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23 July 2018

To: Chairman – Councillor Tony Mason
Vice-Chairman – Councillor Nick Sample
Members of the Audit and Corporate Governance Committee – Councillors
John Batchelor, Clare Delderfield, Mark Howell, Brian Milnes, Heather Williams
and Eileen Wilson

Quorum: 3

Dear Councillor

You are invited to attend the next meeting of **AUDIT AND CORPORATE GOVERNANCE COMMITTEE**, which will be held in **SWANSLEY ROOM A AND B - GROUND FLOOR** at South Cambridgeshire Hall on **TUESDAY, 31 JULY 2018** at **9.30 a.m.**

Members are respectfully reminded that when substituting on committees, subcommittees, and outside or joint bodies, Democratic Services must be advised of the substitution *in advance of* the meeting. It is not possible to accept a substitute once the meeting has started. Council Standing Order 4.3 refers.

Yours faithfully
Beverly Agass
Chief Executive

The Council is committed to improving, for all members of the community, access to its agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you.

AGENDA

	PAGES
1. Apologies for Absence To receive Apologies for Absence from Committee members.	
2. Declarations of Interest	
3. Minutes of Previous Meeting To confirm the minutes of the meeting held on 22 March 2018 as a correct record.	1 - 4
4. Final Accounts Update - Report to Follow	
5. External Audit Progress Report for Year Ending 31 March 2018	5 - 10

AUDIT REPORTS

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DECISION ITEMS

INFORMATION ITEMS

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| 9. | Regulation of Investigatory Powers Act 2000 (RIPA) Update on Use of RIPA & IPCO Inspection Report | 79 - 90 |
| 10. | External Audit Local Government Briefing | 91 - 102 |
| 11. | Matters of Topical Interest | |
| 12. | Date of Next Meeting
25 September 2018 at 9:30am. | |

OUR LONG-TERM VISION

South Cambridgeshire will continue to be the best place to live, work and study in the country. Our district will demonstrate impressive and sustainable economic growth. Our residents will have a superb quality of life in an exceptionally beautiful, rural and green environment.

OUR VALUES

We will demonstrate our corporate values in all our actions. These are:

- Working Together
- Integrity
- Dynamism
- Innovation

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Agenda Item 3

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Minutes of a meeting of the Audit and Corporate Governance Committee held on
Thursday, 22 March 2018 at 10.00 a.m.

PRESENT: Councillor Andrew Fraser – Chairman

Councillors: John Batchelor
Roger Hall
Ray Manning
John Williams
Christopher Cross
Douglas de Lacey
Tony Orgee

Officers: Patrick Adams
Alex Colyer
Tracey Flack
Rory McKenna
Caroline Ryba
Senior Democratic Services Officer
Executive Director
Principle Accountant
Principal Lawyer & Deputy Monitoring Officer
Head of Finance

Auditors: Kay McClennon
Suresh Patel
Jonathan Tully
Ernst & Young
Ernst & Young
Head of Shared Internal Audit

1. APOLOGIES FOR ABSENCE

Apologies for Absence were received from Councillors Grenville Chamberlain and Graham Cone. Councillor Ray Manning acted as a substitute for Councillor Chamberlain.

2. DECLARATIONS OF INTEREST

Councillor Andrew Fraser declared a non-pecuniary interest as a non-executive Director of Ermine Street Housing Limited.

3. MINUTES OF PREVIOUS MEETING

The Minutes of the meeting held on 26 January 2018, were agreed as a correct record.

4. INTERNAL AUDIT QUARTERLY REPORTS

Jonathan Tully, Head of Shared Internal Audit, presented this report, which advised on the work of Internal Audit from October 2017 to March 2018. It was understood that the Internal Audit team had a vacancy and were in the process of recruiting.

Project Management – Benefits Realisation

Jonathan Tully explained he was unconcerned with the limited assurance following the inaugural review, as Management had accepted the findings and agreed to initiate improvements.

The Committee **NOTED** the report.

5. INTERNAL AUDIT PLAN 2018/19

Jonathan Tully, Head of Shared Internal Audit, introduced this report on the draft Internal Audit Annual Plan for 2018/19.

Delivering the Plan

It was noted that the Plan and its schedule will be reviewed throughout 2018/19. Jonathan Tully explained that temporary staff would be employed whilst the current full-time vacancy was being filled. Work would have to be prioritised, as potential reviews exceeded the number of planned 249 audit days. The Executive Director explained that the Committee were being invited to decide whether the Plan, which had been agreed with officers, set the right priorities. It was noted that the Executive Director met with the Head of Shared of Internal Audit monthly, to discuss the delivery of the Internal Audit Plan.

Anti-fraud and corruption

Jonathan Tully explained that Internal Audit ensured that procedures were in place to prevent fraud. Reviews were carried out impartially.

Gifts and Hospitality review

Jonathan Tully confirmed that 8 audit days had been allocated to the Gifts and Hospitality audit based on the previous review. There was some flexibility regarding the allocation of days to the Plan's reviews.

It was noted that there were a number of external factors guiding the work of Internal Audit, including CIPFA's guidelines and the Nolan principles.

The Committee

APPROVED

- A) The draft Audit Plan and Strategy; and
- B) The supporting Charter and the Code of Ethics.

6. EXTERNAL AUDIT PLAN 2017/18

The Chairman welcomed External Auditor Kay McClennon to her first meeting. Suresh Patel introduced the Plan, which detailed the way in which External Audit planned to carry out its Audit for 2017/18 in accordance with the relevant laws and guidance.

Minor amendment

It was noted that the word "not" should be added to last sentence in the penultimate paragraph on page 49 regarding the risk that the Council faced in preparing its accounts within the more stringent deadlines.

It was suggested that it was unnecessary to produce reports in colour as this cost more to produce. However, it was also suggested that the colour in the report aided presentation.

Challenges

It was noted that Accountancy were facing a number of challenges including

- The introduction of a new Financial Management System.
- The introduction of a new Asset register.
- Staff turnover.

It was noted that the Council needed to ensure that it had proper arrangements in place to secure value for money in the use of its resources.

Project plan

Suresh Patel reported that the Council had drawn up a detailed project plan for the

preparation of the final accounts. This had been reviewed by EY and a number of amendments were agreed as a result. He further added that EY's own plan for auditing the accounts had been drawn up in accordance with this plan. It was noted that EY had a schedule for carrying out their reviews and whilst this authority was to be reviewed at the end of this schedule, this work would not be delayed by other authorities being unable to meet their deadlines.

Timetable

Concern was expressed that the planned testing, which was due to take place in March, had not yet been completed. Suresh Patel and Kay McClennon outlined some of the areas where the Council had yet to provide information, including the control account reconciliations. Kay stated that External Audit would review the timetable every week. The Committee agreed that Suresh Patel should liaise with the Chairman on any future slippage on the planned timetable and EY would provide an update by the end of April.

It was noted that the value of housing assets had delayed the signing off of the 2016/17 accounts. Suresh Patel explained that the purpose of having an agreed timetable this year was to prevent any avoidable delays. The Executive Director explained that the discrepancy regarding the value of the authority's housing assets had been resolved.

The Committee **NOTED** the External Audit Plan for 2017/18.

7. LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING

Suresh Patel presented this briefing, which covered issues that could have an impact on the Council and the Local Government sector in general. He brought the Committee's attention to the six key questions on page 94 of the agenda, which all Local Council Audit Committees should consider.

The Committee **NOTED** the Briefing.

8. MATTERS OF TOPICAL INTEREST

Regulation of Investigatory Powers Act (RIPA)

The Principal Lawyer – Governance and Deputy Monitoring Officer explained that the Council had not used its RIPA powers in the last quarter and so no formal report had been submitted to the Committee.

9. DATE OF NEXT MEETING

The Committee **AGREED** the following meeting dates:

- Thursday 7 June 2018 (Workshop) at 9:30am
- Tuesday 31 July 2018 at 9:30am
- Tuesday 25 September 2018 at 9:30am
- Tuesday 20 November 2018 at 9:30am
- Tuesday 26 March 2019 at 9:30am

The Meeting ended at 11.00 a.m.

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South Cambridgeshire District Council

Progress Report

Year-ended 31 March 2018

19 July 2018

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Agenda Item 5



Building a better
working world

Audit & Corporate Governance Committee
South Cambridgeshire District Council
South Cambridgeshire Hall
Cambourne Business Park
Cambourne, CB23 6EA

19 July 2018

Dear Audit & Governance Committee Members

Audit Progress Report

We are pleased to attach our Audit Progress Report.

This report follows our April update and provides the Committee with an overview of our progress against the Council's 2017/18 Audit Plan. In that Plan we highlighted the Council's risks to meeting the 2017/18 target reporting dates and we emphasised the need for the Council to adhere to planned and agreed action plans and timelines. In April we reported that while the Council had made good progress with its actions there remained areas of concern and slippage. On 13 June based on evidence indicating issues with the published unaudited accounts and further slippage to the timetable we decided to defer the audit to enable the Council to resolve those matters and provide us with assurance of their readiness for the audit. We provide more details in this report.

Yours faithfully

Suresh Patel

For and on behalf of Ernst & Young LLP

Enc



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Audit progress





Audit progress

Preparation of the accounts

Audit update

In the prior year the Council experienced significant problems preparing its statement of accounts, working papers and responding to audit queries. For this year the Council needed to prepare draft accounts by 31 May 2018 and publish audited accounts by 31 July 2018.

The Council has taken steps to strengthen its arrangements for accounts closedown and the associated requirements for meeting the accelerated timetable. However, the Council also faced additional pressures from its planned implementation of a new asset register, consolidating a second subsidiary company, potential implementation of a new general ledger (now planned for early October) and continued key staff turnover. As a result we viewed it as a significant risk that the Council would not prepare materially accurate accounts, with good quality working papers and respond to audit queries effectively and promptly.

Update to this risk:

The Council published unaudited accounts on 7 June, missing the 31 May deadline - we identified several issues with the accounts, in particular the reporting and disclosure of property, plant and equipment.

The Council has postponed the use of the new asset register - we were informed on 12 June that the Council had experienced problems with the move to the new asset register and it has reverted to the existing asset register to prepare the 2017/18 accounts.

- As a result of the above our audit work on the new asset register (carried out in late April) does not provide the assurances we need for 2017/18.
- As reported in April, we were unable to complete all of the planned interim audit work, mainly sample testing of income and expenditure and journals testing where we seek to deploy our analytics tools, as we were unable to resolve issues with mapping data until the end of the planned interim visit. As a result we were required to plan the majority of audit testing at the year end.

As a result of these risks and in line with the messages we reported in the Audit Plan and subsequent update reports to the Committee in respect of the impact of unexpected issues and slippage, we decided to postpone the audit of the accounts.

On 2 July we visited the finance team for a further review of the accounts and to make an initial assessment of the working papers and the finance team's readiness for audit. We were informed of unresolved issues with the accuracy of the accounts and outstanding key supporting working papers. The Council had yet to resolve issues with its trial balance and as a result had yet to provide a full data set to inform our analytics work. The finance team had not carried out a high level review of the latest version of the accounts, an expected quality assurance process, although earlier versions had been reviewed. The finance team highlighted a number of changes to the format of the accounts including to primary statements, in particular the movement in reserves statement. In addition there are large movements between the expenditure figures in the initial set of accounts and the latest draft. These changes and movements will require audit attention.

We understand that the accounts presented to this Committee meeting will be the final draft version of the accounts, replacing the published 7 June version.



Audit progress

Next steps

Audit Update

We are aware of the interim status of some key finance staff and the timing of the end of their contracts. We continue to liaise with the finance team about their readiness for audit as we are keen to ensure we deliver an efficient audit and avoid unnecessary additional costs.

We have agreed to start the audit in the first two weeks of August, and then taking into account the planned holidays of the audit team and the finance team, a further visit in September. We are aware that the Council is putting in place arrangements to ensure that the planned implementation of the new general ledger in early October does not impact on finance staff capacity to deal with audit queries during September.

We will update the Committee with any further information on 31 July.

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At our initial visit in August, we plan to focus on the following areas:

• agreeing the accounts to the ledger, and resolving any issues highlighted by our Analytics tools;

- reviewing the finance team's own quality review of the accounts;
- revisiting the issues that were raised in the 'Summary of Audit Differences' in our Audit Results Reports from 2016/17, to ensure they all addressed correctly in this year's accounts;
- agreeing the PPE notes to the asset register and working papers, ensuring there are adequate working papers for any manual adjustments;
- completing our work on valuations that we started in May including a review of a sample of Beacon properties, and focussing on issues we raised about valuations in last year's audit;
- resolving our queries from our initial audit review on 2 and 3 July;
- reviewing the finance team's completion of the CIPFA disclosure checklist to assess code compliance;
- selecting samples for the rest of our PPE work;
- selecting samples for income and expenditure testing;
- completing an overall analytical review; and
- making an initial assessment about the quality of the rest of the working papers.

We will then return in September to complete the rest of the audit.

EY | Assurance | Tax | Transactions | Advisory

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ED None

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REPORT TO: Audit and Corporate Governance
Committee

31st August 2018

LEAD OFFICER: Executive Director (Corporate Services)

Annual Governance Statement and Local Code of Governance

Purpose

1. This report presents the Annual Governance Statement (AGS) for 2017/18, and the Local Code of Corporate Governance, for consideration by the Audit & Corporate Governance Committee.
2. The purpose of this report is to provide an update on the progress of actions identified in the previous year, report the annual review of effectiveness, communicate any new governance issues, and provide and update of the Local Code of Corporate Governance.

Recommendations

3. Members of the committee should approve the Annual Governance Statement in advance of the Statement of Accounts. To help complete this members should note:
 - the arrangements for compiling, reporting on and signing the AGS;
 - the progress made on issues reported in the previous year;
 - the current review of effectiveness
 - the issues considered for inclusion in the current AGS;
4. Members should note and endorse the amendments to the updated Local Code of Corporate Governance;

Reasons for Recommendations

5. The Accounts and Audit Regulations and the CIPFA guidance establishes that the committee should approve the Annual Governance Statement.

Background

Scope of the AGS

6. Internal control and risk management are recognised as important elements of good corporate governance. The scope of governance, as covered in the AGS, spans the whole range of the Council's activities and includes those designed to ensure that:
 - The Council's policies are implemented in practice;
 - High quality services are delivered efficiently and effectively;
 - The Council's values and ethical standards are met;
 - Laws and regulations are complied with;
 - Required processes are adhered to;

- Its financial statements and other published information are accurate and reliable; and
- Human, financial and other resources are managed efficiently and effectively.

Arrangements for compiling the AGS

7. The Accounts and Audit Regulations require the Council to review its governance arrangements, and prepare an AGS to accompany the Statement of Accounts. The AGS should communicate how we are complying with our Local Code of Governance.
8. The Chartered Institute of Public Finance and Accountancy (CIPFA), in conjunction with the Society of Local Authority Chief Executives (SOLACE), have produced a framework for delivering good governance in local government. The framework guidance “Delivering Good Governance in Local Government Framework 2016” is used as a guide in compiling the AGS.
9. Arrangements for compiling the AGS have been coordinated through Internal Audit and the Policy & Performance teams, with input from the key stakeholders and management.
10. CIPFA have recently completed a review of the varied formats of AGS used by Councils. Subsequently they issued a report highlighting good practice, and we have taken the opportunity to review the format and presentation.
11. Assurances from the work of the Internal Audit team have been reviewed and have been used to inform the AGS and its associated action plan. A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

Arrangements for reporting on and signing off the AGS

12. The Accounts and Audit regulations require the Committee to approve the AGS. Good practice guidance recommends the AGS is signed by the Leader and Chief Executive.
13. The draft AGS was circulated to Members of this Committee, for them to review and comment prior to it being signed off by the Leader and Chief Executive.
14. Members of the Committee were invited to a further workshop to ask questions and provide feedback.
15. The draft AGS was then issued to the External Auditors to review as part of the draft Statement of Accounts. No further amendments were requested.
16. There have been minimal changes following this consultation. These are mainly typographical changes, and updated links to reports which have now been published since the draft version. For ease of reference the appended AGS include the updates using tracked changes. Members should approve the revised AGS, containing the tracked changes, appended to this report.
17. The final, and formatted, version of the AGS accompanies the Statement of Accounts.

Local Code of Corporate Governance

18. The preparation of the AGS and the Local Code of Governance is undertaken in accordance with the guidance published by CIPFA.
19. The framework is intended to assist authorities in ensuring their own governance arrangements are suitably resourced, there is sound and inclusive decision making and there is clear accountability for the use of resources to achieve the desired outcomes for stakeholders.

20. Guidance suggests each local authority should develop and maintain a Code of Corporate Governance based on seven core principles, supported by sub-principles that should underpin the governance structure for the whole Council.
21. The Code stands as the overall statement of the Councils corporate governance principles and commitments.
22. The Code has been reviewed as good practice. Significant changes were made last year, following revised international guidance being issued in 2016. This year there are minimal changes required, and these have been marked up using tracked changes for reference.

Considerations

23. Key officers have been consulted in compiling the draft AGS and Local Code of Governance. The draft AGS was issued to Members of the Audit & Corporate Governance Committee, and the Council's External Auditors for comment.

Implications

24. 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

25. The annual review reflects the Strategic Aims of the Council, and may also inform develop of future Strategic Aims where this helps to improve the governance framework.

Background documents

26. Background papers used in the preparation of this report:
 - Delivering Good Governance in Local Government (CIPFA 2016)
 - Accounts and Audit (England) Regulations 2015
 - CIPFA good practice guidance on AGS presentation

Report Author:

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Annual Governance Statement

Introduction and purpose

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and that it also provides value for money. It has to effectively manage its risks, and put in place proper arrangements for the governance of its affairs.

Definition of Corporate Governance

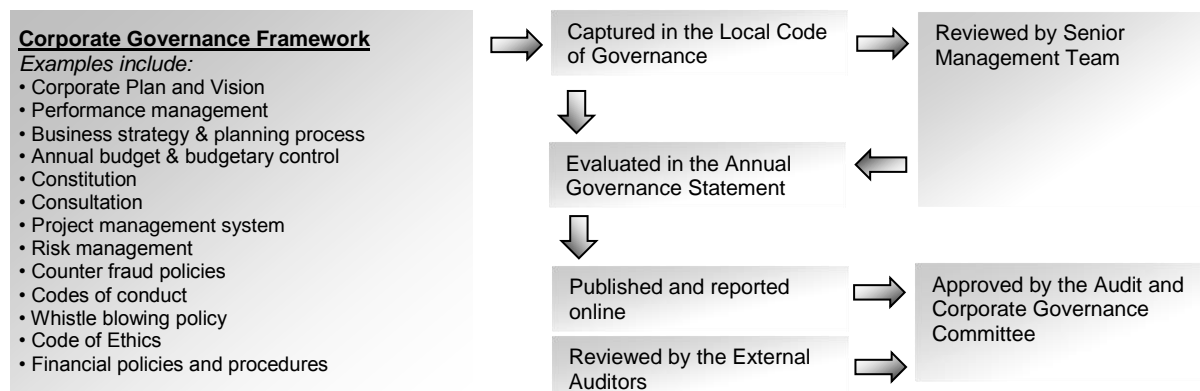
Corporate governance generally refers to the processes by which an organisation is directed, controlled, led and held to account.

Good governance in the public sector means: "*achieving the intended outcomes while acting in the public interest at all times*"

The Governance Framework

Our governance framework comprises the culture, values, systems and processes by which the Council is directed and controlled. It brings together an underlying set of legislative and regulatory requirements, good practice principles and management processes.

The Council has a robust process for reviewing and updating the governance framework.



The governance framework for the last 12 months supports the Council aims and objectives, which are published on [our website](#)¹. Our Vision is:

- The best place to live, work and study;
- Impressive and sustainable economic growth; and
- Quality of life in a beautiful and green environment.

The Vision is supported by our [Delivery Plan](#)² which sets out specific and measurable actions for the year to come.

¹ <https://www.scams.gov.uk/council-aims-and-objectives>

² https://www.scams.gov.uk/sites/default/files/final_delivery_plan_adopted_by_council.pdf

Performance against the current [Corporate Plan](#), is published in the [Performance Page](#) of our website.

The governance framework has been in place at the Council for the year ended 31 March 2018 and up to the date of approval of the statement of accounts.

Local Code of Governance

We are responsible for ensuring that there is a sound system of governance which incorporates the system of internal control.

This Governance Framework is recorded in our [Local Code of Governance](#), which is underpinned by the 7 principles of good governance as set out in the CIPFA / SOLACE publication 'Delivering Good Governance in Local Government Framework 2016'. The principles are:

- A. behaving with integrity and in accordance with our core values
- B. being open and ensuring effective engagement takes place
- C. working together to achieve our intended outcomes
- D. setting goals for economic, social and environmental benefits and reaching them
- E. growing our capacity - including our leadership and the people who work with us
- F. managing risks and performance through robust internal control and strong financial management
- G. Implementing good practice in transparency, reporting and audit – delivering effective accountability

Role and responsibilities

All of the Council is responsible for developing and complying with its Local Code of Governance. There are a variety of governance structures and some of the key roles include:

Governance structures	Roles and responsibilities
Council	Council agrees the budget and policy framework, such as the Corporate Plan, Medium Term Financial Strategy. Further details are published on our website .
Cabinet	This is the Council's principal decision making body charged with implementing the budget and policy framework agreed by Council. Further details are published on our website .
Executive Management Team	The management team structure includes a strategic Executive Management Team of a Chief Executive and Directors, and is supported by an operational Corporate Management Team. Both teams consider policy formulation and future planning.

<p>Audit and Corporate Governance Committee</p>	<p>The Audit and Corporate Governance Committee also plays a vital role overseeing and promoting good governance, ensuring accountability and reviewing the ways things are done. It provides an assurance role to the Council by examining areas such as audit, risk management, internal control, counter fraud and financial accountability.</p> <p>The Committee exists to challenge the way things are being done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the governance, risk and control environment. Meetings details and minutes are published on the website.</p>
<p>Civic Affairs Committee</p>	<p>This committee reviews the Council's Constitution, including proposals for substantive changes for consideration by the Council. It also considers changes to electoral arrangements, setting ethical standards and monitoring the Councils Code of Conduct. Further details are published on our website.</p>
<p>Scrutiny and Overview committee</p>	<p>It monitors the performance of the Leader and Cabinet and scrutinises services and policies throughout the district, whether or not South Cambridgeshire District Council provides them, and makes recommendations for improvement. Further details are published on our website.</p>

Purpose of the Annual Governance Statement

The Council conducts a review of its system of internal control, prepares and publishes an Annual Governance Statement in each financial year.

This enables us to demonstrate whether, and to what extent, the Council complied with its Local Code of Governance.

The Local Code of Governance is updated regularly. This process records our good practice, and also helps us to plan further action which can improve our governance arrangements.

Statutory compliance

Producing the Annual Governance Statement helps the Council meet the requirements of Regulation 6(1)b of the Accounts and Audit (England) Regulations 2015. It is reviewed by the Audit & Corporate Governance Committee and approved in advance of the Statement of Accounts.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. That duty has grown in importance with the reduction in resources being made available for Local Authorities as part of the Government's on-going austerity programme.

The Councils financial management arrangements are consistent with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Other review and assurance mechanisms

Management have helped to review the Local Code of Governance, and also inform the Annual Governance Statement. In addition assurance can be provided from other sources, as detailed below:

Head of Internal Audit Opinion

The Head of Internal Audit provides an independent opinion on the overall adequacy of and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it. This has been considered in the development of the Annual Governance Statement.

The Annual Report will be presented to the Audit & Corporate Governance Committee in July 2018. This report will outline the key findings of the audit work undertaken during 2017/18, including any areas of significant weakness in the internal control environment.

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 and is reported to Audit and Corporate Governance Committee.

It is the opinion of the Head of 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.

External Audit

Ernst & Young (now EY) are the appointed external auditor. Their results report (ISA260), annual audit letter and annual report on the certification of claims and returns was presented to Audit & Corporate Governance committee.

For 2016-17 EY issued unqualified audit opinions on the financial statements, value for money conclusion and whole of government accounts.

Progress from the last Annual Governance Statement

The Council prepared an [Annual Governance Statement for 2016/17](#) which was approved by the Audit and Corporate Governance Committee.

An update on the previous action plan is included below:

Action	Update and status
Developing a shared Financial Management System	This action is still in progress, and is also included in the new action plan for the Annual Governance Statement 2017/18.
Developing effective partnership arrangements with the Combined Authority	Governance arrangements, and partnership relationships, are being established as the Cambridgeshire and Peterborough Combined Authority continues to develop. Progress reports, summarising the work of the Combined Authority, have been presented to Council.
Planning a review of revised procedures for Corporate Governance: Gifts and Hospitality	A review was scheduled for 2018/19, which was approved by the Audit and Corporate Governance committee, and is currently in progress.
Developing Shared Service reporting arrangements	Reporting arrangements for Shared Services have been established. Monitoring reports are submitted to the Councils Corporate Management Team and a Shared Service Board as regular practice. Business plans have been approved by Cabinet.

Review of effectiveness

The Council has a number of policies and procedures which are recorded in its Local Code of Governance. These are mapped to the 7 principles of good governance.

The effectiveness of the key elements of the governance framework is reviewed throughout the year. The review is informed by the work of senior officers who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and from comments received from external auditors and other review agencies and inspectorates.

Ongoing good practice is recorded in the [Local Code of Governance](#). Additional examples of good practice from the last twelve months, and governance issues, considered when completing the review are recorded below. The [Performance Page](#) on the Council's website sets out details of how the examples below have contributed to the delivery of quality services and the Council's Corporate Plan objectives.

Principle	Review of effectiveness
A Behave: integrity, ethical values, respect rule of law	<ul style="list-style-type: none"> • We have revised HR policies, such as Dignity at Work. • The VALUES of the Council have been promoted to employees. • Management have provided feedback that the framework of HR Policies supported them to ensure there are high levels of conduct and ethical behaviour, and there are low levels of non-compliance with Policies.
B Openness & stakeholder engagement	<ul style="list-style-type: none"> • Human Resources "Drop in sessions" were held throughout the year, enabling employees to discuss and understand relevant topics such as job evaluation and health and wellbeing. • A user group was setup with partners to proactively manage complaints with the A14 development. • A Joint Strategic Needs Assessment was used to inform Health and wellbeing priorities. • We started up a "Let's Talk" engagement, which included workshops and events to inform Corporate Objective setting. Examples included focus groups with a range of stakeholders including LGBT, Religious Groups, and new residents. Further business engagement was developed under the "Let's Talk Business" programme; feedback informed the development of the 2018/19 Corporate Plan • Manager used "Action learning leadership" to review the equality scheme and make recommendations to the Executive Management Team with the priorities and resourcing.

Principle	Review of effectiveness
<p>C Defining outcomes - economic, social, environmental</p>	<ul style="list-style-type: none"> • Executive Management Team and the Corporate Management Team worked together to help develop a new Corporate Plan with members. • We delivered a trailblazer project to address homelessness which included a number of external agencies. • We responded to recommendations from a Local Governance Association Peer Review, such as Shared Services Strategic Position Statement, preparing for the creation of a combined authority. • The Council established Shire Homes as an innovative solution to addressing housing need in the district
<p>D Determine interventions to achieve outcomes</p>	<ul style="list-style-type: none"> • We updated the project management toolkit to provide guidance on business benefits realisation, and also to share lessons learnt for continued improvement. We ran training for project sponsors to help embed good project management governance. • Shared Services governance was developed with regular reports now presented regularly to the Corporate Management Team, and the Shared Services Board. Business plans were approved by Cabinet.
<p>E Develop capacity and capability of entity</p>	<ul style="list-style-type: none"> • We completed a review of the key documents including our Learning & Development Policy, a new management competency framework, adopted an apprenticeship strategy, and continued training and development for employees. • Development of shared services is helping the Council to build resilience and develop expertise.
<p>F Manage risk & performance, internal control, finance</p>	<ul style="list-style-type: none"> • The Council is implementing a new Financial Management System, to develop resilience and introduce smarter ways of working. Further work will be undertaken in 2018/19. • A Quality Assurance and Improvement Programme, of compliance to the Public Sector Internal Audit Standards, was completed as good practice.
<p>G Transparency, reporting, audit, accountability</p>	<ul style="list-style-type: none"> • The revised Corporate Plan was designed to be more accessible and easier to read. • The Council received an unqualified opinion on the statement of accounts. • The website has been refreshed to make information more accessible to customers and there has been an increase in the use of e-forms.

Opportunities for Improvement

The arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

The review process has helped us to identify some opportunities to improve the governance arrangements over the next twelve months. Some of these may feature in previous statements where the work is ongoing. They address both significant governance issues that have arisen during 2017/18, and also forward looking matters identified for 2018/19. These actions are captured in existing corporate plans and strategies.

Subject	Opportunity	Responsible Officer
Review of the Constitution	The Council's Constitution has not been subject to a comprehensive review for some considerable time. The Civic Affairs Committee has agreed to establish a Task and Finish group to undertake a comprehensive review of the Council's Constitution, including its codes and protocols, such as Committee terms of reference, and financial and procurement authorisation levels. The aim is for a report, with recommendations, to be considered by next year's Annual Council meeting.	Deputy Monitoring Officer
Digital strategy	Recognising that it can be difficult to engage with customers and stakeholders, the Council is developing a digital strategy to help customers self-serve, whilst preserving appropriate channels for those that require them. Examples include "In Touch Project" to improve digital inclusion with Housing tenants and reviewing our "Community Engagement Strategy".	Executive Director – Corporate Services and Head of People and Organisational Development
Statement of Accounts	The Council completes Statement of Accounts, to report the financial position of the Council, and for 16/17 these were not approved by the deadline. An earlier timetable for completion was established as part of the Accounts and Audit regulations 2015. The Council set a robust timetable for completion of the 17/18 accounts, and published a draft version on the Council's website for consultation. The Council will work with the externally appointed auditors to conclude these promptly.	Executive Director – Corporate Services and S151 Officer
Review of anti-fraud and corruption policies	The Council completes a continuous review of its counter fraud arrangements based on good practice. Policies will be reviewed during the current financial year to see if any improvements can be adopted.	Head of Internal Audit

Subject	Opportunity	Responsible Officer
Financial Management System	The Council is implementing a new Financial Management System, to develop resilience and introduce smarter ways of working. The project timescale has been extended and further work will be undertaken in 2018/19. A new internal project team has been appointed to help deliver implementation to a revised go-live date.	Executive Director – Corporate Services & Head of Finance
Organisational Development Strategy	The Council will complete a review of the Organisational Development Strategy, over the current financial year, which will help to improve recruitment and retention of employees.	Head of People and Organisational Development
Complaints management	The Council has a process for responding to complaints. A project is being implemented to help improve our quality and timeliness of complaints handling.	Head of People and Organisational Development
Environment	Local Air Quality Management is a statutory obligation for all Local Authorities. It involves a rolling programme of air quality assessment, impacting on decisions made by all internal and external bodies responsible for transport planning, highways, growth agendas, development plans and environmental protection. The Council is developing a new Air Quality Strategy , which will help to enhance the environment and inform environmental planning.	Head of Service, Environmental Commissioning
Risk management review	The Council has completed a review of the risk management framework and is currently refreshing its Strategic Risk Register. This will help ensure risk identification is aligned to the Corporate Plan, and resources for further mitigation are effectively allocated.	Executive Director – Corporate Services & Risk Management Group

Conclusion

The Council has in place strong governance arrangements which we are confident protect its interests and provide necessary assurances to our citizens and stakeholders.

We are satisfied that the planned actions will improve our governance arrangements, identified from our review of effectiveness. We will monitor their implementation and operation throughout the year and report their progress as part of our next annual review.

Signed:

Signed:

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Councillor Bridget Smith
Leader of the Council

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Beverly Agass
Chief Executive

Date:

Date:

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Local Code of Corporate Governance

Good governance

Good governance is about how the Council ensures that it is doing the right things, in the right way, for the communities it serves, in a timely, inclusive, open, honest and accountable manner.

A Council's Code of Corporate Governance is:

"The system by which local authorities direct and control their functions and relate to their communities"

Our commitment

South Cambridgeshire District Council is committed to upholding the highest possible standards of good corporate governance, believing that good governance leads to high standards of management, strong performance, effective use of resources, increased public involvement and trust in the Council and ultimately good outcomes.

Good governance flows from shared values, culture and behaviour and from systems and structures. This Code of Corporate Governance is a public statement that sets out the framework through which the Council meets its commitment to good corporate governance.

The Governance Framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled and through which it accounts to, engages with and, where appropriate, leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost-effective services.

This local code of governance has been developed in accordance with and is consistent with the Delivering Good Governance in Local Government framework, which builds on the seven Principles for the Conduct of Individuals in Public Life.

Core principles of good governance

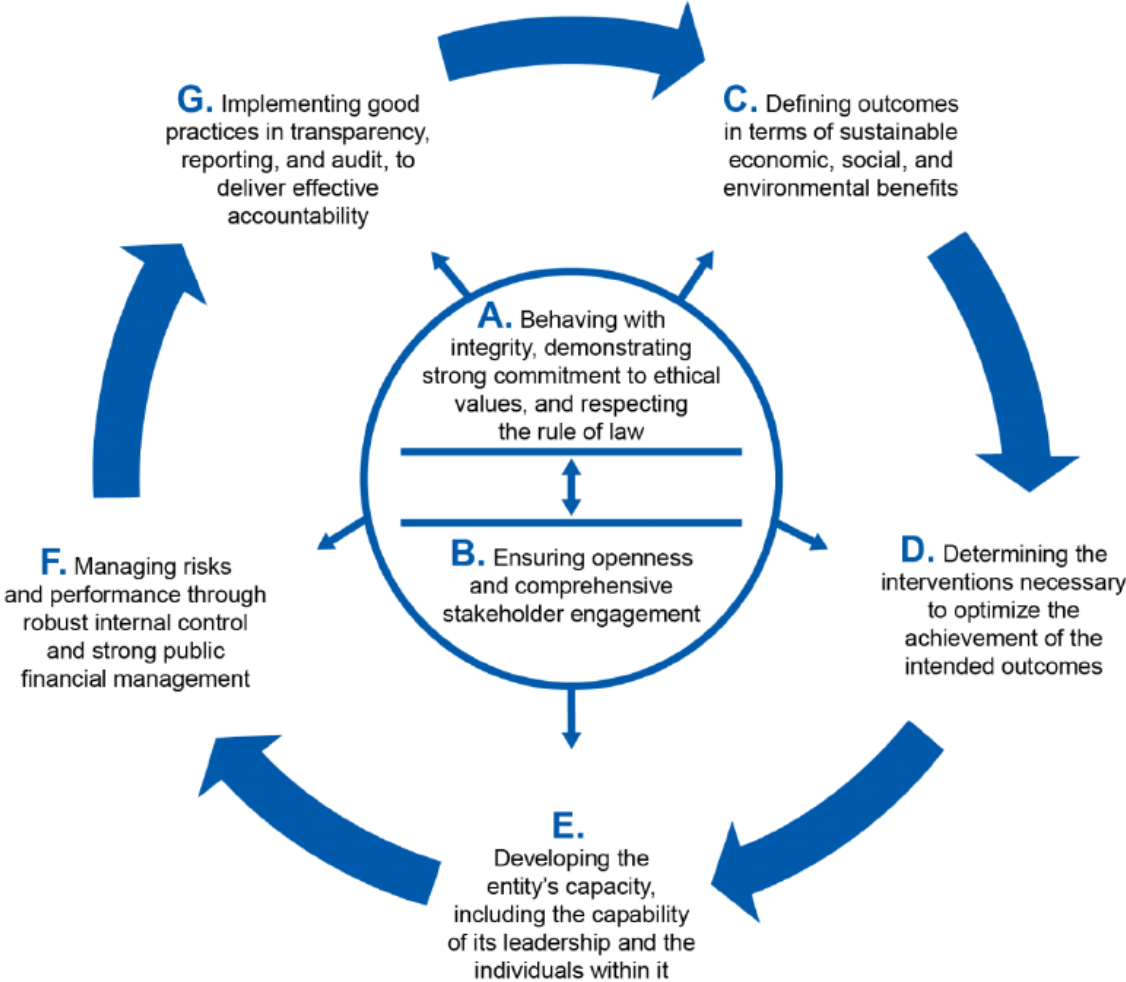
The core governance principles of the council are:-

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimize the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

Applying the core principles of good governance

This document describes how the Council achieves the seven principles of good governance and describes how the Council’s corporate governance arrangements will be monitored and reviewed.

**Achieving the Intended Outcomes
While Acting in the Public Interest at all Times**



This Code takes each of the principles of good governance in turn and sets out the systems, processes and principles the Council has put in place to ensure good corporate governance.

The Code will be reviewed annually through the Annual Governance Statement process, which will identify the actions to be taken to enhance the code or address any limitations with in it.

Principle A – Behaving with Integrity, demonstrating strong commitment to ethical values, and respecting the rule of law		
Supporting Principles	How does the City Council achieve this?	Supporting Evidence
<ul style="list-style-type: none"> • Behaving with integrity • Demonstrating strong commitment to ethical values • Respecting the rule of law 	<p>The Council expects the authority's leadership – both Members and Officers - to create a climate of openness, support and respect and to uphold the Council's values.</p> <p>Standards of conduct and personal behaviour are set out in the Employee Code of Conduct, the Member Code of Conduct and in the Member/ Officer protocol. An up-to-date register of Member and Officer Senior Officer Interests is maintained. The underlying principles which underpin the Codes of Conduct build upon the Seven Principles of Public Life (the Nolan Principles).</p> <p>The Council has put in place procedures for considering complaints so that members of the public can express dissatisfaction with Council services and their concerns can be monitored and addressed. The Council has appointed two "independent persons" to support this, in accordance with the requirements of the Localism Act, 2011. It has a key performance measure for the timeliness of complaint responses.</p> <p>The Council's Civic Affairs Committee is responsible for constitutional issues and ensures that the constitution is monitored and updated when required. The terms of reference of the Civic Affairs committee include responsibility for advising on the Council's ethical framework and the promotion of openness, accountability and probity to ensure the highest standards of conduct.</p> <p>The Council maintains a Whistleblowing policy to enable confidential reporting of suspected breaches of the Employee Code of Conduct or unethical behaviour. It also maintains an Anti-Fraud and Corruption Policy. Both policies are reviewed periodically by the Audit and Corporate Governance Committee.</p> <p>The Council's standing orders and financial regulations put in place processes designed to ensure that Members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders.</p> <p>The Council operates within the legal framework for local councils complying with its statutory duties and making the most of its powers to meet the needs of the District and its residents.</p> <p>The Head of Legal Practice is the Council's Monitoring Officer, responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.</p>	<p>Constitution</p> <p>Register of Interests</p> <p>Employee Code of Conduct</p> <p>Member Code of Conduct</p> <p>Member/Officer Protocol</p> <p>Complaints Procedure</p> <p>Quarterly performance reports</p> <p>Terms of Reference for Civic Affairs Committee</p> <p>Constitution</p> <p>Whistleblowing Policy</p> <p>Anti-Fraud and Corruption Policy</p> <p>Financial Regulations</p> <p>Constitution</p> <p>Monitoring Officer Role Description and Article 12 of Constitution</p>

	<p>The Council ensures that Statutory Officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Council.</p> <p>The Council maintains Human Resources Behavioural Policies which are periodically reviewed e.g. adoption of revised Dignity at Work Policy 2017-18</p> <p>The Council has a clear Procurement Strategy designed to meet the Council's wider objectives and Contract Procedures Rules designed to deliver robust and fair procurement processes.</p>	<p>Recruitment, selection and training policies</p> <p>Council Intranet (In-site) HR Policy pages</p> <p>Procurement Strategy.</p> <p>Contract Procedure Rules</p>
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Principle B - Ensuring openness and comprehensive stakeholder engagement		
Supporting Principles	How does the City Council achieve this?	Supporting Evidence
<ul style="list-style-type: none"> • Openness • Engaging comprehensively with Institutional stakeholders • Engaging stakeholders effectively, including citizens and service users 	<p>The Council holds its meetings, and those of its committees and Cabinet Portfolio Holders in public unless there are good reasons for confidentiality or a relevant exemption applies. The public are allowed to ask questions at all Council and committee meetings.</p> <p>The Council records the deliberation of scrutiny committees and the reasons for Executive and Regulatory decisions and makes agenda papers and minutes available on the Council's website. The Council also records and publishes on the website written questions asked at Council meetings and their answers, and oral questions and answers where these are available.</p> <p>Officers use standard report templates for committee and executive reports to help ensure that readers are provided with information that is accurate, complete and unbiased. Reports make clear the options available so that the implications of all decisions and strategic risks can be assessed before those decisions are made.</p> <p>The Council has a Joint Development Control Committee with the County Council and Cambridge City Council for decisions affecting growth sites bordering South Cambridgeshire and Cambridge City.</p> <p>The Council has a clear understanding of the needs of the district, strategically and locally, gathered from an understanding of our communities and the wider sub-region; ability to 'drill-down' to contextualise data which, at district-level, may hide vulnerability</p> <p>The Council uses local intelligence to shape services and partnerships e.g. Crime and Disorder Reduction Partnership.</p> <p>The Council has valued engagement mechanisms in place e.g. agents and parish forums, tenant participation group, Cabinet/Parish liaison meeting</p> <p>The Council tailors its 'offer' to suit customer need e.g. Business Hub, Key Accounts, major developments, demand-led charging structures</p> <p>The Council operates in accordance with principles of partnership working agreed with our key partner organisations.</p> <p>The Council proactively leads local partnerships e.g. monthly multi-agency meetings to share intelligence and take action on issues such as anti-social behaviour and fly-tipping</p>	<p>Committee Agendas</p> <p>Constitution</p> <p>Committee Forward Plan</p> <p>Agendas and Minutes of Committees</p> <p>Council Website</p> <p>Standard Report Templates</p> <p>Terms of Reference of Joint Development Control Committee</p> <p>Corporate Plan</p> <p>Case studies identified in Position Statement 2016 (prepared for LGA Peer Challenge)</p> <p>Constitution</p> <p>Cambridgeshire Compact</p> <p>Terms of Reference for multi-agency groups</p>

<p>The Council ensures that the authority as a whole is open and accessible to the community, service users and its staff.</p>	<p>Customer Contact Centre, service standards and South Cambridgeshire Hall access.</p>
<p>The Council promotes the role of Councillors and lets the public know who the Councillors are, what roles they have on the Council and how to contact them.</p>	<p>Council website.</p>
<p>The Council makes clear through its website and other Council publications the services that it is responsible for, how people can contact the Council and the service standards they can expect.</p>	<p>South Cambs magazine</p>
<p>The Council makes clear through its website and other Council publications the services that it is responsible for, how people can contact the Council and the service standards they can expect.</p>	<p>Council website</p>
<p>The Council makes clear through its website and other Council publications the services that it is responsible for, how people can contact the Council and the service standards they can expect.</p>	<p>Council Tax leaflet</p>
<p>The Council makes clear through its website and other Council publications the services that it is responsible for, how people can contact the Council and the service standards they can expect.</p>	<p>South Cambs magazine</p>
<p>The Council undertakes surveys of residents to ensure that it has up to date information about their priorities and levels of satisfaction with the Council and its services.</p>	<p>Consultation Panel.</p>
<p>The Council undertakes surveys of residents to ensure that it has up to date information about their priorities and levels of satisfaction with the Council and its services.</p>	<p>Corporate Plan annual consultation and engagement.</p>
<p>The Council undertakes surveys of residents to ensure that it has up to date information about their priorities and levels of satisfaction with the Council and its services.</p>	<p>Statement of Community Involvement</p>
<p>The Council's consultation programme ensures that the Council proactively seeks the views of a wide range of people and engages with all sections of the community effectively.</p>	<p>Regular customer satisfaction surveys by directorates and associated key performance measures</p>
<p>The Council seeks to ensure all views are actively considered when making decisions, recognising that it is not always possible to reconcile conflicting viewpoints. The Council ensures it makes feedback available to consultees on the outcomes of consultation, what has changed as a result and explaining how it has reached decisions.</p>	<p>Cabinet reports.</p>
<p>The Council seeks to ensure all views are actively considered when making decisions, recognising that it is not always possible to reconcile conflicting viewpoints. The Council ensures it makes feedback available to consultees on the outcomes of consultation, what has changed as a result and explaining how it has reached decisions.</p>	<p>Statement of Community Involvement</p>
<p>The Council seeks to ensure all views are actively considered when making decisions, recognising that it is not always possible to reconcile conflicting viewpoints. The Council ensures it makes feedback available to consultees on the outcomes of consultation, what has changed as a result and explaining how it has reached decisions.</p>	<p>South Cambs Magazine</p>
<p>The Council undertakes Equality Impact Assessments of all major policies and decisions and takes action to implement changes required, to ensure that council services and policies consider the diverse needs of its service users and citizens.</p>	<p>Equality Implications section in standard report template.</p>
<p>It has an Equality Scheme covering all protected characteristics under the Equality Act 2010, containing commitments which are aligned to Corporate Plan objectives and reviewed annually.</p>	<p>Completed Equality Impact Assessments published on SCDC website</p>
<p>It has an Equality Scheme covering all protected characteristics under the Equality Act 2010, containing commitments which are aligned to Corporate Plan objectives and reviewed annually.</p>	<p>Equality Scheme 2015-2020</p>
<p>The Council recognises two Trade Unions and holds regular liaison meetings involving the Chief Executive and Head of People and Organisational Development.</p>	<p>Trade Union Agreements</p>

Principle C - Defining outcomes in terms of sustainable economic, social, and environmental benefits

Supporting Principles	How does the City Council achieve this?	Supporting Evidence
<ul style="list-style-type: none"> Defining Outcomes Sustainable economic, social and environmental benefits 	<p>The Council has a clear vision for the District and sets objectives to guide the Council's activities.</p> <p>It reviews those objectives each year, through Quarterly Position Report and the Corporate Plan and budget planning cycles.</p> <p>The Council proactively contributes to key strategic partnerships, reflecting partnership objectives within its Corporate Plan where appropriate e.g. Health and Well-being, Local Enterprise Partnership, Greater Cambridge Partnership, Cambridgeshire and Peterborough Combined Authority</p> <p>Council ServicePlans assess improvement projects for their economic, social and environmental benefits.</p>	<p>Vision</p> <p>Corporate Plan</p> <p>Medium Term Financial Strategy</p> <p>Business Planning Cycle and associated guidance</p> <p>Partnership objectives and websites</p> <p>Service Plans</p>

Principle D - Determining the interventions necessary to optimise the achievement of the intended outcomes		
Supporting Principles	How does the City Council achieve this?	Supporting Evidence
<ul style="list-style-type: none"> • Determining Interventions • Planning Interventions • Optimising achievement of intended outcomes 	<p>The Council has a Medium Term Financial Strategy to resource its aspirations and to assess and plan for any financial risks. The strategy is reviewed annually.</p> <p>The Council puts service to the public first. The annual business planning process is used to agree the priorities for the Council. The Corporate Plan expresses the strategic objectives for the Council for over the current financial year and beyond.</p> <p>Alongside each of the objectives are detailed the particular outcomes to be achieved and performance measures that provide evidence that the outcomes are being delivered. This information enables members and the services contributing to the delivery of the plan to be clear about the priorities for the Council and assists in decisions about where resources should be focussed.</p> <p>Directors and Heads of Service prepare annual Service Plans indicating how they will meet objectives set in the corporate plan and setting out their priorities and work programmes for the year ahead.</p> <p>The Council's overall spending plans are set out in an annual Budget Setting report for both revenue and capital expenditure.</p> <p>There are arrangements in place for regular budget monitoring and the reporting of significant variances to senior management.</p> <p>The Council works to maximise its resources by delivering services as efficiently as possible, working in partnership with others and using other providers where these are the best options.</p> <p>The Council seeks expertise from outside the authority when it does not have the necessary skills in-house, making use of peer reviews and other mechanisms for ensuring challenge of Council services. The Council has LGA membership.</p> <p>Performance against key Performance Indicators for each service are prepared for and presented to the Corporate and Executive Management Teams and Members to consider necessary remedial action.</p> <p>The Council has established a Project Management Toolkit to set out practical guidance for project managers, and provide standardised templates for consistency across the Council.</p>	<p>Medium Term Financial Strategy</p> <p>Corporate Plan</p> <p>Agendas for Cabinet and Council</p> <p>Quarterly Position Reports on Finance, Performance and Risk</p> <p>Service Plans</p> <p>Budget Setting Report</p> <p>Quarterly Position Reports on Finance, Performance and Risk</p> <p>Efficiency Plan</p> <p>LGA Peer Challenge, November 2016 (Position Statement and Final report)</p> <p>Housemark, CIPFA and Rural Services Network benchmarking.</p> <p>Quarterly Position Reports on Finance, Performance and Risk</p> <p>Project Management Toolkit (In-site)</p>

Principle E - Developing the Council's capacity, including the capability of its leadership and the individuals within it		
Supporting Principles	How does the City Council achieve this?	Supporting Evidence
<ul style="list-style-type: none"> • Developing the Council's capacity • Developing the capability of the entity's leadership and other individuals 	<p>The Council sets out a clear statement of the roles and responsibilities of Executive Members, other Members and Council Officers in its Constitution.</p> <p>The scheme of delegation within the Constitution makes clear which matters are reserved for collective decision-making by Council.</p> <p>A Member/Officer protocol is used to aid effective communication between Officers and Members and to clarify their respective roles and appropriate ways of working.</p> <p>The Council's Chief Executive is its Head of Paid Service responsible and accountable to the authority for its operational management.</p> <p>When working in partnerships the Council ensures that Members are clear about their roles and responsibilities, both individually and collectively, in relation to the partnerships and to the Council.</p> <p>The behaviour expected of employees, and managers, is set out in the Council's competency framework and this is used as the basis for staff performance appraisal.</p> <p>The Council's Organisational Development Strategy sets out how the Council will recruit, reward, and develop its employees to reach their full potential.</p> <p>Employees joining the Council are offered an induction programme and their training and development needs are reviewed regularly through the Council's annual performance review process, which applies to all staff.</p> <p>The Council has up-to-date job descriptions. It sets and monitors clear objectives for Officers through the annual performance review process.</p> <p>It agrees appropriate remuneration for officers based on a nationally-recognised job evaluation scheme for the public sector, supplemented with local conventions.</p> <p>The Council runs a Leadership Development programme for current and aspiring managers</p> <p>The Council offers all new Members an induction programme and the opportunity to develop, with a briefing and development programme to meet their needs. The Council also provides resources for training, attending conferences/seminars and briefings in-house for all elected Members. It keeps a register of the training received by Members and involves Members in reviewing training needs and the</p>	<p>Constitution</p> <p>Member/Officer Protocol</p> <p>Partnership Terms of References</p> <p>Corporate Values</p> <p>Management Competency Framework</p> <p>Grievance and Disciplinary Procedures</p> <p>Organisational Development Strategy</p> <p>Council Induction Programme</p> <p>Performance and Development Review Scheme</p> <p>Job Evaluation Scheme</p> <p>Pay Policy</p> <p>Leadership Development Programme</p> <p>Member Induction Programme</p> <p>Member Training Programme</p>

	<p>resources available during the year.</p> <p>The Council obliges Members to have appropriate training or briefing before performing certain roles (e.g. dealing with staff recruitment or disciplinary issues, being a member of the Planning or Licensing Committees).</p> <p>The Council has developed Shared Services with their partners, and this helps to build resilience and expertise across partners.</p>	<p>Shared Services Business Cases, service plans and performance reports</p>
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Principle F - Managing risks and performance through robust internal control and strong public financial management		
Supporting Principles	How does the City Council achieve this?	Supporting Evidence
<ul style="list-style-type: none"> • Managing Risk • Managing Performance • Robust Internal Control • Managing data • Strong public financial management 	<p>The Council has a Risk Management Strategy, supplemented by procedures and guidance.</p> <p>It undertakes systematic risk assessments in all areas of Council activity, including those covered by Health and Safety legislation.</p> <p>It maintains strategic and service risk registers which are reviewed regularly.</p> <p>The Council ensures that risk management is embedded into the culture of the authority; with managers at all levels recognising that risk management is part of their job.</p> <p>Risk assessment is incorporated into the Council's decision making and Members are advised of the Council's risk profile at key stages.</p> <p>The Council respects the personal data of its citizens, employees, suppliers and others. The Council has a Data Protection Policy, and publishes Privacy Notices. The Council has responded to legislative changes, from the General Data Protection Regulation (GDPR) and Data Protection Act, and has action plans in place to ensure compliance and to respond to emerging guidance and good practice.</p> <p>The Council respects the privacy of members of the public if it has to carry out investigations under the Regulation of Investigatory Powers Act 2000, and ensures that privacy is only interfered with when the law permits and there is clear public interest justification.</p> <p>The Executive Director (Corporate Services) is the Council's Chief Financial Officer and S151 Officer, responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.</p>	<p>Risk Management Strategy, Procedures and guidance</p> <p>Risk Assessments</p> <p>Strategic and Service Risk Registers</p> <p>Risk Management Strategy and Guidance</p> <p>Report templates</p> <p>Information Governance Policies / website (Privacy Notice)</p> <p>Regulation of Investigatory Powers Act 2000 – Guidance</p> <p>Constitution and Job Description for Executive Director</p>

	<p>The Council's scrutiny committees undertake constructive challenge to enhance the Council's performance.</p> <p>The Council also has clear protocols about Members' access to information and officer advice to enable them to perform their roles.</p> <p>The Council has emergency and business continuity plans in place, including co-ordination and joint working arrangements with partners.</p>	<p>Constitution / Committee papers Member-Officer Protocol</p> <p>Emergency Plan / Business Continuity plans</p>
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Principle G - Implementing good practices in transparency, reporting, and audit to deliver effective accountability		
Supporting Principles	How does the City Council achieve this?	Supporting Evidence
<ul style="list-style-type: none"> • Implementing good practice in transparency • Implementing good practices in reporting • Assurance and effective accountability 	<p>The Council makes sure members of the public have access to information about the workings of the Council. It makes clear what information is routinely published through its Freedom of Information Publication scheme and responds promptly to requests for information. The Council publishes on its website all responses to Freedom of Information requests and has privacy notices and information-sharing agreements to ensure GDPR compliance.</p> <p>Each year the Council publishes a Year-End Position Report and Statement of Accounts giving information on the authority's vision, strategy, performance, future plans and financial statements.</p> <p>Shared services arrangements with other local authorities or partners document their governance arrangements, which are clear, open and accountable.</p> <p>The Council maintains an independent Internal Audit function, with a risk-based annual audit plan, designed to test regularly that the Council's policies and processes operate in practice and that the Council complies with legislation and good practice.</p> <p>The Head of Internal Audit produces an annual opinion on the Council's internal control environment and the risk management framework to meet the requirements of the Public Sector Internal Audit Standards.</p> <p>The Head of Internal Audit Opinion is used to inform an Annual Governance Statement and this is signed off by the Chief Executive and Leader of the Council.</p> <p>The Council also agrees an annual work plan with its External Auditors to test the Council's response to major legislation and the soundness of its financial and governance processes.</p> <p>Recommendations arising from internal and external audit and inspection processes are used to inform future decision-making.</p> <p>The Major Opposition Group Leader makes an Annual Report to Council.</p> <p>The Council uses an Independent Remuneration Panel to give advice on payments to Members and considers their advice when setting the Members' Allowance Scheme. The Panel's recommendations are set out in a public report to Council. The Scheme is available to view on the Council's website and is subject to regular review.</p>	<p>Publication Scheme</p> <p>Freedom of Information Requests</p> <p>Year-End Position Report and Statement of Accounts</p> <p>Shared Services Collaboration Agreements</p> <p>Risk based internal audit plan</p> <p>Head of Internal Audit Annual Opinion</p> <p>Annual Governance Statement</p> <p>Audit and Corporate Governance Committee Terms of Reference, Reports and Minutes</p> <p>Annual Council Agenda</p> <p>Members' Allowances Scheme</p>

Monitoring and reporting

The Council will undertake an annual review of its governance arrangements to ensure continuing compliance with best practice to provide assurance that corporate governance arrangements are adequate and operating effectively in practice. Where reviews of the corporate governance arrangements have revealed gaps, actions will be planned to enhance the governance arrangements accordingly.

The Council will prepare an Annual Governance Statement which will be submitted to the Audit and Corporate Governance Committee for consideration and will form part of the Council's annual Statement of Accounts.

The Governance Statement will include:

- an acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance;
- a reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment;
- an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework;
- a reference to how issues raised in the previous year's annual governance statement have been resolved; and
- a conclusion including a commitment to monitoring implementation as part of the next annual review.

The Annual Governance Statement will be signed by the Leader of the Council and the Chief Executive on behalf of the Council.

In reviewing and approving the Annual Governance Statement, members will be provided with detailed information regarding the effectiveness of the governance arrangements and system of internal control and how these address the key risks faced by the Council. Those Assurances will be available from a wide range of sources, including internal and external audit, a range of external inspectorates and managers from across the Council.

The Council will continually strive to operate an assurance framework, embedded into its business processes, that maps corporate objectives to risks, controls and assurances. This framework and regular reports on its application and effectiveness will provide members with assurances to support the Annual Governance Statement and will help members to identify whether corporate objectives and significant business risks are being properly managed.

Seven principles for the conduct of individuals in public life

The governance framework is supported by the seven Principles of Public Life, which set the standards of conduct and behaviour to which Councillors and employees should aspire in their day-to-day dealings.

1. Selflessness	Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.
2. Integrity	Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.
3. Objectivity	In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
4. Accountability	Holders of public office are accountable to the public for their decisions and actions and must submit themselves to whatever scrutiny is appropriate to their office
5. Openness	Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
6. Honesty	Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
7. Leadership	Holders of public office should promote and support these principles by leadership and example.



REPORT TO: Audit and Corporate Governance Committee

31st August 2018

LEAD OFFICER: Executive Director (Corporate Services)

Annual report of Internal Audit

Purpose

1. This report communicates the annual Head of Internal Audit Opinion, for consideration by the Audit & Corporate Governance Committee.

Recommendations

2. The committee are asked to review the annual opinion of the Head of Shared Internal Audit.

Reasons for Recommendations

3. In accordance with the Public Sector Internal Audit Standards the Head of Shared Internal Audit (HSIA) should provide a written report to those charged with governance. This is timed to support the Annual Governance Statement (AGS), which is also being presented to this committee. The Head of Shared Internal Audit is required to give an opinion on the overall adequacy and effectiveness of the organisation's internal control environment, governance, and the risk management framework.

Background

4. The Internal Audit service works within a framework of:
 - General acceptance of control within the management culture;
 - Agreement of actions arising from Internal Audit reports; and
 - A high level of support from Senior Management and Members.
5. Audits during the year have been conducted in accordance with the principles contained in the Public Sector Internal Audit Standards.
6. Given this context, and in the light of work undertaken in the year, the Head of Internal Audit is able to give reasonable assurance on the adequacy and effectiveness of the organisation's internal controls in respect of the work undertaken. Further details are available in Appendix 1.
7. In preparing the overall opinion, the Head of Internal Audit has reviewed all audit activity carried out during 2017 / 2018. Each individual audit undertaken contains an assurance opinion on the adequacy and effectiveness of controls in place to mitigate the risks identified by managers. Where weaknesses in control are identified, an action plan is agreed with management. Progress is monitored against target dates for delivery of these agreed actions during the year.

Assurance and opportunities for improvement

8. A number of issues have emerged from across the Council during 2017 / 2018 and these are highlighted in the Head of Internal Audit Opinion. Those issues which are considered significant governance issues are incorporated into the Annual

Governance Statement Action Plan. As part of our involvement in the preparation and validation of the Annual Governance Statement we agree that these actions are appropriate.

9. There are also a number of positive assurances which have been summarised in our annual report.

Conclusions

10. The Council remains committed to providing services carried out in accordance with the highest ethical standards and takes steps to investigate all concerns arising.

Considerations

11. The overall opinion is that based on the works undertaken by Internal Audit and other independent assurance work. South Cambridgeshire District Council has adequate and effective systems of internal control in place to manage the achievement of its objectives. 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.
12. However, no system of control can provide absolute assurance against material mis-statement or loss, nor can Internal Audit give that assurance.

Implications

13. 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

14. None.

Background documents

15. Background papers used in the preparation of this report:
 - Internal Audit Plan 2017/18;
 - Audit reports issued during the year;
 - Public Sector Internal Audit Standards and the Local Government Application Note

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SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL AUDIT AND CORPORATE GOVERNANCE COMMITTEE

ANNUAL REPORT OF INTERNAL AUDIT 2017 / 2018

Report Author:	Jonathan Tully
Position:	Head of Shared Internal Audit (for Cambridge City / South Cambridgeshire District Councils)
Contact:	Cambridge Office: 01223 458180 / South Cambridgeshire Office: 01954 713445

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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.



REPORT TO: Audit and Corporate Governance
Committee

31st July 2018

LEAD OFFICER: Executive Director (Corporate Services)

Internal Audit – Quality Assurance and Improvement Programme

Purpose

1. This report communicates the results of the Quality Assurance and Improvement Programme for Internal Audit, for consideration by the Audit & Corporate Governance Committee.
2. The Internal Audit Team has been externally assessed and the conclusion is that we “Generally Conform” with the Public Sector Internal Audit Standards (PSIAS) and the accompanying Local Government Application Note (LGAN). This is a positive achievement for the team.

Recommendations

3. The committee should note that the Internal Audit team has completed the Quality Assurance and Improvement Programme as required by the Public Sector Internal Audit Standards.

Reasons for Recommendations

4. A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.
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. The Public Sector Internal Audit Standards require that we must develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity.
7. The Standards also require that external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

Background

8. The Greater Cambridge Shared Audit (GCSA) service completed the QAIP in March 2018 and commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to validate this by completing an External Quality Assessment.
9. This report updates the Committee on the outcomes of the External Quality Assessment (EQA).
10. The QAIP is a comprehensive piece of work which has helped us assess our compliance with the Public Sector Internal Audit Standards (PSIAS) and the accompanying Local Government Application Note (LGAN). The PSIAS has three

overarching standards, four 'attribute' standards and seven 'performance' standards. Each of these has detailed supporting guidance which is used to complete the QAIP.

11. The QAIP has helped us to identify opportunities to improve the new shared service. The team has already made good progress with introducing a number of changes over the last quarter. Achievements include developing a new audit management system, and modernising our working templates. The EQA has validated our QAIP, endorsed our direction of travel, and made additional suggestions for developing the service. We have committed to implementing these and will update the committee with our progress as part of our ongoing QAIP.

Considerations

12. The report, completed by our external assessor is included in Appendix A. It summarises the assessment and includes an action plan for further improvement.
13. The EQA concluded that the GCSA "Generally conforms" to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. This is the top level of accreditation as defined by CIPFA and a positive achievement for the team.

Implications

14. 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. The report recognises the importance of staff resources and endorses that the Council reviews the structure of the team to include training roles, and further opportunities for career progression.

Effect on Strategic Aims

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

Background documents

16. Background papers used in the preparation of this report:
 - Public Sector Internal Audit Standards
 - CIPFA Local Government Application Note

Report Author:

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External Quality Assessment - Validation of Client's Self-Assessment of Conformance to the Public Sector Internal Audit Standards

Greater Cambridge Shared Internal Audit Service

Final Report

Lead Associate: Ray Gard, CPFA, FCCA, CFIIA, DMS

Internal QA: Policy and Technical, CIPFA.

26 June 2018

Self-Assessment Validation for the Greater Cambridge Shared Internal Audit Service – 30th April to 2nd May 2018

1. Introduction

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised 2016 and 2017). Public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments, or a combination of both methods. However, the standards state that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five year period.

2. Background

The Greater Cambridge Shared Internal Audit Service provides internal audit services to Cambridge City Council (CCC) and South Cambridgeshire District Council (SCDC). They are based in the Guildhall, Cambridge and South Cambridgeshire Hall, Cambourne. The Shared Service has undergone a period of instability during 2017/18 with a number of changes to the staffing structure. At the time of the review, the Shared Service was made up of a full time Head of Shared Internal Audit (HSIA) who had been in post since the end of December 2017, and five other posts. Two posts are occupied by a Senior Auditor (0.8 FTE) and an Audit Assistant (0.76 FTE), both of whom have been in post for a number of years. The other posts within the Shared Service are vacant and being covered by agency workers. The HSIA and the Senior Auditor are qualified accountants, being CPFA and ACCA respectively.

The HSIA reports to a Shared Services Management Board that oversees the strategic direction of the various shared services for the participating authorities. For operational purposes, the HSIA reports to the Head of Finance (Section 151 Officer) at CCC, and to the Executive Director (Section 151 Officer) at SCDC. Functionally, the Shared Service reports to the Civic Affairs Committee (CAC) at CCC, and to the Audit and Corporate Governance Committee (A&CG) at SCDC, which are the bodies that fulfil the roles of 'the board' for each authority as required by PSIAS.

The Shared Internal Audit Service has undergone a number of changes in staff and operational practices during the past twelve months. The recently appointed HSIA carried out a self-assessment shortly after taking up the post in December 2017 to see how well the Shared Service conformed to the requirements of both the PSIAS and the CIPFA local government application note (LAGN), and then commissioned CIPFA to undertake the mandatory external quality assessment (EQA) by validating this self-assessment.

3. Validation Process

The self-assessment validation comprises a combination of desktop and on-site review and cannot reasonably consider all elements of the PSIAS and LGAN self-assessment in the time available. The desktop period of the review focussed on determining the strengths and weaknesses of the Shared Internal Audit Service, and formed the key lines of enquiry used during the on-site stage, in order that the validation review is timely and adds real value to the organisation. The key lines of enquiry assessed the Shared Service against the four broad themes of Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.

The HSIA provided a comprehensive range of documents that the Shared Service used as evidence to support their self-assessment and these were available for examination prior to and during this validation review. These documents included the:-

- self-assessment against the standards and the LGAN;
- quality assurance and improvement plan (QAIP);

- audit charters;
- the HSIA's annual report and opinion;
- audit plans and strategies;
- audit manual; and
- progress and other reports to both the Civic Affairs Committee and the Audit and Corporate Governance Committee.

The on-site stage of the validation process involved face-to-face interviews with the Head of Shared Internal Audit Service (HSIA) and members of the Internal Audit Team. Interviews were also carried out with the Head of Finance (S151 Officer) at CCC, The Executive Director (S151 Officer at SCDC), the Chief Executive Officer at CCC, and the Head of 3C Shared Legal Services (Monitoring Officer for CCC and SCDC). A telephone interview was carried out with the retiring Chair of the Audit and Corporate Governance Committee SCDC. The Chair of the Civic Affairs Committee at CCC was unavailable during the duration of the review as this coincided with the local elections. A questionnaire was sent to other key stakeholders not interviewed in advance of the on-site visit and the results analysed during the review. A sample of audit reports and working papers were also examined during the on-site stage of the review.

4. Conclusion and Opinion

From the evidence reviewed as part of the external validation process, it is apparent that the Shared Service is competent and respected by its clients. They are providing an objective risk based internal audit service to Cambridge City Council and South Cambridgeshire District Council, even though half of the posts in the Shared Service are vacant and being covered by agency workers. The Shared Service is fortunate in having two qualified accountants out of the three officers that are in post.

Although they are well thought of by their clients, the HSIA wants the Shared Service to evolve with their client councils. It is clear from the evidence reviewed during this external validation and discussions with the HSIA that the Shared Service is at the start of a journey to improve its overall efficiency and effectiveness. Part of this process should include restructuring the Shared Service to provide greater resilience and establish a more hierarchical structure that will enable team members to develop a career within the Shared Service without the need to leave the Service to obtain promotion.

The validation process has not revealed any areas of non-compliance with the standards, and only one minor area of partial compliance, that the HSIA has not already identified during the self-assessment and included in their quality assurance and improvement plan (QAIP).

Nonetheless, we have made some observations that will enable the Shared Service to enhance and develop its operations and enhance its conformity to the PSIAS and the LGAN. The observations that have been identified and are set out in section five of the report, together with some recommendations (R) and suggestions (S) to address these issues. The recommendations and suggestions are included in the action plans at section six of this report.

The external quality assurance process also identified some opportunities (O) for the Shared Service to enhance its operations although these do not have a bearing on their compliance with the standards. These have been discussed with the HSIA and are included for information in section seven of the report.

From the work that we have carried out during this external validation process, it is our opinion that the self-assessment is a good reflection of the practices of the Greater Cambridge Shared Internal Audit Service, and the contribution they make to their client organisations. Furthermore, it is also our opinion that Greater Cambridge Shared Internal Audit Service GENERALLY CONFORM to the

requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

Conformity with the PSIAS fall into one of the three categories below. Further details on these categories are set out in section nine of this report.

Generally Conforms	Partially Conforms	Does Not Conform
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The co-operation of the HSIA in providing all of the information asked for during the review, the Internal Audit Team, and those stakeholders listed in section eight of the report that made themselves available for interview and completed questionnaires, is much appreciated.

5. Summary of observations, recommendations, and suggestions

Standard	Compliance	Observations	Recommendations and Suggestions	No
Mission of Internal Audit	Partially Conforms	The Shared Internal Audit Service partially conforms to this element of the standards. The audit charter contains a 'vision statement' for the Shared Service that acts as its 'mission statement', and although broadly similar, it does not use the exact wording for the 'mission statement' as prescribed in the PSIAS.	The vision statement acts as the Service's 'mission statement' and should therefore include the 'mission statement' wording from the PSIAS.	R1
Core principles of internal audit	Generally Conforms	The Shared Internal Audit Service generally conforms to the core principles of internal audit that are a fundamental component of the services offered by Internal Audit. The Shared Service's management board recognises that there are issues regarding recruitment and opportunities for career progression and have asked the HSIA to put forward suggestions for restructuring the service as part of a Business Plan. The observation and recommendation under standard 2000 below relate to the core principles of internal audit.	See recommendation R2 under standard 2000 below	R2
Code of Ethics	Generally Conforms	The Service generally conforms to the code of ethics for internal auditors, and the <i>Seven Principles of Public Life</i> .		
Attribute Standards				
1000 Purpose, authority and	Generally Conforms	The Shared Internal Audit Service generally conforms to Standard 1000 and the Local Government Application Note, although there	Consider enhancing the wording of the audit charter to reflect the statutory roles of officers on the respective	S1

Standard	Compliance	Observations	Recommendations and Suggestions	No
responsibility		<p>are two minor observations relating to this standard that the HSIA has identified in his self-assessment.</p> <p>The first observation relates to the descriptions used in the audit charter for the senior management teams at the two authorities. The HSIA feels these could be enhanced to reflect the statutory roles of officers that belong to these teams.</p> <p>The second observation relates to the remit and effectiveness of the 'boards'. CIPFA's guidance for audit committees recommends that a review of the remit and effectiveness of the bodies that perform the role of the audit committee should be undertaken regularly to ensure these bodies have the right level and mix of skills necessary to be effective committees. Such a review has not been carried out at either authority for some time. This is even more of an issue at South Cambridgeshire District Council where there has been a change in overall control of the authority following the local elections on the 3rd May 2018.</p>	<p>management teams of the two authorities.</p> <p>Consider undertaking a review of the remit and effectiveness of the committees that perform the role of audit committee at each authority. The checklist from the CIPFA guidance for audit committees will facilitate such a review as it covers all of the main skills needed to be an effective committee.</p>	S2
<p>1100 Independence and objectivity</p>	<p>Generally Conforms</p>	<p>The Service generally conforms to Standard 1100 and the Local Government Application Note. There is one minor observation relating to this standard.</p> <p>The minor observation relates to potential impairments to independence and objectivity. The Shared Internal Audit Service is already following good practice by including statements regarding potential impairments in the audit</p>	<p>Consider adding a statement to the annual report confirming that, during the year, there has not been any impairment in independence or objectivity to the Shared Audit Manager or the Service.</p>	S3

Standard	Compliance	Observations	Recommendations and Suggestions	No
		<p>charter and the declaration of objectivity signed by all members of the Shared Service. The focus of these documents is looking at the year ahead for the Shared Service. The final step in the process is to look back at the year just ended by adding a statement to the HSIA's annual report and opinion to confirm that there has not been any such impairment. This should be added to the annual report for 2017/18.</p>		
<p>1200 Proficiency and due professional care</p>	<p>Generally Conforms</p>	<p>The Shared Internal Audit Service generally conforms to Standard 1200 and the Local Government Application Note.</p>		
<p>1300 Quality assurance and improvement programme</p>	<p>Generally Conforms</p>	<p>The Shared Service generally conforms to Standard 1300 and the Local Government Application Note. There are some observations relating to this standard and the LGAN that are set out below.</p> <p>The first observation relates to the use of the statement 'conforms to the PSIAS'. At present, the Shared Service does not state that the work carried out by the Shared Internal Audit Service conforms to the Public Sector Internal Audit Standards in the annual report nor the individual audit reports. Consideration should be given to adding such a conformance statement to the annual report for 2017/18, and to the individual audit reports.</p> <p>The second observation relates to the performance data set out in the annual report. The LGAN recommends including performance</p>	<p>As the service generally conforms to the standards, consideration should be given to adding a statement to the annual report for 2017/18, and to the individual audit reports, stating that the work carried out by the Shared Internal Audit Service conforms to the Public Sector Internal Audit Standards.</p> <p>Consider including performance data for previous years in the annual report to demonstrate any improvements or deterioration in the performance of the Service.</p> <p>Consider reintroducing feedback surveys to gauge the level of client satisfaction with the service they receive from the Shared Internal Audit</p>	<p>S4</p> <p>S5</p> <p>S6</p>

Standard	Compliance	Observations	Recommendations and Suggestions	No
		<p>data for more than one year in the reports to management and the board, to enable readers to compare the performance of the service over a longer period of time.</p> <p>The third observation relates to the use of feedback surveys. The Shared Service has not used feedback surveys for some time. The HSIA has identified this as an issue during the self-assessment and is considering reintroducing them as a tool to help identify any areas where the Shared Service could improve the services it delivers to its clients.</p> <p>The final observation relates to the Shared Service's supervision processes. The HSIA is aware that the current supervision process relies on the HSIA carrying out all of the supervision work. Whilst the HSIA acknowledges that this is a significant part of his role, there are times during the year when this can lead to delays in completing audits, particularly when the HSIA needs to focus more on the strategic elements of the service.</p> <p>Delegating some of the supervision work to other members of the Shared Service would not only reduce delays and enable the HSIA to focus on strategic matters without having an adverse on the delivery of the audits, but would also provide development opportunities for other team members. Once the potential restructure of the Shared Service has taken place and the vacant posts filled, the HSIA should be in a position to implement this action.</p>	<p>Service. These can either be sent after each audit or annually.</p> <p>Consider delegating some of the supervision of the audits to other members of the team once the potential restructure of the Shared Service has taken place and the vacant posts are filled.</p>	S7

Standard	Compliance	Observations	Recommendations and Suggestions	No
Nature of work		<p>Application Note, although there is one observation for this standard.</p> <p>Cambridge City Council and South Cambridgeshire District Council are in a shared service for their ICT with Huntingdonshire District Council, the latter being the lead authority for the service and responsible for the internal audit of the ICT for all three authorities. To enable the HSIA to produce a comprehensive annual report for the boards of the Shared Service, the HSIA should ensure that there is a protocol in place that enables the HSIA to obtain assurances from the Head of Internal Audit at Huntingdonshire District Council on the internal audit work that has been carried out on the ICT systems and the Shared ICT Service.</p> <p>Similarly, the protocol should also include the provision of assurances to Huntingdonshire District Council where either Cambridge city Council or South Cambridgeshire District Council is the lead authority for a shared service between the three authorities.</p>	will facilitate the provision of assurances by the respective Heads of Internal Audit for the lead authority where services are shared between the three councils.	
2200 Engagement planning	Generally Conforms	<p>The Shared Service generally conforms to Standard 2200 and the Local Government Application Note. There are two observations for this standard and both relate to the audit briefs.</p> <p>The first observation relates to the scope of the audits. At present the scope of the audits do not routinely cover the way the activity being audited monitors, manages, and reports on its performance. As effective performance</p>	<p>It is suggested that reviewing the way services monitor, manage, and report their performance is included in the scope of all audits.</p> <p>It is suggested that the resources allocated to each audit are included in the audit briefs issued to the clients.</p>	S8 S9

Standard	Compliance	Observations	Recommendations and Suggestions	No
		<p>management is an important tool for management it is suggested that this is added to the scope of all audits that feed into the Authorities performance management processes.</p> <p>The second observation relates to the resources allocated to each audit assignment. These are not currently included in the audit briefs produced for each audit.</p>		
<p>2300 Performing the engagement</p>	<p>Generally Conforms</p>	<p>The Shared Service generally conforms to Standard 2300 and the Local Government Application Note.</p> <p>The observation and recommendation R2 for standard 2000 are also relevant to this standard.</p>	<p>See recommendation R2 above</p>	<p>R2</p>
<p>2400 Communicating the results</p>	<p>Generally Conforms</p>	<p>The Shared Service generally conforms to Standard 2400 and the Local Government Application Note. There are two observations for this standard.</p> <p>The first observation relates to the individual audit reports. At the time of the review, these did not include a statement setting out the limitations on distribution and use of the contents of the audit reports. It is good practice to include such a statement, particularly as the Shared Service provides internal audit services to two authorities.</p> <p>The second observation relates to the HSIA's annual report and opinion. The annual reports for 2016/17 gave an opinion on the effectiveness of the control environment at</p>	<p>It is suggested that a statement setting out the limitations on distribution and use of the contents of the audit reports is added to the standard report template used by the Shared Service.</p> <p>Ensure the HSIA's annual opinion for 2017/18 covers the risk management, control and governance arrangements.</p> <p>Suggestion S4 is also relevant to this standard</p>	<p>S10</p> <p>R5</p> <p>S4</p>

Standard	Compliance	Observations	Recommendations and Suggestions	No
		<p>each of the authorities; however, the PSIAS and the Accounts and Audit Regulations require an opinion to be given on the effectiveness of the governance and risk management arrangements as well as the internal control environment.</p> <p>The observation and suggestion S4 for Standard 1300 above also apply to this standard.</p>		
<p>2500 Monitoring progress</p>	<p>Generally Conforms</p>	<p>The Shared Service generally conforms to Standard 2500 and the Local Government Application Note.</p>		
<p>2600 Communicating the acceptance of risks</p>	<p>Generally Conforms</p>	<p>The Shared Service generally conforms to Standard 2600 and the Local Government Application Note.</p>		

6. Action Plans

Recommendations

No	Recommendation	Response	Responsible Person	Action date
R1	The vision statement acts as the Service's 'mission statement' and should therefore include the 'mission statement' wording from the PSIAS.	The PSIAS wording has been added to our vision statement and will be included in future plans, strategies and public material.	Jonathan Tully, Head of Shared Internal Audit	April 2019
R2	Undertake a full review of the service's structure, to ensure it aligns with the expectations of the client authorities. This should include:-- <ul style="list-style-type: none"> • Creating a career path for career progression and to retain staff; • Include a trainee or apprentice post (using either the AAT or IIA apprentice schemes); • Assessing the audit needs of the client authorities and the skills required to fulfil those needs; • Assessing the skills of the existing staff and any development requirements they have. 	As part of the Business Plan we will review the team structure, and the skills required to deliver the service over the longer term. This will also include consideration of the previous Principal role, which will enable career progression, and help to manage the suggestion S5 (delegation). In addition, we will consider the potential to introduce an apprenticeship role using the newly developed IIA scheme.	Jonathan Tully, Head of Shared Internal Audit	April 2019
R3	The audit manual should be reviewed and revised to ensure that it covers all aspects of Shared Services work.	The audit manual is being reviewed to provide a consistent, efficient and effective set of procedures for both Councils. The manual will be reviewed annually as part of our ongoing Quality Assurance and Improvement Programme.	Jonathan Tully, Head of Shared Internal Audit	September 2018

No	Recommendation	Response	Responsible Person	Action date
R4	Develop a protocol with Huntingdonshire District Council that will facilitate the provision of assurances by the respective Heads of Internal Audit for the lead authority where services are shared between the three councils.	The HSIA regularly meets with the HIA for Huntingdonshire. A draft Internal Audit Protocol was presented to the Shared Service Board in May, and is now being updated following the feedback. This details how we will provide assurance to each other when shared service work is completed. We will finalise the draft protocol, and seek endorsement from the Shared Services Board, which will help to formalise this process.	Jonathan Tully, Head of Shared Internal Audit	September 2018
R5	Ensure the HSIA's annual opinion for 2017/18 covers the risk management, control, and governance arrangements.	The annual report for 17/18 will be updated to reflect the latest requirements.	Jonathan Tully, Head of Shared Internal Audit	July 2018

Suggestions

No	Suggestion	Response	Responsible Person	Action date
S1	Consider enhancing the wording of the audit charter to reflect the statutory roles of officers on the respective management teams of the two authorities.	The roles of statutory officers will be defined in the next version of the Internal Audit Charter for clarity.	Jonathan Tully, Head of Shared Internal Audit	February 2019
S2	Consider undertaking a review of the remit and effectiveness of the committees that perform the role of audit committee at each authority. The checklist from the CIPFA guidance for audit committees will facilitate such a review as it covers all of the main skills needed to be an effective committee.	We will refer to the CIPFA checklist and guidance to help review the effectiveness of the relevant audit committees. At South Cambridgeshire District Council there is also a planned review of the constitution, which we will contribute to.	Jonathan Tully, Head of Shared Internal Audit Working with S151 and Monitoring Officers at each Council."	March 2019
S3	Consider adding a statement to the annual report confirming that, during the year, there has not been any impairment in independence or objectivity to the Shared Audit Manager or the Service.	We will add a statement to the annual reports regarding any impairment over the previous year.	Jonathan Tully, Head of Shared Internal Audit.	July 2018
S4	As the service generally conforms to the standards, consideration should be given to adding a statement to the annual report for 2017/18, and to the individual audit reports, stating that the work carried out by the Shared Internal Audit Service conforms to the Public Sector Internal Audit Standards.	We will add this statement to our reports and website.	Jonathan Tully, Head of Shared Internal Audit	July 2018

No	Suggestion	Response	Responsible Person	Action date
S5	Consider including performance data for previous years in the annual report to demonstrate any improvements or deterioration in the performance of the Service.	Management Performance Indicators are currently being agreed and setup as part of the ongoing business plan. We will include performance indicator information in future reports.	Jonathan Tully, Head of Shared Internal Audit	July 2019
S6	Consider reintroducing feedback surveys to gauge the level of client satisfaction with the service they receive from the Shared Internal Audit Service. These can either be sent after each audit or annually.	We will reintroduce our customer feedback surveys. The feedback, collated as part of this review, was informative and is being used to develop the service.	Jonathan Tully, Head of Shared Internal Audit	December 2019
S7	Consider delegating some of the supervision of the audits to other members of the team once the potential restructure of the Shared Service has taken place and the vacant posts are filled.	Supervisory work will be delegated following restructure. We have developed a template checklist to help assist a consistent approach to this work in the team.	Jonathan Tully, Head of Shared Internal Audit	July 2018
S8	It is suggested that reviewing the way services monitor, manage, and report their performance is included in the scope of all audits.	We will incorporate performance management into our briefs as a standard prompt for review.	Jonathan Tully, Head of Shared Internal Audit	July 2018
S9	It is suggested that the resources allocated to each audit are included in the audit briefs issued to the clients.	We will incorporate resource allocation into our template brief as a standard prompt for review.	Jonathan Tully, Head of Shared Internal Audit	July 2018
S10	It is suggested that a statement setting out the limitations on distribution and use of the contents of the audit reports is added to the standard report template used by the Shared Service.	We will review our report template so that it includes a relevant statement on distribution.	Jonathan Tully, Head of Shared Internal Audit	July 2018

7. Opportunities to Enhance Services

The HSIA is keen to develop the way the Shared Service operates and to enhance the quality and range of services that they provide to their existing and potential clients. With this in mind, the following opportunities have been identified, together with some suggested actions for consideration.

NO.	Observation	Action
O1	<p>As part of the process for restructuring the Shared Service, the HSIAS should consider the range of skills needed from a fully staffed service, and the further learning and development requirements for the existing team members. This is particularly important as local government is going through significant changes in the way it is funded, operates, and delivers services to residents and businesses. For example, the greater use of shared services and the delivery of services through electronic means; the use of higher risk investment portfolios; and the revamp of business rates, are just some of the initiatives that will affect local authorities and the way they are audited.</p> <p>It is also vital that the individual auditors maintain and develop their skills and knowledge of such areas as general ICT risks and controls; the governance arrangements for partnerships, joint ventures, and commercial enterprises; auditing investment strategies; and using CAATs and other software applications to assist with the audit process.</p>	<p>Consider using the skills matrices from the CIPFA publication 'The Excellent Internal Auditor'; A Good Practice Guide to Skills and Competences'. This sets out the skills and attributes required by auditors at the various stages of their careers.</p> <p>As resources for training and development are likely to be limited, consider optimising the use of these by using cost effective (or free) learning and development opportunities, such as the webinars produced by CIPFA and other professional accountancy and internal audit bodies.</p> <p>If resources are available, consider supporting staff to obtain a relevant internal audit qualification, such as the IIA's Certified Internal Auditor qualification.</p>
O2	<p>The auditors have an understanding of the key financial and HR systems used by the Council, and can run reports to extract data from them that is then analysed in MS Excel. Although MS Excel can be a useful analysis tool for internal auditors, it does not have all of the auditing functionality commonly found in the specialist computer</p>	<p>The Service should therefore consider carrying out a cost benefit exercise on the CAATs applications currently available. This exercise should consider the following factors:-</p> <ul style="list-style-type: none"> • The capital cost of the application;

	<p>assisted audit techniques (CAATs) applications, such as ACL or IDEA.</p> <p>For example, CAATs applications generally include a range of processes designed to enable the internal auditor to test the integrity of the data and the effectiveness of internal controls in an organisation's key systems. They are also useful tools for comparing large volumes of data from two or more systems. The functionality of CAATs enable internal auditors to test all of the transactions within the systems they are auditing, rather than a small sample, thus providing greater assurance on the effectiveness of controls and the quality of the data within those systems.</p> <p>Using CAATs applications also enable auditors to target resources more effectively, as auditing key systems by electronic means can free up time to focus on audits that cannot be performed by computer applications.</p>	<ul style="list-style-type: none"> • the on-going revenue costs; • the hardware specification requirements to run the application effectively; • the application's ease of use and the level of skills required to make effective use of the product; • availability of training courses for users of the application; • the extent of support available to users through user groups and/or other colleagues in the local government sector; and • the availability of pre-written test scripts for the application, either directly from the software provider or other users of the application.
O3	<p>The Shared Internal Audit Service does not currently use an audit management system to manage the planned audits, time recording, and store the working papers, TORS, reports etc for the assignments.</p> <p>At present, all of the documents used during an audit are stored on the Service's secure computer drive on the Cambridge City Council's computer servers at the shared ICT Services site, or in manual files. Whilst this approach works, the HSIA may wish to consider the use of a specialist audit management system for the future, as this may enable the Shared Service to enhance their processes and generate operating efficiencies. Some of the audit management systems on the market are suitable for smaller internal audit teams, and also include action tracking modules and can be linked to performance and risk management applications.</p>	<p>The HSIA should consider evaluating the audit management systems currently available to see if there is a suitable cost effective application to obtain when the time is right.</p>

8. : Interviewees and Questionnaires

Person	Position	Organisation
Interviewees		
Jonathan Tully	Head of the Shared Internal Audit Service	Greater Cambridge Shared Audit services (hosted by Cambridge City Council)
Stephanie Fisher	Senior Auditor	Greater Cambridge Shared Audit services (hosted by Cambridge City Council)
Claire Tunesi	Audit Assistant	Greater Cambridge Shared Audit services (hosted by Cambridge City Council)
Caroline Ryba	Head of finance and Section 151 Officer	Cambridge City Council
Antoinette Jackson	Chief Executive Officer	Cambridge City Council
Tom Lewis	Monitoring Officer for CCC and SCDC, and Head of the 3C Shared Legal Services	3C Shared Legal Services (hosted by Cambridge City Council)
Alex Colyer	Executive Director and Section 151 Officer	South Cambridge District Council
Andrew Fraser	Former chair of the Audit and Corporate Governance Committee	South Cambridge District Council
Questionnaires		
Antoinette Jackson	Chief Executive Officer	Cambridge City Council
Andrew Limb	Head of Corporate Strategy	Cambridge City Council
Debbie Kaye	Head of Community Services	Cambridge City Council
James Elms	Head of Commercial Services	Cambridge City Council
Jonathan James	Head of Customer Services	Cambridge City Council
Debora Simpson	Head of Human Resources	Cambridge City Council
Tom Lewis	Head of Legal	Cambridge City Council (3C Shared Legal Services)
Susan Gardner-Craig	Head of People and Organisational Development	South Cambridgeshire District Council
Gareth Bell	Communications Manager	South Cambridgeshire District Council
Anita Goddard	Head of Housing & Property Services	South Cambridgeshire District Council
Jane Green	Head of New Communities and Interim DM Manager	South Cambridgeshire District Council

9. Definitions of Conformance with the Standards

Generally Conforms	The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.
Partially Conforms	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit and conformance to the standards.
Does Not Conform	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards. These deficiencies will usually have a significant adverse impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the board.

Ray Gard, CPFA, FCCA, FCIIA, DMS

Agenda Item 9

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Audit & Corporate Governance Committee

31st July 2018

AUTHOR/S: Deputy Head of Legal Practice/ Executive Director (Corporate Services)

REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) UPDATE ON USE OF RIPA & IPCO INSPECTION REPORT

Purpose

1. To update on the use of RIPA (Regulation of Investigatory Powers Act 2000) powers and to note the report by the Investigatory Powers Commissioner's Office following an inspection in May 2018.

Recommendations

2. That Audit & Corporate Governance Committee:
 - (a) **NOTE** the information contained in the report about the council's use of surveillance powers since April 2017.
 - (b) **NOTE** the inspection report at Appendix A which makes no recommendations.

Background

3. RIPA regulates covert investigations by a number of bodies, including local authorities. It was introduced to ensure that individuals' rights are protected while also ensuring that law enforcement and security agencies have the powers they need to do their job effectively.
4. Following a Home Office Review into counter-terrorism and security powers the Protection of Freedoms Act 2012 was passed on in May 2012 requiring all local authority surveillance authorised under RIPA to be approved by a Magistrate from November 2012. The council's policy and procedures were amended at that time to reflect these changes.
5. The Council comprehensively reviewed and updated its policy in September 2012 and made further minor amendments as part of annual reviews in September 2013, September 2014 and March 2017. It is intended that the current policy will be reviewed and brought back to committee at a later time after revised Codes of Practice have been published although the current policy is fit for purpose and covers all matters to assist and guide Council staff.
6. The Investigatory Powers Commissioner's Office is responsible for the inspection of public authorities with regard to compliance with RIPA. The Council was recently inspected by Mr Graham Wright on the 24th May 2018. The purpose of the inspection was to examine policies, procedures and operations in relation to Part II of RIPA. A copy of his Inspection Report is attached at Appendix A.
7. Mr Wright met with the Deputy Monitoring Officer & Executive Director and discussed the response to the previous inspection in November 2014, the provision of training

for staff, the core authorisation and oversight procedures and the use of covert surveillance by the Council. Mr Wright also met with the Director, (Health & Environmental Services - the main authorising officer) and several staff from enforcement departments

8. The 2014 inspection made one recommendation and commented that a previous recommendation in relation to the provision of training had not been completed. The Inspector was now able to report that this can be considered as discharged and the previous recommendation that a “single central inventory for technical equipment to be put in place” completed.
9. His report concluded that the policy, training and oversight regime was very good and made no recommendations.

Considerations

10. The council’s RIPA policy was last updated in 2017 and comprehensive officer training took place in January 2018 and it is considered that no further amendments to the council’s policy are necessary at this stage. However it is envisaged that an amended policy will be brought back to members for consideration and approval in due course containing practical examples that may assist staff in the application of the policy.

The council’s use of RIPA since April 2017

11. The information in the table below summarises the authorisations granted from September 2015 to March 2017.

	Directed surveillance	CHIS	Total	Purpose
April 2017 – June 2018	0	0	0	n/a

Implications

12. Financial	No implications
Legal	Authorisation of surveillance activity gives that surveillance “lawful authority” for the purposes of the European Convention on Human Rights
Staffing	No implications
Risk Management	See comments under “Legal”
Equality and Diversity	See comments under “Legal”
Equality Impact Assessment	No implications
Climate Change	No implications

Effect on Strategic Aims

16. None identified.

Conclusions / Summary

17. This report proposed no further amendments at this time to the Council's RIPA policy and updates the Committee on the Council's use of RIPA powers since April 2017.

Background Papers: the following background papers were used in the preparation of this report:

None

Contact Officer: Rory McKenna – Deputy Head of Legal Practice

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**Local government
audit committee
briefing**



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This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.



Government and economic news

EY ITEM Club – Local Government Economic Briefing Q2, May 2018

The EY ITEM Club has produced a briefing that provides a view of economic shifts and trends for local authorities to consider. It suggests that 2018 will see a continuation of the mediocre economic performance seen in 2017. This will provide a number of challenges for local authorities at a time when the need to achieve key objectives, such as driving economic growth locally, become ever more important. The briefing covers three main areas:

Continued economic pressures in 2018

Local authorities are likely to find the UK's economic performance stumbling through 2018, with GDP growth now failing to keep up with a rosier outlook for the global economy.

The UK's GDP growth averaged 1.7% throughout 2017, outperformed by growth across the G7 economies. This reflects an economy that has displayed a degree of stability in recent quarters, but also a lack of momentum in both absolute and relative terms. GDP growth is forecasted to remain consistent at 1.7% 2018 and 2019, representing a sub-par growth by the standards of both history and the UK's international peers.

A number of economic metrics are likely to influence local authority decision making in the year ahead:

- ▶ The CIPS/Markit Index indicated a tough few months for the UK economy at the start of 2018, influenced by a prolonged bout of bad weather. The construction sector was worst hit, with the Index suggesting a slump in March to 47.0 from the previous month's 51.4, suggesting a contraction in activity. This could impact both infrastructure and house building activity
- ▶ 2017's increasing inflation rate created the chief headwind to growth in the year. However from a consumer's point of view, the growth in average earnings will likely outpace the inflation rate. Local authorities will need to consider the impact on their workforce, including consideration towards workforce retention
- ▶ The economy faces a headwind from the prospect of rising interest rates, caused by inflation likely to stay above the 2% target and the tone of the Bank of England Monetary Policy Committee. The EY ITEM Club forecasts two further interest rate rises of 0.25% in the coming year. Local authorities need to consider the impact of this, for example on variable rate borrowing costs and also on broader treasury management plans

Positive Signs for some on business Rates Retention

A recent study by the Institute for Fiscal Studies (IFS) has reignited the debate about the potential financial implications associated with 100% business rates retention. The IFS study forecasts that councils included in the 100% retention pilot scheme will gain an additional £870mn in funding next year as a result, representing an approximate 3.6% increase in their collective spending power.

Whilst this provides an incentive to councils for growing their local economies, critics argue that areas less able to generate business income may become vulnerable to funding constraints. For example, the IFS forecasts suggest that London councils could gain £430mn (£49 per person, or 4.9% of core spending power) from the scheme, compared to a gain of just £2.5mn (£5 per person, or 0.6% of core spending power) in Liverpool. As a result, these estimates suggest that Liverpool City Council would have derived a greater financial benefit if total gains made by pilot authorities had been distributed nationally on the basis of relative needs.

One of the primary concerns regarding distributional impacts is the potential lack of correlation between local authority spending needs and the perceived potential for business rates growth. Further analysis is required to determine the potential impact of rate retention in light of where local authority funding needs may emerge in the years to come.

Mitigating the risk of market failure in health and care systems

Allied Healthcare, one of the country's largest home care providers, has successfully agreed a Company Voluntary Arrangement (CVA) allowing it to agree a payment plan with its creditors.

Changes to the Care Act, which came into effect in 2015, means that if a provider like Allied were to stop trading, local authorities would need step in to protect individuals receiving care. This demonstrates the need for a continued focus on the successful integration of care and the role of local authorities in leading this transformation is paramount.

Data is a fundamental enabler to the successful integration of health and social care; it also presents one of the areas of greatest complexity. Key stakeholders across health and social care

systems should recognise the role of sharing data in minimising the risk of information asymmetry. Focus is already being applied to establishing platforms that allow market participants to share data not just on an individual's care needs, but also on broader lifestyle data. Whilst this has the potential to allow for the use of transformative technologies such as artificial intelligence, it also has the potential to support more effective pricing and resource allocation, leading to the better functioning of the health and care market.

NAO Report Financial sustainability of local authorities 2018

In March 2018 the National Audit Office (NAO) published a report Financial sustainability of local authorities 2018. The scope of the report was to review developments within the sector and to understand the impact of funding reductions on the service and financial sustainability for local authorities. One of the key findings of the report was that there had been a real-terms reduction in local authority spending power by 29% between 2010-11 and 2017-18.

Spending on services that have significant statutory responsibilities, such as adult social care have only seen a reduction in spending of 3% in real terms; whereas in contrast spending on more discretionary areas, such as planning, housing services, highways and cultural related services, have seen a greater reduction of spending between 35% to 53% in real terms. These spending reductions have seen reductions in front lines services such as weekly domestic waste collection (reduced by 34% between 2010-11 and 2016-17) and numbers of libraries (reduced by 10% between 2010-11 and 2016-17).

Another key finding of the NAO report is that the many local authorities are relying on using their reserves to fund the provision of services, which is not sustainable. The report found that 11% of single-tiered and county councils had the equivalent of less than three years' worth of total reserves if they continued to use their reserves at the rate they did in 2016-17. Therefore achieving strong financial resilience is imperative to maintaining the financial sustainability of the provision of services by local authorities. Northamptonshire County Council issued a s114 notice in February 2018, indicating that it was at risk of spending more in the financial year than it had resources available. This highlights the increased risk of financial sustainability for local authorities.



Accounting, auditing and governance

IFRS 9: Financial Instruments ... just an accounting change isn't it?

On 4 April 2018 the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2018/19 was issued by a joint board of CIPFA/LASAAC. The updated Code of Practice for 2018/19 introduces two new reporting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, which was discussed in detail in the last briefing.

The implementation of IFRS 9 in the Code could well have an impact on Local Authority budgets and ultimately General Fund reserve levels.

The IFRS impacts on an authority's financial assets: the investments it holds; the amounts it has lent to others; and other monetary based assets it may have. It changes how these financial assets are classified and how movements in their value are accounted for. It also changes how these assets are impaired; based on the risk that the assets may not be recovered in full, or at all.

Classification changes

Currently, many authority financial assets are classified as 'Available for Sale'. For these assets, an accounting adjustment is permitted to ensure that movements in the value of these assets does not impact on the General Fund. Under IFRS 9, the 'Available for Sale' classification no longer exists. Authorities will therefore have to reclassify their financial assets into one of the three classifications allowed under the standard: amortised costs; fair value movement through other comprehensive income; and fair value movement through profit and loss. It is this final category

which is causing authorities concern, as any movement in the value of assets in that classification will impact directly on General Fund balances, and at present there is no permitted accounting adjustment to remove that impact.

Collective Investment Schemes

Many authorities are now investing significant amounts in a range of collective investment schemes, such as the CCLA Local Authority Property Fund. At present there is significant debate about the classification of these funds, with the majority view being that they would be classified as fair value movement through profit and loss, with those movements therefore impacting on General Fund. The alternative view is that these funds meet the definition of equity and could therefore be reclassified to fair value movement through other comprehensive income, with the value movements not impacting General Fund. This specific issue is being considered by central government and CIPFA, and it is likely that a permitted accounting entry will be introduced to allow the impact of value movements for these type of funds to be removed from the General Fund.

Impairment of financial assets

Under the current approach, Local Authorities only have to provide for impairments to financial assets when there is objective evidence that all of the value of the asset may not be recovered; IFRS 9 introduces a new model for financial asset impairment. Under the new impairment model, Local Authorities will need to make an estimate of the potential loss on all financial assets at the inception of that asset, even if there is no objective evidence that

a loss will occur. This will obviously result in a higher impairment charge for financial assets going forward, and that charge will impact on General Fund.

In summary, the introduction of IFRS 9 into the Code is more than just an accounting change and authorities will have to keep a very close eye on the budgetary.

CIPFA/LASAAC consultation on IFRS 16 Leases

CIPFA has issued the first of a series of briefings intended to assist practitioners engage in the consultation process for the adoption of IFRS 16 in the 2019/20 Code. Each briefing will focus on particular aspects of the standard whilst also updating stakeholders on latest developments. The first briefing focuses on recognition and measurement and the adaptations to the Code for the adoption of IFRS 16.

IFRS 16 replaces IAS 17 Leases and its related interpretations. It will apply to the 2019/20 financial statements subject to the consultation process and CIPFA/LASAAC's decisions for adoption in the 2019/20 Code. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority.

The new leasing standard will lead to a significant change in accounting practice for lessees for whom the current distinction between operating and finance leases will be removed. Instead it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. At the commencement date of the lease, a lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to make lease payments for the asset.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term. Subsequently, lessees increase the lease liability to reflect interest, and reduce the liability to reflect lease payments made (as with finance leases under IAS 17).

The right of use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the lessee's initial direct costs (e.g., commissions), and an estimate of restoration, removal and dismantling costs. Subsequently, the right of use asset is depreciated in accordance with IAS 16. (In certain circumstances, alternative subsequent

measurement bases for the ROU asset may apply (in accordance with IAS 16 and IAS 40 Investment Property).

The standard has a set of specific mandatory disclosure requirements (e.g., expenses, cash flows), and also an additional requirement for a lessee to disclose any further information a user would need to assess effect leases have on the financial statements.

CIPFA will be liaising with a number of authorities across the UK to consider the cost and benefit implication of adoption of IFRS 16, as well as the impact on information requirements, the processes and systems used by local authorities.

Future briefings to support the implementation of this new standard will cover topics such as identifying the lease, recognition exemption, issues for lessors and transitional reporting arrangement, to name a few. A readiness assessment questionnaire has been included in the consultation to help local authorities in their preparations. CIPFA/LASAAC is requesting authorities to share this information in order to assess the overall preparedness for adoption on a larger scale.

Audit Committee Effectiveness Toolkit

Audit Committees are a vital part of any entity as they are charged with overseeing governance arrangements throughout their organisations. Over the past few years Audit Committees have experienced enhanced scrutiny from regulators and stakeholders with new guidance on good governance arrangements, public sector internal audit standards, managing risk and preventing fraud; whilst at the same time there has been the need to deliver better value for money for taxpayers.

Therefore it is vital that every Audit Committee is prepared, ready and are able to fulfil their role in an effective manner. In order to assist Audit Committees in monitoring their performance, and assessing their effectiveness, EY has developed a Government and Public Sector specific 'Audit Committee Effectiveness Toolkit'.

The toolkit provides an opportunity for Audit Committees to critically assess their own effectiveness to determine if they meet the minimum standards as set out in CIPFA's Position Statement for Audit Committees. The toolkit will also help all members to understand their respective roles and responsibilities of being a member of an Audit Committee.

This toolkit is available as an additional service that can be provided. Further information regarding the Audit Committee Effectiveness Toolkit is available upon request through your local audit team.



Regulation news

Gender pay gap reporting

On 4 April 2018, employers in Great Britain with more than 250 staff were required by law to publish data on Gender Pay Gap for the first time. EY has analysed the gender pay gap data reported by 744 public sector bodies, including 331 local authorities (see Figure 1 below).

The gender pay gap is calculated by determining the difference between the mean or median hourly earnings for men and women, as a percentage of men's hourly earnings. We have analysed the mean gender pay gap and the median gender pay gap below.

The education sector reported the largest average median pay gap (15.3%), whilst Local Government reported the lowest average median pay gap (5.8%), see Figure 2 below.

Figure 1: Government and Public sector bodies reported on gender pay gap

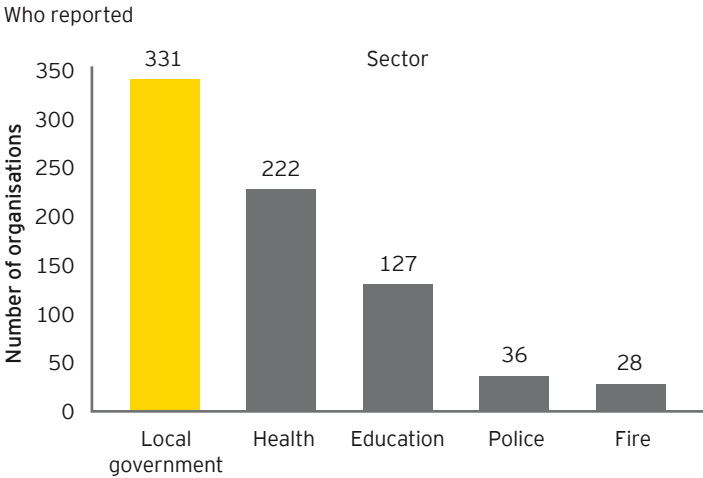


Figure 2: Average median pay gap

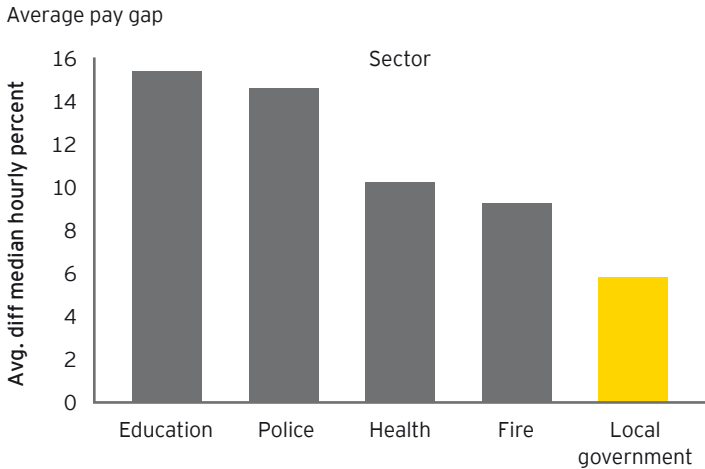
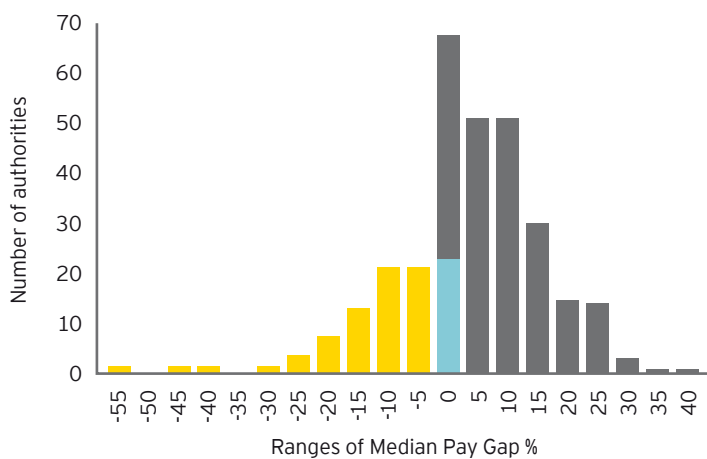


Figure 3 below sets out the % gap in median hourly pay between men and women reported by local authorities. This shows that 25 authorities reported a zero pay gap, 77 authorities reported a higher median pay for women than men, and the remaining 227 authorities reported men receiving a higher median pay for men than women.

Figure 3: Difference in median hourly pay in LG

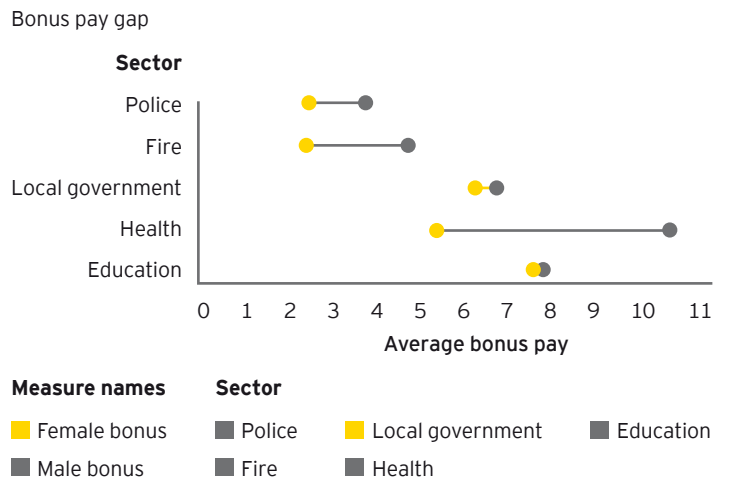
Difference in median hourly pay in fire sector, %



Difference in Median hourly pay as report by each organisation. Yellow represents instances where the median hourly pay was higher for women, Blue represents instances where there was no gender pay gap and grey corresponds to a median hourly pay gap where men are paid higher.

Figure 4 below compares the bonus pay gap between men and women across different sectors. This shows that local authorities have the second lowest bonus pay gap.

Figure 4: Bonus pay gap in the public sector



Making Tax Digital (MTD) for VAT: changes from April 2019

From April 2019 it will be compulsory for VAT registered local authorities to comply with new requirements to be in line with HMRC regulations. Local authorities will need to:

- ▶ Keep and preserve digital tax records
- ▶ File VAT returns directly with HMRC using MTD compatible software

Whilst these requirements may not initially seem too burdensome, where a local authority is preparing VAT returns manually from legacy systems or multiple unconnected systems it may be a challenge (and time consuming) to fully understand and implement the necessary changes to be compliant with the MTD requirements.

With around only nine months before the new regulation comes into force local authorities will need to make sure that they have an appropriate readiness plan in place in order to comply with the new MTD obligations.

EY is recommending that local authorities prepare for MTD by creating a 'roadmap to April 2019' as soon as possible to allow for suitable time to implement changes before the deadline. This 'roadmap' should include:

1. An assessment of the current state and readiness for change
2. Evaluation of available technology solutions

Further information can be found at the end of this briefing although where EY is the appointed auditor to an authority; it is prohibited from providing tax advice.

National Minimum/Living Wage legislation

Recent investigations from HMRC have seen an increase in Public Sector employers struggling to comply with the National Minimum/Living Wage (NMW/NLW) legislation. The NMW/NLW minimum wage for those over 25 is currently £7.83. Lower rates exist for those aged under 25 and apprentices. Whilst the NMW/NLW rates have been well publicised a number of public sector employers have been struggling to comply. A report by the Low Pay Commission, published in September 2017, raised concerns regarding the high rate of NMW/NLW breaches and specifically highlighted education support assistants and teaching assistants. Given the diverse nature of work undertaken by local authority employees it is important to review contracts and working practices across the different activities undertaken. One notable example of HMRC focus has been the payments to care workers

for sleeping time. This has resulted in an increase in enforcement activity in this sector. Other significant areas of focus include:

- ▶ Salaried workers whose hours are not actively monitored
- ▶ Defined dress code policies which may reduce the NMW/NLW pay
- ▶ Deductions, such as car parking charges paid by employees on facilities owned by the local authority
- ▶ Salary Sacrifice which may in turn reduce the base pay for NMW/NLW

The impact of reputational damage from being publically named may outweigh any financial impact, which includes penalties of up to 200% of any arrears and lengthy HMRC investigations which could cover a period of six years.

EY have employed a number of former NMW/NLW Compliance Investigators, with significant knowledge and experience that will be able to provide insights on developing an effective approach to achieve compliance with legislation and improve monitoring procedures.

Further information can be found at the end of this briefing although where EY is the appointed auditor to an authority, it is prohibited from providing tax advice.

Key questions for the Audit Committee

- ▶ Has your authority assessed the impact of inflation and earnings growth on employee retention?
- ▶ Has your authority considered the impact of potential rises in interest rates over the next year or so, and reflected this in estimated costs of borrowing and on its broader treasury management strategy and medium term financial planning?
- ▶ How has the authority considered the impact of changes to the business rates system, and reflected these changes in its budget and financial planning?
- ▶ In the light of the NAO report on the financial sustainability of local authorities, how financially resilient is your authority? Are you confident that the authority has an appropriate policy on the level of reserves?
- ▶ Has your authority assessed the impact of the new accounting standards IFRS 9 Financial Instruments on your budgets?
- ▶ Has your authority assessed the impact IFRS 16 will have on cost, processes and system information?
- ▶ How is the effectiveness of your Audit Committee assessed and monitored?
- ▶ Have you considered the gender pay gap at your authority? Where there is a gender pay gap, what actions are being taken to reduce the gap?
- ▶ How prepared is your authority for the new Making Tax Digital (MTD) VAT requirements that will come into force from April 2019?
- ▶ How does your authority ensure that it complies with the National Minimum/Living Wage (NMW/NLW) legislation?

Find out more

EY Item Club forecast

<https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy#section1>

Financial Sustainability: NAO Report

<https://www.nao.org.uk/press-release/financial-sustainability-of-local-authorities-2018/>

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>

Code of Practice Improvements

<http://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-201819-online>

<http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/new-code-improves-transparency-of-transactions-in-local-government-finances>

<http://www.cipfa.org/policy-and-guidance/consultations/code-of-practice-on-local-authority-accounting-in-the-united-kingdom,-c,-consultation-on-ifrs-16-leases>

<http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/local-authority-leasing-briefings>

<https://www.gov.uk/government/consultations/ifrs-16-leases-exposure-draft-1801>

Audit Committee Effectiveness Toolkit

Please contact your local audit team

Making Tax Digital (MTD) for VAT: changes from April 2019

<https://www.ey.com/gl/en/services/tax/digital-tax---why-digital-tax>

<https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital>

<https://www.icaew.com/en/technical/tax/making-tax-digital>

National Minimum/Living Wage legislation Compliance

<https://www.gov.uk/government/publications/enforcing-national-minimum-wage-law>

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