

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL AUDIT AND CORPORATE GOVERNANCE COMMITTEE

ANNUAL REPORT OF INTERNAL AUDIT 2017 / 2018

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1 INTRODUCTION

- 1.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. On behalf of the Audit & Corporate Governance Committee, Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation by evaluating the effectiveness in achieving the organisation's objectives.
- 1.2 This report is the culmination of the work during the course of the year. It provides an opinion on the effectiveness of the internal control environment, governance and risk management arrangements, and reports the incidence of any significant control failings or weaknesses. The report also gives an overview of audit performance during the year. The overall reports will then contribute to the Annual Governance Statement.

2 BACKGROUND

- 2.1 The 2017 / 2018 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards and the requirements of the Accounts and Audit Regulations.
- 2.2 The Council continues to evolve and change. The drivers for change are both organisational (e.g. public sector reform and developing smarter ways of working) and financial (e.g. national austerity programme and consequent savings programs).
- 2.3 During a period of change it is important that any increased business risks are identified and managed in an effective manner. Our 2017 / 2018 audit plan reflected these changes by concentrating on those areas of highest risk.

3 ASSURANCE

- 3.1 The audit plan enables me to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). This opinion will inform the Annual Governance Statement.
- 3.2 Our work is carried out to assist in improving control. However management is responsible for developing and maintaining an internal control framework. This framework is designed to ensure that:
 - The Council's resources are utilised efficiently and effectively;
 - Risks to meeting service objectives are identified and properly managed; and
 - Corporate policies, rules and procedures are adequate, effective and are being complied with.
- 3.3 Assurance is received from a number of sources. These include the work of Internal Audit; assurance from the work of the External Auditor; the Annual Governance Statement together with the Local Code of Corporate Governance and the Risk Management process. This enables a broader coverage of risks and ensures that the totality of the audit, inspection and control functions deployed across the organisation are properly considered in arriving at the overall opinion.
- 3.4 From the audit reviews undertaken, no areas were identified where it was considered that, if the risks highlighted materialised, it would have a major impact on the organisation as a whole. In each instance where it has been identified that the control environment was not strong enough, or was not complied with sufficiently to prevent risks to the organisation, Internal Audit has issued recommendations to further improve

the system of control and compliance. Where these recommendations are considered to have significant impact on the system of internal control, the implementation of actions is followed-up by Internal Audit.

- 3.5 It is the opinion of the Head of Shared Internal Audit that, taking into account all available evidence, reasonable assurance may be awarded over the adequacy and effectiveness of the Council's overall internal control environment during the financial year 2017/18, and this remains at a similar level to the previous year.

4 INDEPENDENCE AND OBJECTIVITY

- 4.1 It is important that the Internal Audit service is sufficiently independent to provide an objective annual opinion. We safeguard against any potential ethical threats by preparing an Internal Audit Code of Ethics, which is presented to the Committee annually.
- 4.2 I can confirm that during the year there has not been any impairment in independence or objectivity to the Head of Shared Internal Audit or the service itself.

5 ADDED VALUE SERVICES

- 5.1 Although our primary responsibility is to give an annual assurance opinion it is also important that the Internal Audit service adds value to the organisation.
- 5.2 There needs to be a firm focus on assisting the organisation to meet its aims and objectives and on working in an innovative and collaborative way with managers to help identify new ways of working that will bring about service improvements and deliver efficiencies. Examples of how we have done this during the year include providing advice / input to support projects and key working groups.

6 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

- 6.1 We have completed a self-assessment against the Public Sector Internal Audit Standards and the Local Government Application Note. This was independently validated by CIPFA and concluded that the Internal Audit Team generally conforms with the requirements of the standards. This has been reported separately to the Committee.
- 6.2 There have been significant changes to the Internal Audit Team in 2017/18, as it has become a shared service with Cambridge City Council, and there have also been a number of staff changes. Consequently this has had an impact on the delivery of the audit plan and a number of lower priority activities were re-profiled into the 2018/19 internal audit plan. Management of resources was recognised as a short term risk in the original business case for the shared service. The team is recruiting to the vacant posts, and has been utilising agency workers in the interim period. I am satisfied that there were adequate resources available to deliver the audit activities in the year and provide an annual opinion.
- 6.3 The audit work that was completed for the year to 31 March 2018 is listed in ANNEX A, which summarises all the audits undertaken and their results in terms of the audit assurance levels provided and the number of actions agreed.
- 6.4 Our reporting protocols have remained constant throughout the year with the following assurance ratings used:
- Substantial
 - Reasonable

- Limited; and
- No

6.5 Similarly, the agreed actions are categorised in the following types, based on their severity, and these have remained the same during the year:

- Critical
- High
- Medium
- Low

6.6 In addition to the risk based audits, further audit work was carried out including consultancy work and other specific activities such as special investigations. These do not usually warrant an assurance rating, but there may be actions arising from the work undertaken to address the issues identified, and they help to inform the annual opinion.

6.7 The team has a continuous plan of work, which is updated at least annually. Consequently there are also a number of reviews in progress, as documented in the current risk based audit plan reported to the committee in March, and audit opinions relating to these will continue to be reported during 2018 / 2019.

6.8 The Shared Internal Audit Service Business Plan, and results of the Quality Assurance and Improvement Programme, will inform the development of the service over the longer term.

7 FRAUD AND ERROR

7.1 Both proactive and reactive fraud and error work is completed by the Internal Audit team throughout the year.

7.2 Going forwards we are exploring the use of data analytics tools to help improve our proactive error checking work.

8 CONCLUSION

8.1 The work carried out by the Internal Audit Team conforms to the Public Sector Internal Audit Standards.

8.2 A continuous risk based audit plan is completed, providing assurance. The team also provides added value consulting activities such as providing advice and fraud and error activities.

8.3 The audit work completed in 2017/18 has provided sufficient coverage to enable Internal Audit to form an opinion on the internal control environment, governance and risk management arrangements. There is Reasonable assurance awarded during the financial year 2017/18, and this remains at a similar level to the previous year.

Jonathan Tully
Head of Shared Internal Audit
July 2018

ANNEX A – AUDIT PLAN COVERAGE

The following pages provide information on work completed throughout the 17/18 year.

1 **RISK BASED ASSURANCE**

- 1.1 The Council undertakes risk based reviews, to ensure that resources are allocated effectively across the Council. A summary of work completed is detailed below:

Assurance			Actions summary					Supporting information
Review	Prior Review Assurance	Assurance	Critical	High	Medium	Low	Total	
Taxi Licensing	Not applicable – new review	Reasonable	0	1	1	2	4	<p>The council has established a Private Hire and Taxi Handbook which contains the processes for vehicle testing, renewal of licenses and the issue of licenses concerning Private Hire and Hackney Carriage Driver, Vehicle & Operator licenses. Sample testing on a variety of license types provided assurance that the relevant processes had been followed correctly.</p> <p>Some administrative areas of recording information could be improved, to evidence checks performed, and management agreed to review the process for monitoring medical reports where annual checks are required.</p>

Assurance			Actions summary					Supporting information
Review	Prior Review Assurance	Assurance	Critical	High	Medium	Low	Total	
Project Management – Benefits Realisation	Not applicable – new review	Limited	0	3	2	0	5	<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>

Assurance			Actions summary					Supporting information
Review	Prior Review Assurance	Assurance	Critical	High	Medium	Low	Total	
Organised Crime – Procurement	Not applicable – new review	Not applicable	0	0	0	1	1	This review considered Home Office guidance, for managing fraud risk, and provided positive assurance that appropriate arrangements are in place.
Ermine Street – Governance	Not applicable – new review	Reasonable	0	0	5	0	5	<p>A review considered whether appropriate governance arrangements were in place (legal compliance; policies and processes; and oversight of financial monitoring and performance). The governance arrangements have developed over its short life time, from a small company operating with a few properties, to a business overseeing in excess of 100 properties. Various activities and processes have been implemented to enable the business to operate.</p> <p>Following the review management agreed to implement some additional policies and codes which will enable an enhanced governance environment and increased transparency.</p>

Assurance			Actions summary					Supporting information
Review	Prior Review Assurance	Assurance	Critical	High	Medium	Low	Total	
Ermine Street – Operations	Not applicable – new review	Reasonable	0	2	5	3	10	<p>A significant increase in properties necessitated a strong focus in delivering the service and customer needs. It is recognised that there is a high risk relating to key personnel, which the company has raised as its top risk.</p> <p>The review identified opportunities to improve resilience, and management have agreed to formalise a number of policies: Property Acquisitions, Property disposals, Debt recovery, Officer roles and responsibilities, and arrears management.</p>

Assurance			Actions summary					Supporting information
Review	Prior Review Assurance	Assurance	Critical	High	Medium	Low	Total	
Agency workers	Not applicable – new review		0	0	2	3	5	<p>We reviewed 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.</p> <p>Controls were found to be operating effectively. Guidelines and procedures have been established and communicated to staff, payments made are correct and appropriately authorised, and the Council is getting value for money.</p> <p>Management agreed recommendations to update procedure notes, and have developed a "Temporary Worker Request to Recruit" form which will help ensure controls and good practice are followed. Management were responsive and have implemented actions during the review.</p>

Assurance			Actions summary					Supporting information
Review	Prior Review Assurance	Assurance	Critical	High	Medium	Low	Total	
Treasury management	Substantial	Substantial	0	0	0	1	1	<p>The audit is currently at draft report stage, and we are agreeing the management action plan with the customer.</p> <p>This is a key financial system, which is reviewed periodically. The review provided assurance that there is compliance with legislation, and the investment strategy is followed. The team is continually seeking opportunities to maximise return on investment and minimize the cost of borrowing. Testing has concluded that there are no significant areas of concern.</p>

Assurance			Actions summary					Supporting information
Review	Prior Review Assurance	Assurance	Critical	High	Medium	Low	Total	
Risk management	Reasonable	Reasonable						<p>The audit is currently at draft report stage, and we are agreeing the management action plan with the customer.</p> <p>The Council has a Risk Management Strategy, which is reviewed regularly. The risk management function and supporting procedures and protocols have been widely and consciously embedded at the Council. Risks to the achievement of the Council's objectives are regularly identified, reviewed and also challenged at key levels in the organisation, including by Cabinet, the Executive Management Team, the Corporate Management Team, and also at quarterly performance meetings.</p> <p>We identified potential opportunities to improve the reporting of information in the risk management system, and targeted refresher training for managers will help to ensure the risk management processes remain embedded.</p>

Assurance			Actions summary					Supporting information
Review	Prior Review Assurance	Assurance	Critical	High	Medium	Low	Total	
Grant certification – Better Care Fund	Unqualified	Unqualified	0	0	0	0	0	<p>The Council receives funding from Central Government through the Better Care Fund, a programme spanning both the NHS and local government which seeks to join-up health and care services, so that people can manage their own health and wellbeing, and live independently in their communities for as long as possible.</p> <p>Typically the Council will use the money to support adaptations as part of the Disabled Facility Grant.</p> <p>A review of the grant scheme concluded that it was operating effectively, and in accordance with the grant conditions from Central Government.</p>

2 ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK

2.1 Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section details audit work that specifically relates to the production of the Annual Governance Statement.

Area of review	Status	Narrative
Annual Audit Opinion	COMPLETED	The Annual Audit Opinion was submitted to the Audit & Corporate Governance Committee in June 2017, highlighting all Internal Audit activity for the previous 12 months together with any areas of concern.
Annual Governance Statement	COMPLETED.	The Annual Governance Statement was submitted to the Audit & Corporate Governance Committee in September 2017. Internal Audit has reviewed the methodology used to collect, collate and interpret the information and have identified no gaps. A revised Local Code of Corporate Governance was prepared, reflecting the latest standards in the Good Practice Governance Framework for Local Authorities.
National Fraud Initiative	COMPLETED	This is a biannual fraud matching exercise. Data matches were received in February 2017 covering a series of datasets provided to the Cabinet Office. Internal Audit has undertaken a routine sift and those requiring investigation have been allocated to a number of officers across the Council to investigate.
Internal Audit Effectiveness	COMPLETED	The Internal Audit team has completed a continuous review of working practices to ensure that it continues to be effective. A full 5 year assessment was planned, and prepared, for the 2018/19 year.

3 THIRD PARTY ASSURANCE / JOINT WORK

- 3.1 The Council participates in a number of shared services and partnership working. Where appropriate we work with our partners to either receive or provide assurance. This is taken into account when concluding the annual audit opinion.
- 3.2 An unplanned audit, was performed at the request of the Cambridge and Peterborough Waste Partnership. It follows concerns raised by the contractor, Amey LG, regarding the long term financial viability of the materials recycling facility contract at Waterbeach, and their subsequent requests to alter the payment mechanism. The audit was performed collaboratively, with the involvement of auditors from a number of the councils who are party to the contract. It was co-ordinated by Peterborough City Council. The review of the MRF contract was financially focused, concentrating on the data and source documentation on which Amey base their charges. A significant number of issues were found and detailed recommendations have been made. A consultant was engaged to investigate other operational issues and facilitate discussions between RECAP members and Amey; the aim being to review options and find a way forward that provides value for money for RECAP members and a financially viable solution for Amey. An overview of the internal audit findings has already fed into this. It is crucial that sufficient contract management resource is available going forward to ensure that appropriate checks and balances are in place. Not only to confirm that charging is accurate, but to ensure that councils meet their own environmental aims and to satisfy their obligations to report against national indicators on waste. Consequently the audit opinion is Limited Assurance and the actions will be followed up.

4 OTHER ACTIVITIES: PROJECT MANAGEMENT / GENERAL ADVICE

- 4.1 Various ad-hoc advice and support has been provided to management during the year across the organization, and these are detailed below:

Added value

Members of the Internal Audit team have participated in working groups and projects such as:

- Project support for information governance, and providing advice on effective document management and retention;
- Project support for corporate fraud and identifying potential risk areas;
- Project support advising on the control environment (e.g. review of financial processes for income management);
- Project and controls support for the system implementation of the new Finance Management System;

Unplanned activity: Fraud and error

The Internal Audit team provides reactive support into potential fraud and error cases, such as allegations of breaches of officer code of conduct / whistleblowing referrals.

Internal Audit has undertaken two separate special investigations within the Council during the year. Where appropriate internal controls have been reviewed and updated.

Risk Management

As part of our dynamic risk based audit plan our ongoing work includes the review and monitoring of the Councils risks and implementation of actions agreed to mitigate these. In addition we have provided support on identifying potential corporate risks.