

Internal Audit Activity Progress Report

2019-2020



(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 2019/20 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 July to September 2019; and
- Special investigations/counter fraud activity.

(4) Progress against the 2019/20 Internal Audit Plan, including the assurance opinions on risk and control

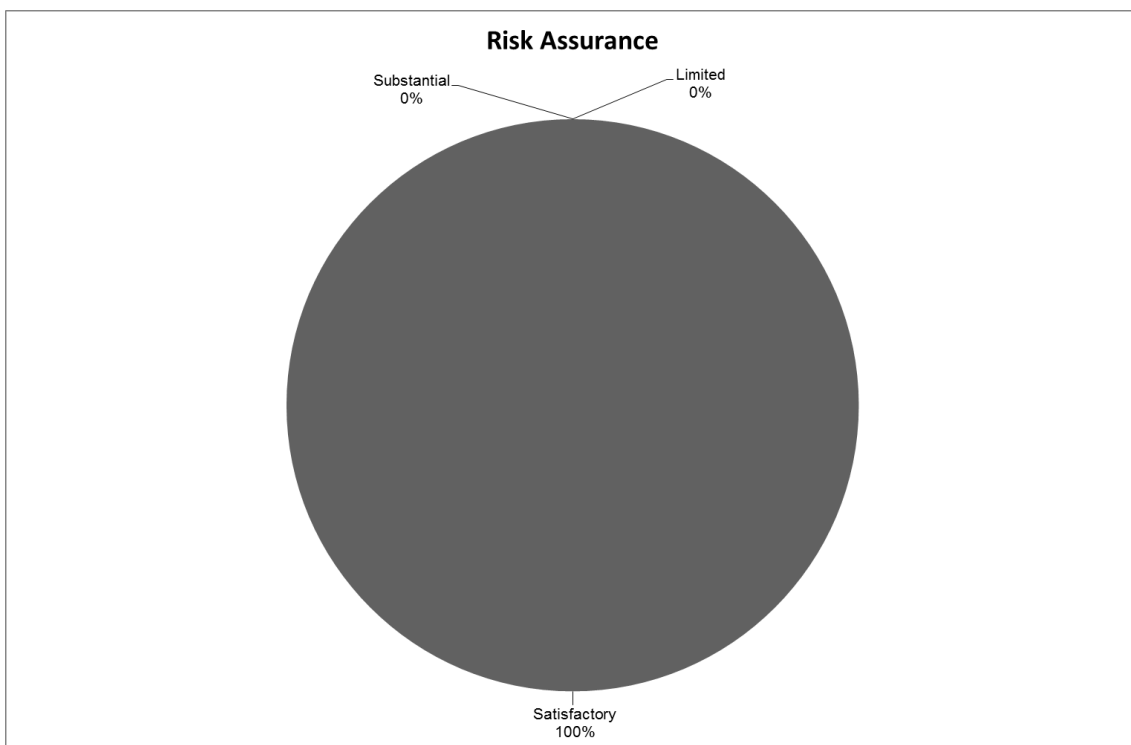
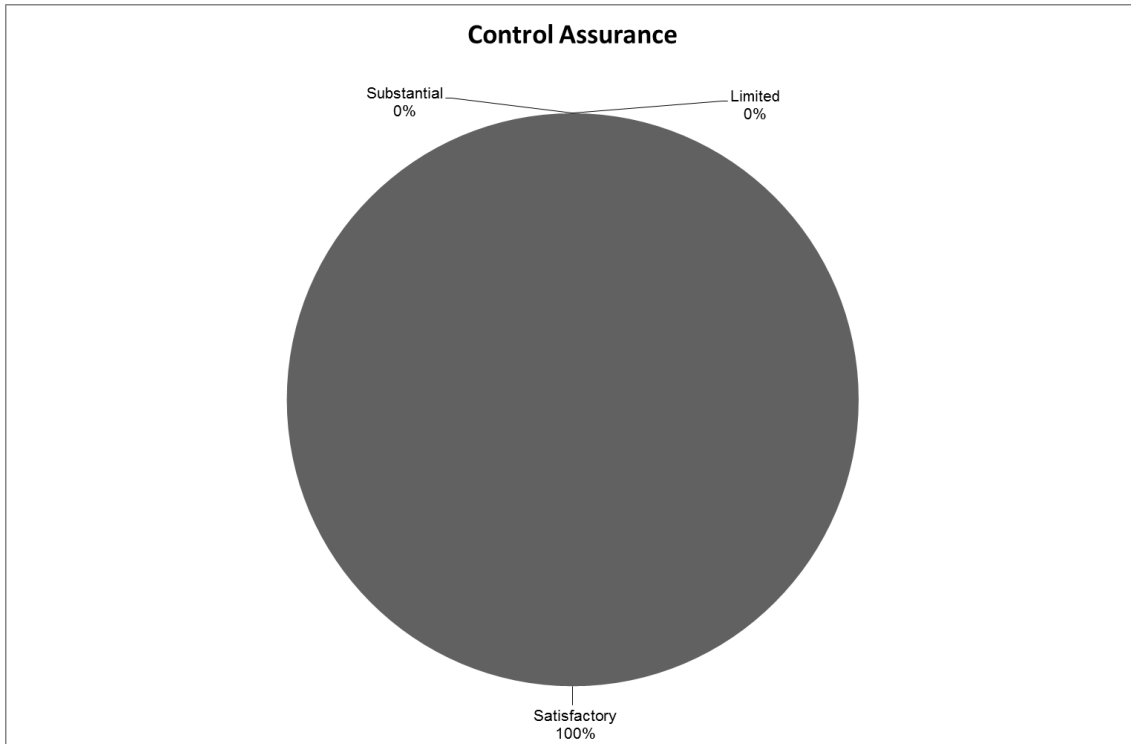
The schedule provided at **Attachment 1** provides the summary of 2019/20 audits which have not previously been reported to the Audit and Standards Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2019/20 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 2019 - September 2019.



(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 July to September 2019, no limited assurance opinions on control have been provided on completed audits from the 2019/20 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 July to September 2019 Internal Audit made, in total, **12** recommendations to improve the control environment, **0** of these being high priority recommendations (**100%** of these being accepted by management) and **12** 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 July to September 2019, please note that no limited assurance opinions on risk have been provided on completed audits from the 2019/20 Internal Audit Plan.

Completed Internal Audit Activity during the period July to September 2019

Summary of Satisfactory Assurance Opinions on Control

Service Area: Finance
Audit Activity: VAT Outputs

Background

Value Added Tax (VAT) is a tax on transactions affecting most financial entries in the Council's financial accounting system. It is the Council's responsibility to make correct VAT returns to HMRC detailing input and output tax.

It is therefore essential that there are appropriate controls over the VAT that shall be charged on any supply of goods or services made in the United Kingdom, where it is a taxable supply in the course of Council business.

Scope

The objective of this audit was to:

- Determine whether there are adequate internal control arrangements in place to ensure that the VAT Guide (Notice 700) is correctly applied.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- The review of the process for the monthly VAT return with the associated financial audit trails, has established that a defined and systematic methodology which clearly records the step by step approach in compiling the reporting to HMRC is in place; and
- Enquiries and evidence reviewed has identified the need to add; i) one monthly; and ii) one annual control review for: Reconciliations of the VAT Control Account and annual analysis of non-business VAT, which has a direct impact on the claimable refund for purchases.

Conclusion

Based on the evidence provided, the existing arrangements for accounting for VAT are compliant with the VAT Guide (Notice 700).

Two medium recommendations have been made (regular monthly reconciliations and review of the VAT Control Account and annual analysis of non-business VAT on purchases) which will add value to the existing monitoring arrangements.

Management Actions

Management has responded positively to the recommendations and confirmed that they will be implemented by October 2019.

Service Area: Tenant and Corporate Services

Audit Activity: Housing Stock Void Management

Background

Stroud District Council (the Council) retains and manages its own housing stock of 5,015 properties with a balance sheet value of £260m (Statement of Accounts 2018/19).

Empty council properties are called 'voids'. On average, each week five properties become empty and are handed to the Maintenance and Voids team to inspect and arrange for any maintenance works required before they are re-let.

Empty homes present the Council with a number of challenges, including:

- Impact on its Housing Revenue Account income stream;
- Repairs and improvement costs associated with empty property refurbishment and security;
- Aesthetics of the neighbourhoods in which they are located; and
- Potential impact on temporary accommodation costs.

It is therefore paramount for the Council to have effective arrangements in place for voids management in order to ensure that the number of empty properties and the time taken to re-let them is kept to a minimum.

Scope

The objective of this review was to determine whether there are effective arrangements in place to ensure good management of the Council's void properties, to limit void periods in order to maximise rental income, and provide a quality service to meet housing need.

The objectives of the audit were to be achieved by determining whether:

- The Council has clear guidelines to ensure that the expectations for good management of void properties is clearly defined, to ensure void periods are limited in order to maximise rental income, and support the provision of a quality service to meet housing need;
- Performance management information is available and regular monitoring is undertaken and subsequent further actions are promptly addressed to improve the management of voids;
- The Maintenance and Voids team are notified in a timely manner when a tenancy is terminated, including being notified of deceased tenants;
- The inspection of properties becoming vacant, both prior to and following the termination of the tenancy are undertaken on a timely basis in order to ensure that the property is tenantable and habitable (meeting the Decent Homes Standard, which is a technical standard for public housing which aims to provide a minimum standard of housing conditions for all those who are housed in the public sector);
- Void works/repairs are carried out within the expected time period; and
- Properties are advertised and re-let within the prescribed time period.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- The Council has not adopted a Voids Policy however there is an Empty Homes Standard which is an operating standard that details the standard a void should meet prior to re-letting. The standard includes a Voids Process Flow diagram that officers are expected to follow when re-letting properties. This document requires updating to include all types of tenancy termination; and would benefit from a change of process to ensure that properties are advertised prior to the completion of works in order to shorten the time it takes to re-let a property.
- The Tenancy Agreement and Tenancy Termination letter need to reflect the Council's requirement to undertake pre termination inspections.

- The Maintenance and Void team do not accept the keys back from the contractor until a post inspection has taken place and all works/repairs signed off, and the property is deemed to have met the Decent Homes Standard however there is no form or checklist in place to evidence that the property has met this standard.
- The Head of Contract Services and the Head of Housing receive monthly void performance data as part of their management meetings. Internal Audit reviewed reports for May and June 2019 and found them to be clear and detailed. However, the performance management data could be further strengthened with:
 - Additional Key Performance Indicators (KPI's) to support the identification of delays in the voids process that could affect the re-letting of properties; and
 - Documenting within an action plan when KPI's reflect that elements of the void process are not operating effectively to ensure that appropriate actions are agreed with staff and are reviewed as part of continuous improvement.
- Internal Audit sampled and reviewed 15 voids between July 1st 2018 and June 31st 2019 and found that for 13, Tenant Services was notified in a timely manner that the tenancy was terminating. The other two were delayed by 11 and 16 days as notification had not been received by Tenant Services that the tenant had died. Further exploration of the available options for the receipt of more timely death data may therefore prove to be beneficial to the service/council.
- Internal Audit sampled and reviewed 17 voids between July 1st 2018 and June 31st 2019 and found that:
 - One of the 17 sampled voids had been inspected within the expected five days of receiving notice; and
 - Of the 17 voids, 14 were inspected after the keys had been returned by the tenant. Internal Audit finds that this is a missed opportunity for the early identification of any rechargeable works.
- The Head of Contract Services is currently reviewing the minor and major works target void turnaround time set for the contractors, with the new targets expected to be in place by the end of September 2019. To support this review, Internal Audit sampled and reviewed 17 voids between July 1st 2018 and June 31st 2019 and fed back the findings to management to help inform the new arrangements.

Conclusion

Overall sound systems of control are in place to ensure that there are arrangements to ensure appropriate management of the Council's void properties, to limit void periods in order to maximise rental income, and provide a quality service to meet housing need.

A review of guidelines and the testing of processes has identified where improvements could be made to further strengthen the control framework which will result in improved systems and processes going forward.

Management Actions

Management have responded positively to the recommendations made.

Service Area: Tenant and Corporate Services

Audit Activity: Local Government Transparency Code

Background

The Department for Communities and Local Government published the Local Government Transparency Code in 2015. Local authorities are required to publish various data on-line for various types of council activity.

The Council web site contains an Open Data web page which is the base for the current published transparency required data sets. Service areas are responsible for ensuring compliance with relevant transparency requirements.

Scope

The objectives of this audit were to:

- Review the overarching arrangements to manage and monitor the Council's compliance with the Transparency Code; and
- Test the controls applied to the data and information published on the website under the requirements of the code, which ensure it is in accordance with the definitions, and is timely, complete, accurate, accessible and useable.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- The previous audit report on this area was dated 12th April 2016, and had a high number of non-compliance issues for publishing information as required by the code. This audit review has identified a considerable improvement in information published, seeking to meet the requirements for the code. Further work needs to be completed by service staff, in eight of the fourteen categories stipulated by the code with the objective of achieving compliance, alongside ensuring accessibility of information to be available via the Open Data website page.
- In addition, acknowledgement of the risk, and mitigating controls to reduce the risk of non-compliance with the Transparency Code to within the Council's risk appetite should be captured and monitored in line with the Council's Risk Management Policy Statement and Strategy.

Conclusion

The management arrangements for; i) timely; ii) complete; iii) accurate; iv) accessible; and v) useable data sets to fulfil the requirements of the Transparency Code are substantially in place, although there are some lapses of compliance.

Management Actions

Internal Audit has raised one medium recommendation to cover the need to disclose the further information required on the Open Data web page, in line with code requirements either on a quarterly or annual basis; and to ensure compliance with the Council's Risk Management Policy Statement and Strategy.

Management has responded positively to the recommendation. The Interim Head of Legal Services and Monitoring Officer has taken responsibility to ensure that the requirements of the Transparency Code are fully documented on the Council web site.

Summary of Special Investigations/Counter Fraud Activities

Current Status

To date in 2019/20 only one new potential irregularity has been referred to Internal Audit.

This new case was related to a complaint received by Stroud District Council from a former council employee who felt they had been unfairly treated. A joint investigation with the Head of Community Services at Stroud District Council found the complaint to be unfounded.

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 were successfully uploaded to the Cabinet Office during October 2018 and data matching reports are now available for review. 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.

Outcomes from the review of the matches will be reported to the Audit and Standards Committee once completed.

Other

In line with the approved Internal Audit Plan 2019/20, Audit Risk Assurance are responsible for co-ordination of NFI activity; fraud risk management (in line with CIPFA guidance); and fraud/irregularity investigation/detection and reporting (this includes an allocation to continue the development and implementation of the Council's Anti-Fraud and Corruption arrangements based on best practice and increase the profile and awareness of anti-fraud).

Separate to the above and in agreement with the Chief Internal Auditor, Stroud District Council (through the Section 151 Officer) has directly commissioned the

Appendix A - Attachment 1

Counter Fraud Unit (CFU), hosted by Cotswold District Council to deliver targeted Revenues and Benefits counter fraud actions and reviews within 2019/20. The following update is for CFU activity only:

'Since 1 April 2019 the CFU have received 8 CTRS (Council Tax Reduction Scheme) referrals and closed 6.

There are currently 14 live cases open, all CTRS investigations (there were open cases as at 1 April 2019).

Of the closed cases for CTRS the results are as follows:

- 1 x prosecution resulting in a guilty plea. The customer received a 6 month custodial sentence suspended for 18 months. Costs of £929 were awarded. The incorrectly awarded CTRS and prosecutable value was £5081.
- 3 x CTRS Civil Penalties of £70 on incorrectly awarded CTRS of £1693 and 1 Civil Penalty of £50 on a Housing Benefit overpayment of £2405.
- 1 x Reg 11 Criminal Penalty of £445 on incorrectly awarded CTRS of £890.

The CFU have not been actively undertaking housing work pending agreeing work delivery however the CFU have consulted on and issued a revised Tenancy Fraud Policy.'