to tenancy issues, benefits/council tax and right to buy.

In respect of the majority of cases referred in 2018/19 ARA has liaised with Gloucestershire Counter Fraud Unit (CFU) to investigate potential irregularities. Of the cases referred in 2018/19 10 have now closed with varying outcomes; the details of five have previously been reported to the Audit and Standards Committee. Of the five cases not previously reported one only required advice, in respect of three other cases there was insufficient evidence and the cases were not proven, and in the final case although there was insufficient evidence for a formal charge the council tax was recalculated resulting in additional income to the Council of just over £600.

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

ARA previously reported a commissioned piece of work, through the CFU, on RTB which identified an additional six cases requiring further review.

Two of these have now been closed with no issues identified, and in respect of a further two there are also no RTB issues however there are potential housing benefit and council tax queries to be followed-up. The remaining two cases are still being investigated.

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.