

**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL**  
**AUDIT AND CORPORATE GOVERNANCE COMMITTEE**

**24 JUNE 2016**

**ANNUAL REPORT OF THE INTERNAL AUDIT SERVICE 2015 / 2016**

**RECOMMENDATION:**

**Members of the Audit and Corporate Governance Committee are asked to consider, review, and provide challenge to the attached Head of Internal Audit Annual report for the year ended 31 March 2016.**

Report Author:	Steve Crabtree
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## **ANNUAL REPORT**

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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 and Corporate Governance Committee and the Executive Director (Corporate Services), Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment 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 and seeks to provide an opinion on the adequacy of the control environment and report the incidence of any significant control failings or weaknesses. The report also gives an overview of audit performance during the year.

## 2. **BACKGROUND**

- 2.1 The 2015 / 2016 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 2015.
- 2.2 The Council is going through a period of significant change. The drivers for change are both organisational (e.g. public sector reform and developing new ways of working) and financial (e.g. national austerity programme and the Council's savings commitments). During a period of change it is important that any increased business risks are identified and managed in an effective manner. Our 2015 / 2016 audit plan reflected these changes by concentrating on those areas of highest risk.

## 3. **ASSURANCE**

- 3.1 The audit plan is prepared and delivered to enable 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). My opinion will inform the Annual Governance Statement which the Council is legally required to produce.
- 3.2 As my opinion is based upon professional judgement, backed up by sample testing, I can only provide at best a reasonable rather than an absolute assurance that the systems of internal control are adequate and effective in managing risk and meeting the Council's objectives. If serious issues are identified in the course of our work that have, or could have, prevented objectives to be met, then my opinion may be qualified.

3.3 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.

3.4 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 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.

3.5 **Based on the above information, I am able to provide a reasonable assurance that the systems in place at South Cambridgeshire District Council are appropriate and meet with expectations.** As in any large organisation, our work did identify some issues that require action. All significant issues have been reported to the appropriate Director during the year and a summary of these is included as **ANNEX A**.

#### 4. **ADDED VALUE SERVICES**

4.1 Although my primary responsibility is to give an annual assurance opinion I am also aware that for the Internal Audit service to be of value to the organisation it needs to do much more than that. 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 a number of projects and key working groups.

#### 5. **QUALITY, PERFORMANCE AND CUSTOMER FEEDBACK**

5.1 I am required to report through Audit and Corporate Governance Committee details of any quality and customer feedback issues. These are summarised below.

5.2 An annual self-assessment against the Public Sector Internal Audit Standards established that the service is compliant with these as well as meeting both professional and internal quality standards. As in previous years only a minor area of non-compliance was identified and actions have been taken to address these.

- 5.3 The internal audit plan for 2015 / 2016 contained 240 days. Less time was spent on non-chargeable activities than forecast e.g. training, sickness or annual leave, resulting in 250 days been delivered against the plan. I am satisfied that there were adequate staffing resources available to deliver the audit activities. The section is made up of a complement of 1.20 FTE and there were no staffing changes during the year. The Senior Auditor has continued with her professional studies and was due to sit her finals in June 2016.
- 5.4 The audit work that was completed for the year to 31 March 2016 is listed in **ANNEX B**, which summarises all the audits undertaken and their results in terms of the audit assurance levels provided and the number of actions agreed.
- 5.5 Our reporting protocols have remained constant throughout the year with the following assurance ratings used:
- Full
  - Significant
  - Limited
  - No

It should be noted that this have been amended for 2016 / 2017, with the Full and Significant being replaced by Substantial and Reasonable. Members were notified of this via email on 18 April 2016. Should any audit report identify LIMITED or NO assurance, then as a matter of course those areas are followed up the following year.

- 5.6 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

5.7 At the year-end a number of audits were in various stages of completion and audit opinions relating to these will be reported during 2016 / 2017.

5.8 During the year, it should be noted that:

- The continuation of shared management arrangements with Peterborough City and Cambridge City Councils. Discussions are currently in train as to how the service moves forward in conjunction with the creation of 3C shared services; and
- Sickness levels remain below corporate levels.

- 5.9 In order to gauge the level of satisfaction with the service(s) provided, I will be commissioning a survey during 2016, the results of which will be conveyed to members of this committee as well as to be used to formulate the service delivery arrangements going forward.
- 5.10 Following professional changes, there is no longer a requirement for the Committee to be provided with a report into the effectiveness of Internal Audit on an annual basis. However, this report is seen as going some to maintaining / providing that on-going assessment. A regular review will still be undertaken of the service and any issues identified will be referred through to Members.

6. **COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

- 6.1 With effect from 1 April 2013, new Public Sector Internal Audit Standards were introduced as mandatory guidance that constitutes the principles of the fundamental requirements for the professional practice of internal auditing within the public sector. These standards replaced CIPFA's Code of Practice for Internal Audit in Local Government. The self-assessment identified the level of compliance with only minor changes necessary. The changes have all been actioned.

Steve Crabtree  
Head of Internal Audit  
June 2016

**ISSUES ARISING FROM THE DELIVERY OF THE INTERNAL AUDIT PLAN DURING 2015 / 2016****A Core Financial Systems**

A risk based review of the authority's key financial systems is undertaken to provide evidence to support the Internal Audit opinion on the adequacy of the organisation's control environment. Audit coverage during the year has provided sufficient evidence across all areas to conclude that those key financial control systems evaluated are adequate, but a number of actions have been identified to rectify any system weaknesses identified.

Our reviews are conducted over a three year cycle so as to spread the coverage on the core systems as well as allowing suitable time to cover other departmental reviews.

For 2015 / 2016 we reviewed Housing Benefits, Creditors, Debtors and Housing Rents. Cambridge City Council, as service provider, have an audit of the Payroll service ongoing and Members of this Committee will be informed of any issues arising from that review that merit attention.

In general, controls were sufficient for Internal Audit to place reliance on them, however we were unable to verify all processes within the Debtors reminder stages as the systems upgrades prevented this at the time of the audit. As this meant limited assurance, we will be following up this in 2016 / 2017.

**B Governance and Assurance Work****Annual Governance Statement (AGS):**

In June 2007, CIPFA, in conjunction with the Society of Local Authority Chief Executives (SOLACE), published *Delivering Good Governance in Local Government: Framework*. The Department for Communities and Local Government had determined that this guidance represents proper practice. Consequently, Audit and Corporate Governance Committee should seek assurance that this guidance has been followed to compile the Annual Governance Statement (AGS). To help the Committee gain that assurance and to give some independent assurance that the AGS is free from material misstatement Internal Audit undertakes reviews of the key corporate governance systems.

**As part of the Statement of Accounts for 2015 / 2016, Officers are currently collating information for the latest AGS and this will be included within the reports to this committee in September 2016. CIPFA have introduced a new governance framework for local government which was produced in April 2016. The new framework applies from 2016 / 2017 and will shape the local code of governance and underpin next year's AGS.**

### **National Fraud Initiative:**

The Council is required to participate in the National Fraud Initiative, a national data matching exercise organised by the Cabinet Office every 2 years. This matches data within and between audited bodies to prevent and detect fraud. This includes police, fire and rescue authorities, health provision as well as other Councils and Housing Associations. This is a wide ranging exercise and includes various datasets, including Housing Benefits, Payroll, Housing Rents, Insurance claims, Creditors, and Licences. While the majority of matches were found to be erroneous, as a result of the quality of the data held elsewhere, a number of notable cases were highlighted. Housing Benefit cases were referred through to the Department for Works and Pensions Single Fraud Investigation Service. One match identified as part of a payroll match identified an employee who did not have the right to work. Suitable arrangements were taken to terminate the employment.

### **Corporate Fraud Arrangements:**

In 2014, CIPFA issued a new Code of Practice for Managing the Risk of Fraud and Corruption. The Code provides advice to organisations on how to ensure they have the right governance and operational arrangements in place to counter fraud and corruption effectively. The Code states that *“leaders of public service organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management”*.

Internal Audit has reviewed the Council’s compliance with the Code and provided the information to the Corporate Fraud Project (Working Group) who have been tasked with developing a corporate structure for overseeing fraud.

### **Project Management:**

Our focus identified that while good policies have been established, compliance with them was not routinely followed. In particular, there was limited oversight of the key outcomes with a lack of data sharing and lessons learnt. Following reporting through to the Executive Management Team, increased awareness has been put in place across the Council and new practices implemented.

### **C. Corporate Cross Cutting**

As part of our regular reviews of Human Resources policy compliance, our work focussed on recruitment and selection. Excellent policies in place were tempered by non-compliance in a number of departments. Changes made to the core function have placed additional resource at the centre which is now re-focusing departments to follow appropriate arrangements.



D. **Department Specific**

**Allocations and Voids:**

This overarching audit was split into three elements – Housing Services Tenancy Fraud; the Choice Based Lettings Scheme; and Housing Voids. We identified a number of gaps in the data information provided as well as potential weaknesses with regard to the security of keys following the return of void properties.

**Insurance:**

Coverage of this audit area established that while the claims are managed on the Councils behalf by Zurich Municipal the internal processes and procedures are not fully evidenced which is hindered by single person dependency.

## AUDIT PLAN COVERAGE

CARRIED FORWARD ACTIVITIES								
Accounts Receivable (Trade Waste)	Prior Review: –	New Assurance: <b>Not applicable</b>	Critical: <b>0</b>	High: <b>3</b>	Medium: <b>6</b>	Low: <b>1</b>	Total: <b>10</b>	<p>NB: An assurance rating has not been provided due to this being separate to the original scope. However management should consider the recommendations within this report with a view to implementation prior to the 2015 / 2016 year end process.</p> <p>A number of anomalies were identified following the Waste Management system upgrade, personnel changes and the invoice process.</p> <p>Finally, the review of the year end processes identified a number of areas where improvements could be made to ensure appropriate controls exist.</p>
Responsive Repairs	Prior Review: <b>RSM Tenon</b>	New Assurance: <b>NO</b>	Critical: <b>0</b>	High: <b>5</b>	Medium: <b>3</b>	Low: <b>0</b>	Total: <b>8</b>	<p>The review focussed on the performance of the housing repairs Partnering Contract with Mears and the robustness of the monitoring arrangements.</p> <p>At the time of the audit it was identified that contract management arrangements were ineffective. Poor performance issues identified were not being escalated for action in line with the contract and the quality and accuracy of the data provided to calculate performance was inconsistent.</p>

**CORE SYSTEM ASSURANCE WORK**

Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s151 officer to make his statement included in the Annual Accounts on the reliability of the supporting financial systems.

Housing Benefits	Prior Review: <b>FULL</b> March 2015	<b>In progress</b>						
Accounts Payable (Creditors)	Prior Review: <b>SIGNIFICANT</b> March 2015	<b>Draft report issued</b>						
Accounts Receivable (Debtors)	Prior Review: <b>SIGNIFICANT</b> April 2015	New Assurance: <b>LIMITED</b>	Critical: <b>0</b>	High: <b>2</b>	Medium: <b>5</b>	Low: <b>0</b>	Total: <b>7</b>	Internal Audit were unable to verify the reminder process as a result of a system upgrade at the time of the audit.
Housing Rents	Prior Review: <b>SIGNIFICANT</b> February 2015	Assurance: <b>SIGNIFICANT</b>	Critical: <b>0</b>	High: <b>0</b>	Medium: <b>2</b>	Low: <b>0</b>	Total: <b>2</b>	Good controls are in place within the system. Improvements identified relate to appropriate policies / processes for salary deductions and removal of access to employees who change roles.

**ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK**

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

Annual Governance Statement	<p><b>COMPLETED.</b></p> <p>The Annual Governance Statement was approved at Corporate Governance Committee in September 2015.</p> <p>No material issues were identified for attention of management / members within the Statement.</p> <p>Internal Audit has reviewed the methodology used to collect, collate and interpret the information and have identified no gaps.</p>							
Annual Audit Opinion	<p><b>COMPLETED.</b></p> <p>The Annual Audit Opinion was submitted to Corporate Governance Committee in June 2015.</p>							
National Fraud Initiative	<p><b>COMPLETED.</b></p> <p>See B above.</p>							
Corporate Fraud Arrangements	<p><b>COMPLETED.</b></p> <p>See B above.</p>							
Risk Management	Prior Review: <b>SIGNIFICANT</b>	Assurance: <b>SIGNIFICANT</b>	Critical: <b>0</b>	High: <b>1</b>	Medium: <b>2</b>	Low: <b>1</b>	Total: <b>4</b>	The review established that while processes were generally sound, improvements could be made into raising the profile and awareness of risks across the organisation.
Project Management	Prior Review: <b>Not applicable</b>	Assurance: <b>LIMITED</b>	Critical: <b>0</b>	High: <b>4</b>	Medium: <b>4</b>	Low: <b>2</b>	Total: <b>10</b>	The audit focussed on the project management arrangements in place and the level of compliance with policies and processes.  Executive Management Team considered the report and appropriate actions have been taken to address across the Council.

**CORPORATE / CROSS-CUTTING AUDITS**

Human Resources	<p>Prior Review: Not applicable (different areas looked at each year)</p>	<p>Assurance: <b>LIMITED</b></p>	<p>Critical: 0</p>	<p>High: 6</p>	<p>Medium: 4</p>	<p>Low: 1</p>	<p>Total: 11</p>	<p>The objectives of the audit were to provide assurance that management have implemented adequate and effective controls over Recruitment and Selection.</p> <p>Our audit found that whilst there is a clear policy and documented processes, there are weaknesses in the level of compliance across the Council and inconsistencies in the approach.</p> <p>Action has been taken to bolster the Human Resources team in order to provide a focal point for departments.</p>
Service Preparation for Growth	<b>In progress</b>							
Corporate Governance	<p>Prior Review: Not applicable (different areas looked at each year)</p>	<p><b>Draft report has been issued.</b> Focus of the audit has been the application of and compliance with the Gifts and Hospitality processes across members and officers.</p>						

DEPARTMENT SPECIFIC								
Allocations / Voids (Housing Services Tenancy Fraud)	Prior Review: –	Assurance: <b>SIGNIFICANT</b>	Critical: 0	High: 0	Medium: 1	Low: 0	Total: 1	As this service area develops, there is a need for the processes to be documented.
Allocations / Voids (Choice Based Lettings System)	Prior Review: –	Assurance: <b>SIGNIFICANT</b>	Critical: 0	High: 1	Medium: 1	Low: 0	Total: 2	Our review of the system verified that appropriate steps had been taken to ensure that upgrade/replacement had been managed appropriately.
Allocations / Voids (Housing Voids)	Prior Review: <b>SIGNIFICANT</b> February 2014	Assurance: <b>LIMITED</b>	Critical: 0	High: 2	Medium: 7	Low: 3	Total: 12	Our review of the voids process identified a number of anomalies with the service data provided as well as potential security weaknesses following the return of keys.  This will be followed up in 2016 / 2017.
HRA Business Plan	<b>COMPLETED</b> Initial review of draft proposals as part of the development of the Councils financial strategy							
Insurance	Prior Review: –	Assurance: <b>LIMITED</b>	Critical: 0	High: 2	Medium: 2	Low: 4	Total: 8	There is a lack of policies and procedures maintained.
Freedom of Information	Prior Review: –	Assurance: <b>SIGNIFICANT</b>	Critical: 0	High: 0	Medium: 1	Low: 3	Total: 4	Good arrangements are in place for the delivery of Fol. Improvements were identified to enhance management information and its reporting
Member Allowances	Prior Review: RSM Tenon	Assurance: <b>SIGNIFICANT</b>	Critical: 0	High: 0	Medium: 5	Low: 1	Total: 6	Following verification that all payments made are in accordance with the scheme and are correct. Generally, the scheme has been administered well although a number of anomalies were identified.

Community Right to Bid	New audit area	Assurance: <b>SIGNIFICANT</b>	Critical: 0	High: 0	Medium: 1	Low: 3	Total: 4	Community asset applications since April 2014 were reviewed to ensure the correct procedures had been adhered to regarding acceptance, refusal, appeals and disposals of assets. Although the process is defined some controls could be tightened and an additional control implemented documenting decisions made to promote transparency and efficient operation of the evaluation of asset nominations.
RECAP	New audit area	<b>DEFERRED:</b> This audit is now included on other Councils audit plans who will provide assurance to South Cambridgeshire. The allocated days for this audit have been reassigned to cover the National Fraud Initiative.						
Urban Design and Conservation	Incorporated into 2016 / 2017 audit plan							

#### UNPLANNED ACTIVITIES: PROJECT MANAGEMENT / GENERAL ADVICE

Various ad-hoc advice and support has been provided to management during the year across the organisation. These include:

- Document retention policies
- Providing details of the internal control environment to assist in Insurance policy requests;
- The publication of expenses information; and
- The scheme of delegation

Members of the Internal Audit team also participate in the following internal working groups:

- Corporate Fraud Project