

REPORT TO: Audit and Corporate Governance Committee
LEAD OFFICER: Executive Director (Corporate Services)

22nd March 2018

Internal Audit Update 2017/18

Purpose

1. To advise of the work of internal audit, completed between October 2017 and March 2018, and the developments within the team.
2. This is not a key decision because the report is being presented to the Audit and Corporate Governance Committee in accordance with their terms of reference.

Recommendations

3. It is recommended that the Committee note the contents of the report.

Reason for recommendations

4. The role of internal audit is to provide the Audit & Corporate Governance committee and Management with independent assurance, on the effectiveness of the internal control environment.

Background

5. The Accounts and Audit Regulations 2015 require that the Council “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.”
6. Internal Audit assists the Council, and the Audit and Corporate Governance Committee, to discharge its governance responsibilities. Our work supports the Council’s corporate objectives, and the corporate governance framework.

Considerations

7. Internal audit coverage is planned so that the focus is upon those areas and risks which will most impact upon the council’s ability to achieve its objectives.
8. Internal Audit work should help add value to the Council by helping to improve systems, mitigate risks, and subsequently inform the Annual Governance Statement.

Implications

9. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, there are no significant implications.

Effect on Strategic Aims

10. Delivery of the audit plan aims to provide assurance that corporate systems and processes are robust and protect the Council.

Background documents

- Internal Audit Charter, Strategy and plan

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Appendix A – Internal Audit Progress report



South Cambridgeshire District Council

Introduction

1. Management is responsible for the system of internal control and establishes policies and procedures to help ensure that the system is functioning correctly. On behalf of the Audit and Corporate Governance Committee, Internal Audit acts as an assurance function by providing an independent and objective opinion on the control environment.
2. The purpose of this report is to provide an update on the recent work completed by internal audit. The information included in the progress report will feed into and inform our overall opinion in the annual Head of Internal Audit (HoIA) report issued at the year end. This opinion will in turn be used to inform the Annual Governance Statement which accompanies the Statement of Accounts. We previously provided an update report, to the committee, in September 2017.
3. Where appropriate reports are given an overall opinion based on four levels of assurance. This is based on the evaluation of the control and environment, and the type of recommendations we make in each report. If a review has either “Limited” or “No” assurance, the system is followed up to review if the actions are implemented promptly and effectively. Further information is available in Appendix B - Audit definitions.

Resources

4. An audit plan is presented at least annually to the Audit and Corporate Governance Committee. It is good practice to continually review the plan, to reflect emerging risks, revisions to corporate priorities, and changes to resourcing factors. No additional pieces of work have been included in the plan for the final quarter of the year. The latest internal audit plan, commencing April 2018, is also being presented to the Audit & Corporate Governance Committee on the 22nd March 2018.
5. Since the previous report, to the Committee, there have been changes to the team. A business case and proposal for establishing a shared internal audit team was approved by South Cambridgeshire District Council and Cambridge City Council in 2017. Establishing a centralised team, operating from both sites, will enable

economies of scale, more resilience, and smarter ways of working. Consequently a new Head of Shared Internal Audit Service joined the Council in December 2017.

6. A Senior Auditor, who was based at SCDC, was successfully appointed to a position at another Council. This has created a vacancy which is currently being recruited into. The audit plan is being delivered by other members of the team, which is an example of the resilience from the shared working.
7. To help establish the shared service we have developed a business plan and new branding (which can be seen on the cover page of this report).
8. Progress of the plan delivery is illustrated on the following pages.

Progress against the plan

Finalised reviews

The following audit assignments have reached completion, since the previous report to the committee:

Assurance			Actions				Commentary
System reviewed	Prior review:	New Assurance:	Critical:	High:	Medium:	Low:	
Project Management – Benefits Realisation	Not applicable – new review	Limited	0	3	2	0	<p>The Council updated and approved their Project Management Toolkit in April 2017. We reviewed a sample of completed projects and concluded the control environment was limited. This was because of a lack of baseline data, and minimal information for the proposed benefits, making it difficult to measure the success of a project and determine if they were on track.</p> <p>Management have agreed to define, agree, measure and report benefits within a project as part of a review of the Project Management Toolkit.</p> <p>The Post Project Review template will be revised to ensure that it captures business benefits clearly, integrated into business as usual, and issue guidance where a series of post project reviews may need to be scheduled.</p> <p>The Project Initiation Document template will be revised to enable baseline data to be recorded, enabling business benefits to be identified and tracked, and to demonstrate improvement.</p> <p>These actions will improve the control environment, for project management, and we will complete a follow-up review.</p>
Organised crime – procurement	New review	Not applicable	0	0	0	1	<p>This review considered Home Office guidance, and provided positive assurance that appropriate arrangements are in place. Further information is included later in this report.</p>

Works in Progress

The following reviews are currently in progress:

System reviewed	Prior review:	Previous assurance:	Commentary and update
Treasury management	March 2015	Substantial	This is a key financial system, which is reviewed periodically. The review aims to seek assurance there is compliance with legislation, the investment strategy is followed, return on investment is maximised and cost of borrowing minimized. Testing has concluded and there are no significant areas of concern.
Risk management	March 2016	Reasonable	The Council has a Risk Management Strategy, and has a risk management system. The review aims establish that the Council has an up to date strategy, effective supporting guidance, there is regular monitoring and reporting, plus there is an awareness of risk (and the actions required to mitigate risk). We have made good progress with our testing to date.
Agency workers	New review	Not applicable	We are reviewing the process for use of agency workers, and compliance with the corporate contract which is intended to provide the Council with an efficient and cost effective recruitment solution. We have prepared our testing for the review of this system.

Work completed to date

Below is a summary of other work completed to date, from the current internal audit plan. These have already been reported to the Audit & Corporate Governance Committee, will be used to inform the annual opinion, and further information can be read in the previous committee reports.

Assurance			Actions			
System reviewed	Date reported:	Assurance / Status:	Critical:	High:	Medium:	Low:
Procurement and commissioning	June 2017	Substantial	0	0	0	1
Council Tax and NNDR Follow-up	June 2017	Substantial	0	0	0	0
Annual Audit Opinion	June 2017	Completed	0	0	0	0
Internal Audit Effectiveness review	June 2017	Completed	0	0	0	0
National Fraud Initiative	June 2017	Ongoing	0	0	0	0
Safeguarding	September 2017	Reasonable	0	3	6	3
Ermine Street – Governance	September 2017	Reasonable	0	0	5	0
Ermine Street – Operations	September 2017	Reasonable	0	2	5	3
Taxi Licensing	September 2017	Reasonable	0	1	1	2

Counter fraud and corruption update

9. A review of arrangements in place to tackle and prevent Serious Organised Crime was completed. Following a series of pilots across the United Kingdom, the Home Office issued guidance to all local authorities which set out a series of checklists into monitoring and protecting authorities against Serious Organised Crime. A review based on the Home Office checklists provides assurance that the Council has appropriate arrangements in place to reduce and identify this threat at an early stage.
10. The Council participates in a national data matching service known as the National Fraud Initiative (NFI), which is run by the Cabinet Office. Data is extracted from Council systems for processing and matching. It flags up inconsistencies in data that may indicate fraud and error, helping councils to complete proactive investigation. Nationally it is estimated that this work has identified £1.17 billion of local authority fraud, errors and overpayments since 1996. Historically this process has not identified significant fraud and error at South Cambridgeshire District Council, which provides assurance that internal controls continue to operate effectively. Work has commenced on reviewing these matches and will continue throughout the year. Any significant matters arising in terms of fraud and error identified will be reported, and there are no matters arising at this time.

Other audit activity

11. The Public Sector Internal Audit Standards (PSAIS) require that the Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the Internal Audit activity, and includes both internal and external assessments.
12. External assessments must be conducted at least once every five years by a qualified, independent assessor. The internal audit team will complete a self-assessment, to the Public Sector Internal Audit Standards, and the supplementary Local Government Application Note. The review will be completed with Cambridge City Council, as part of the new Greater Cambridge Shared Audit, and will have an independent external verification. This approach will provide a best value approach and will help to inform the development of the new team.
13. We contributed to the review of the Annual Governance Statement, which was approved with the Statement of Accounts.
14. The next internal audit update report will be reported the Audit & Corporate Governance committee in July, with the annual report of the internal audit service.

Appendix B - Audit definitions

An assurance opinion is provided at the conclusion of the audit. The following definitions are used by Internal Audit to assess the level of assurance which may be provided, and to assess the impact of individual findings. We categorise our opinions according to our assessment of the controls in place and the level of compliance with them

Assurance	Description
SUBSTANTIAL	The system is designed to meet objectives / controls are consistently applied that protect the Authority from foreseeable risks
REASONABLE	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks
LIMITED	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority
NO	Controls are weak and / or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives

We categorise our **recommendations** according to their level of risk and priority for implementation:

Priority	Description	Timescale
CRITICAL	Extreme control weakness that jeopardises the complete operation of the service.	To be implemented immediately
HIGH	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.	To be implemented as a matter of priority
MEDIUM	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority.	To be implemented at the first opportunity
LOW	Control weakness which, if corrected, will enhance control procedures that are already relatively robust.	To be implemented as soon as reasonably practical