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17 September 2018

To: Chairman – Councillor Tony Mason
Vice-Chairman – Councillor Nick Sample
Members of the Audit and Corporate Governance Committee – Councillors
John Batchelor, 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, 25 SEPTEMBER 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 31 July 2018 as a correct record.		1 - 4
AUDIT REPORTS		
4. External Audit Progress Report for 2017/18		5 - 10
5. Internal Audit Quarterly Progress Report - Report to Follow		11 - 22

DECISION ITEMS

- 6. Risk Management Strategy**

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INFORMATION ITEMS

- 7. Matters of Topical Interest**
- 8. Date of Next Meeting**
Tuesday 20 November at 9:30am.

GUIDANCE NOTES FOR VISITORS TO SOUTH CAMBRIDGESHIRE HALL

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Agenda Item 3

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Minutes of a meeting of the Audit and Corporate Governance Committee held on
Tuesday, 31 July 2018 at 9.30 a.m.

PRESENT: Councillor Tony Mason – Chairman
Councillor Nick Sample – Vice-Chairman

Councillors: Clare Delderfield Mark Howell
Brian Milnes Heather Williams
Eileen Wilson

Officers: Patrick Adams Senior Democratic Services Officer
Alex Colyer Executive Director
Tom Lewis Monitoring Officer
Martin Yates Interim Chief Accountant

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

1. APOLOGIES FOR ABSENCE

Apologies for Absence were received from Councillor John Batchelor. Councillor Clare Delderfield acted as substitute.

2. DECLARATIONS OF INTEREST

None.

3. MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 22 March 2018 were agreed as a correct record.

4. FINAL ACCOUNTS UPDATE - REPORT TO FOLLOW

The Interim Chief Accountant presented this report. He explained that the trial balance was with the External Auditors and the Committee would be asked to sign-off the accounts at its meeting in September.

Fixed Asset Register

The Interim Chief Accountant explained that the current Fixed Asset Register was too unwieldy and would be replaced with the CIPFA model. Due to time constraints it had been used to provide the trial balance.

Short Term Creditors

The Interim Chief Accountant agreed to ascertain why the figure for Short Term Creditors had changed from -£25,000 in March 2017 to -£66,441 in March 2018.

Reserves

The Executive Director explained that whilst the plan in the medium term was to reduce the Council's reserves to £2.5 million, they had actually increased at the end of the financial year. £2.5 million was approximately 10% of total revenue costs and so was seen as sustainable.

The Executive Director explained that the Council was looking at ways to use the reserves to drive efficiencies. For example £300,000 had been spent to improve the website and create a new customer portal. This will reduce the Council's overall running costs.

Treasury Management and Investment

It was noted that the 2% return on investments compared favourably with other local authorities. The Council was receiving a return of 3.8% on the funds lent to Ermine Street Housing, whilst only achieving 0.5% on shorter term investments because the Council requires instant access to these funds.

Shared Waste services

The Executive Director explained that the £527,000 overspend was due to the costs of rearranging the rounds, which will result in an estimated annual savings of £150,000 for both this authority and the City Council. It was noted that the income from recycled plastic and paper was likely to reduce due to the decline in the market price and because the Council's contract with Ameycespa was coming up for renewal in October 2018.

Resources

The Chairman asked whether accountancy had adequate resources to close the accounts and carry out other work, including the implementation of the new FMS system in October. The Executive Director explained that there was considerable cross departmental working regarding the implementation of the FMS system. He further explained that the Council was considering the purchasing of a "Red Button" system which would aid the process of balancing the accounts next year. It was noted that Huntingdonshire District Council had this system, which would cost this authority £10,000 to purchase.

Housing Revenue Account (HRA)

The Interim Chief Accountant agreed to ascertain the reason for the £1.1 million variance in the HRA for 2017/18. The Executive Director agreed to find out why savings were expected in the Planning Maintenance budget.

The Committee noted the report.

5. EXTERNAL AUDIT PROGRESS REPORT FOR YEAR ENDING 31 MARCH 2018

Suresh Patel presented this report on the progress made against External Audit's 2017/18 plan. He explained that he estimated that approximately 10% of other local authorities had not been able to get their accounts signed off by the July deadline.

The Committee noted the areas that External Audit planned to focus on during their initial visit in August. Suresh Patel assured the Committee that External Audit were planning on completing the audit of the accounts by the end of September.

6. INTERNAL AUDIT: ANNUAL GOVERNANCE STATEMENT AND LOCAL CODE OF GOVERNANCE

Jonathan Tully, Head of Shared Internal Audit, presented this report on the Annual Governance Statement, which updated the Committee on the progress made on actions that had been identified in the previous year, reported the annual review of effectiveness and communicated any new governance issues.

Minor amendment

It was noted that the headings in the Local Code of Corporate Governance which stated "City Council" would have to be amended.

Officers' Register of Interests

It was noted that senior officers had to maintain a register of interests and keep their line managers informed of any updates. Jonathan Tully agreed to provide further details regarding the relevant procedures..

The Committee noted the report.

7. INTERNAL AUDIT: ANNUAL REPORT OF INTERNAL AUDIT

Jonathan Tully, Head of Shared Internal Audit, presented this annual report on the organisation's internal control environment, governance and risk management framework. He was happy to report that none of the reviews undertaken during 2017/18 had identified any risks that were likely to have a major impact on the organisation as a whole.

Recruitment

Jonathan Tully explained that Internal Audit were recruiting to a permanent position, which was currently being covered by two agency staff.

Waste contract audit

Jonathan Tully explained that an unplanned audit had been carried out at the request of the Cambridge and Peterborough Waste Partnership regarding the long term financial viability of the materials recycling facility contract at Waterbeach. There were a number of recommended actions, which will be followed up.

The Committee noted the report.

8. INTERNAL AUDIT - QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

Jonathan Tully, Head of Shared Internal Audit, presented this report on the results of the Quality Assurance and Improvement Programme for Internal Audit, which concluded that the team "Generally Conform" with the Public Sector Internal Audit Standards. This was the highest grade possible and was a positive achievement.

It was noted that the external assessment recommended a review of the service's structure and the appointment of a trainee or apprentice.

The Committee noted the report.

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

The Executive Director stated that the Council had not used the surveillance powers that came under the Regulation of Investigatory Powers Act 2000 during 2017/18.

The Executive Director explained that plans were in place to ensure that new staff received appropriate training on the policy and procedures regarding RIPA powers. It was understood that there were strict rules on the use of social media.

The Committee noted the report.

10. EXTERNAL AUDIT LOCAL GOVERNMENT BRIEFING

Suresh Patel introduced this briefing paper, which covered the topical issues that concerned the Council and the Local Government sector.

Staff pay

The Executive Director explained that the Council had carried out a recent review and so he could confirm that the authority fully complied with the National Minimum/Living Wage legislation. It was noted that, in reverse of the national trend, the Council paid women more on average than men.

Making Tax Digital

The Executive Director agreed to find out how the Making Tax Digital VAT requirements would affect the authority when it comes into force in April 2019 and report back at the next meeting of the Committee.

Right to Buy

The Committee discussed the Government's plans regarding the Right to Buy of Housing Association properties. The Executive Director agreed to report back at the next meeting of the Committee on this issue.

11. MATTERS OF TOPICAL INTEREST

The Chairman announced that it was the Interim Chief Accountant's last day with the Council and on behalf of the Committee he thanked him and his team for all their hard work on the accounts.

12. DATE OF NEXT MEETING

It was noted that the next meeting of the Committee would take place on Tuesday 25 September at 9:30am in the Swansley Room.

The Meeting ended at 11.40 a.m.

**South Cambridgeshire
District Council**

Progress Report

Year-ended 31 March 2018

12 September 2018

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

12 September 2018

Dear Audit & Governance Committee Members

Audit Progress Report

We are pleased to attach our Audit Progress Report.

This report follows our July update and provides the Committee with an overview of our progress in auditing the Council's 2017/18 statement of accounts. In July we reported that due to significant issues with the Council's accounts, trial balance (TB) and supporting working papers we were unable to progress the audit and had agreed a plan with officers to continue the audit in two onsite visits. During the first visit in the first two weeks of August we made some progress with the audit but identified further issues with the accounts, TB and fixed asset register that has led us to defer the second visit from 10 September to 24 September, subject to the Council providing assurances that the TB is complete, reconciles to the accounts presented for audit which in turn is supported by adequate working papers.

At this stage we are unable to indicate when the audit will be complete, the extent of additional audit work we have been and will be, required to undertake and the associated fees.

Yours faithfully

Suresh Patel

For and on behalf of Ernst & Young LLP

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Audit progress





Audit progress

Preparation of the accounts

Audit update

Since the July meeting a number of the significant issues we reported have not been resolved, notably:

- The Trial Balance - a balanced and complete TB, reconciled to the accounts is an essential pre-requisite to commencing the audit. We apply our analytics tools to the TB to give us assurance that the basis of the accounts is sound. We also apply analytics, using the transaction list from the ledger, to select samples for testing efficiently and effectively. The issues we highlighted in July have not been resolved and officers are currently working on providing a revised TB that reconciles to the accounts. Only then can we apply our analytics capabilities to progress the sample testing we need to undertake.
- The statement of accounts - we identified several issues with the 7 June published unaudited statement of accounts. We have yet to receive assurances that the issues we reported in the prior year have been addressed for the 2017/18 accounts. The Council has made a number of changes to the format of the accounts including to the primary statements, and most significantly the movement in reserves statement. There are also a number of significant year on year variances. We are seeking explanations and appropriate support. We understand that the Council will be revising the current version of the accounts.
- Supporting working papers - we have raised a number of queries requesting supporting working papers for items in the accounts.
- Property, plant and equipment - we have raised a number of queries relating to issues with PPE.

During the week commencing 3 September we provided officers with a list of all outstanding audit queries, with dates raised and who they were raised to, as two of the key people involved in the closedown process have now left the Council. The Principal Accountant and the finance team are now working through this list. 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. Resuming the audit on 24 September is subject to the Council being able to demonstrate that they have resolved the matters included above.



Audit progress

Next steps

Audit Update

Key actions for the finance team:

- process the accounts adjustments necessary from addressing the issues in our query log, and any other adjustments identified by the finance team;
- produce a new trial balance;
- produce revised accounts; and
- update the supporting working papers.

What we need as a minimum to resume the audit:

- an amended statement of accounts*;
- analytics tools back from our analytics team (generated from the Council's new trial balance and transactions lists);
- the accounts and notes must agree back to the trial balance, and the asset register;
- the accounts and notes must agree to the supporting working papers for each area; and
- the 'Summary of Audit Differences' from the 2016/17 audit needs to be reviewed and evidence provided that issues/errors are resolved or not recurrent in the 2017/18 accounts.

*We have discussed, with officers the presentation of the Movement in Reserves Statement, and the omission of some of the key capital notes, that currently do not comply with the CIPFA code.

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ED None

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REPORT TO: Audit and Corporate Governance
Committee

25th September 2018

LEAD OFFICER: Executive Director (Corporate Services)

Internal Audit Update

Purpose

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

Recommendations

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

Reason for recommendations

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

Background

5. The Accounts and Audit Regulations 2015 require that the Council “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes; taking into account public sector internal auditing standards or guidance.”
6. Internal Audit assists the Council, and the Audit and Corporate Governance Committee, to discharge its governance responsibilities. Our work supports the Council’s corporate objectives, and the corporate governance framework.

Considerations

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

Implications

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

Effect on Strategic Aims

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

Background documents

- Internal Audit Charter, Strategy and plan

Report Author:

Jonathan Tully – Head of Shared Internal Audit

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Email: jonathan.tully@scambs.gov.uk

Appendix A – Internal Audit Progress report



South Cambridgeshire District Council

Introduction

1. Management is responsible for the system of internal control and establishes policies and procedures to help ensure that the system is functioning correctly. On behalf of the Audit and Corporate Governance Committee, Internal Audit acts as an assurance function by providing an independent and objective opinion on the control environment.
2. The purpose of this report is to provide an update on the recent work completed by internal audit. The information included in the progress report will feed into and inform our overall opinion in the annual Head of Internal Audit (HoIA) report issued at the year end. This opinion will in turn be used to inform the Annual Governance Statement which accompanies the Statement of Accounts. We previously provided an update report, to the committee, in March 2018.
3. Where appropriate reports are given an overall opinion based on four levels of assurance. This is based on the evaluation of the control and environment, and the type of recommendations we make in each report. If a review has either “Limited” or “No” assurance, the system is followed up to review if the actions are implemented promptly and effectively. Further information is available in Appendix B - Audit definitions.

Resources

4. An audit plan is presented at least annually to the Audit and Corporate Governance Committee. It is good practice to continually review the plan, to reflect emerging risks, revisions to corporate priorities, and changes to resourcing factors. The latest internal audit plan, commencing April 2018, was presented to the Audit & Corporate Governance Committee on the 22nd March 2018.
5. Since the previous report, to the Committee, there have been changes to the team. A business case and proposal for establishing a shared internal audit team was approved by South Cambridgeshire District Council and Cambridge City Council in 2017. Establishing a centralised team, operating from both sites, will enable economies of scale, more resilience, and smarter ways of working. We have

successfully recruited into one of the vacant Senior Auditor posts, and have planned further advertising for the remaining vacant posts which are currently resourced through agency workers.

6. Progress of the plan delivery is illustrated on the following pages for information.

Progress against the plan

Finalised reviews

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

Assurance			Actions				Commentary
System reviewed	Prior review:	New Assurance:	Critical:	High:	Medium:	Low:	
Agency workers	Not applicable – new review	Reasonable	0	0	2	3	<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>Our review of controls established that they were operating effectively, and provided Reasonable assurance that:</p> <ul style="list-style-type: none"> • guidelines and procedures have been established and communicated to staff; • payments are made correctly and are appropriately authorised; and • value for money is being achieved. <p>Management agreed actions to improve the procedures and controls, including the development of forms to support managers using the process, and these were promptly implemented during the review.</p>
Risk management	March 2016	Reasonable	0	2	13	0	<p>The Council has a Risk Management Strategy, which is reviewed regularly, and has a risk management system which is embedded in the Council.</p> <p>We reviewed current procedures using the IIA Risk Maturity model, plus best practice guidance from professional</p>

Assurance			Actions				Commentary
System reviewed	Prior review:	New Assurance:	Critical:	High:	Medium:	Low:	
							<p>organisations such as IRM, ALARM and CIPFA.</p> <p>Our testing established that the Council is 'Risk Enabled' and that there is Reasonable assurance.</p> <p>A number of recommendations have been agreed with management, to improve the identification and monitoring of risks, which have been incorporated into a revised Risk Management Strategy. This includes developing the presentation of risk reporting to incorporate target risk, plus further development of the supporting guidance and training.</p>
Annual Governance Statement	July 2017	N/A	NA	NA	NA	NA	The Audit & Corporate Governance Committee reviewed and approved the draft Annual Governance Statement and the Local Code of Governance. The final version will be approved with the Statement of Accounts.

Works in Progress

The following reviews are currently in progress:

System reviewed	Prior review:	Previous assurance:	Commentary and update
Grant assurance - Disabled Facility Grant	September 2017	Unqualified opinion	<p>We have commenced our review of grant funding, which is part of the Better Care Fund, to ensure that funds have been spent according to grant conditions set by the Ministry of Housing Communities and Local Government. Two grant payments totaling £690k were allocated to the Council in 2017/18; we have certified one grant and are now reviewing the second.</p> <p>The review includes further sampling of Disabled Facility Grants, allocated to the public, to ensure that they have been processed effectively and efficiently.</p>
Gifts and hospitality	May 2016	No assurance	<p>The Council has a policy for declarations of interest, and the receipt of gifts and hospitality by both officers and members, as part of the Council's Code of Conduct for Members and Officers and also its Constitution.</p> <p>The previous internal audit (May 2016) identified that no assurance could be given on the operation of controls in this area, and this was highlighted in the 2016/17 Annual Governance Statement (AGS). A planned follow-up review has been completed to ensure that adequate progress has been made on implementing the actions from the previous review, and that the Council is compliant with the policy.</p> <p>Our testing has completed and we are now completing our working papers. The review has demonstrated that the Council has made good progress at implementing the actions and we can now provide Reasonable assurance that controls are operating effectively.</p> <p>In addition we have reviewed the relevant policies, codes, and supporting guidance. We have highlighted a number of potential updates which have been shared with Democratic Services for consideration as part of the ongoing review of the Constitution.</p>

System reviewed	Prior review:	Previous assurance:	Commentary and update
National Non Domestic Rates	November 2014	Reasonable	<p>The business rates system is used for collecting business contributions for the cost of local services. Under the business rates retention arrangements, the Council keeps a proportion of the total rates paid locally for its own use and deployment.</p> <p>There are currently approx. 5100 NDR rateable and billable properties within the SCDC District. The total amount of NDR income collected in 2017/18 was approx. £82M, and in 2016/17 it was £77M. The Council's performance is strong, and in 2017/18 it collected 99.4% of its NDR income.</p> <p>We have reviewed the core processes and procedures in place for NDR billing, arrears collection and awards of reliefs such as charity and empty property relief and change of status/alterations of NDR accounts and these are adequate and sound. We have concluded our testing, providing substantial assurance that controls are operating effectively, and are developing the action plan with management for further improvement.</p>
Trading operations – trade waste	New review	Not applicable	We have commenced our testing of this system. This is a forward looking review, focusing on the income generation, performance reporting and being a critical friend for any proposals and processes.
Waste Management - Performance	New review	Not applicable	This review includes a benefits realisation, and we have prepared our testing for the review of this system.
Insurance	July 2016	Limited	We have started preparing our follow-up review of this system, to test the effectiveness of the actions from the previous audit.

Work completed to date

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

Assurance			Actions			
System reviewed	Date reported:	Assurance / Status:	Critical:	High:	Medium:	Low:
Annual Internal Audit Opinion	July 2018	Completed	0	0	0	0
Public Sector Internal Audit Standards review	July 2018	Completed	0	0	0	0
National Fraud Initiative	July 2018	Ongoing	0	0	0	0
Project Management – Benefits Realisation	March 2018	Limited	0	3	2	0
Organised crime – procurement	March 2018	Completed	0	0	0	1

Counter fraud and corruption update

7. The Council participates in a national data matching service known as the National Fraud Initiative (NFI), which is run by the Cabinet Office. Data is extracted from Council systems for processing and matching. It flags up inconsistencies in data that may indicate fraud and error, helping councils to complete proactive investigation. Nationally it is estimated that this work has identified £1.69 billion of local authority fraud, errors and overpayments since 1996. Historically this process has not identified significant fraud and error at South Cambridgeshire District Council, and this provides assurance that internal controls continue to operate effectively. Work has commenced on reviewing the current matches, and will continue throughout the year. Any significant matters arising in terms of fraud and error identified will be reported, and there are no matters arising at this time. The Cabinet Office has issued a briefing paper¹ on the current exercise, and the next data extract is currently being planned.

Other audit and assurance activity

8. The Public Sector Internal Audit Standards (PSIAS) require that Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the Internal Audit activity. External assessments must be conducted at least once every five years by a qualified, independent assessor. The internal audit team completed a self-assessment, to the Public Sector Internal Audit Standards, and the supplementary Local Government Application Note, and this was independently verified by CIPFA. This provided assurance 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 and was reported to the Audit and Corporate Governance committee at the previous meeting.
9. The UK Data Protection Act 2018 facilitates the EU General Data Protection Regulations (GDPR). The Act is designed to harmonise data privacy laws across Europe and the UK, to protect and empower the individual’s right to data privacy and to reshape the way organisations’ approach the areas of data privacy. Internal Audit supported an internal GDPR task group to ascertain and quantify compliance with the GDPR. Our assurance work focused on the Councils preparedness and readiness for the implementation of the GDPR, and whether any further work on compliance would need to be completed. The review established the areas requiring further development, to be fully compliant, and these were categorised using a RAG system. The majority of these areas were considered a lower risk, and SMART action plans have been developed to progress these. Subsequently we can provide significant assurance on the arrangements in place to achieve compliance with GDPR.
10. We contributed to the review of the Annual Governance Statement, and the Local Code of Governance, which accompanies the Statement of Accounts. The draft version was reported to the Audit and Corporate Governance committee at the previous meeting, and approved subject to any changes arising from the external audit.
11. We have started to utilise the 4Risk Management system for action tracking. This will help us to monitor the progress of critical and high level actions, which are followed up as part of our review of limited and no assurance reports.

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/737146/National-Fraud-Initiative-Report-2018.pdf

Appendix B - Audit definitions

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

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

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

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

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REPORT TO: Audit and Corporate Governance Committee 25th September 2018

LEAD OFFICER: Suzy Brandes, Principal Accountant,
Jonathan Tully, Head of Shared Internal Audit

Corporate Risk Management

Purpose

1. The Council has a Risk Management Strategy which sets the strategic direction of the Council and its approach to Risk Management.
2. The Council has a Risk Management Process which sets out how risk is managed, and is a guidance document for risk management.
3. The Executive Management Team (EMT) has responsibility for setting the Risk Management Framework. The Strategy is approved by EMT and then by the Audit & Corporate Governance Committee (ACGC), the Process is reviewed by CMT and approved by the Executive Director (Corporate Services). The Process is noted by ACGC when setting the Strategy. These approvals were completed in [June 2017](#).
4. An Internal Audit review of the Risk Management processes has recently been completed, and this identified some opportunities for improvement. The approach to risk management has also been discussed at recent workshops, when reviewing the Strategic Risk Register. Consequently we have updated the Risk Management Strategy and Risk Management Processes.
5. This report is being presented to ACGC to approve the Council's Risk Management Strategy.

Recommendations

6. Members of the ACGC are asked to approve the draft Risk Management Strategy and note the Risk Management Processes documents.

Reasons for Recommendations

7. The Council's risk management framework is a key component of its governance arrangements.
8. ACGC approves the Council's Risk Management Strategy on an annual basis.

Background and supporting information

9. The review has proposed some changes to the Risk Management Process, but the Risk Management Strategy remained unchanged. The main changes to the Risk Management Process are summarised below and are for information only:

Terms of reference

10. We added a terms of reference in the Risk Management Process.
11. Feedback from managers has been that there was some confusion over terminology, which is not surprising as there are often interchangeable terms used in different organisations. Also some terms, such as residual risk, can be interpreted differently.
12. The terms of reference are included in Appendix C.

Risk scoring

13. Risk Management processes enable risks to be scored at three stages:
- Inherent risk (called Gross Risk on 4Risk reports);
 - Current risk (called Net Risk on 4Risk reports); and
 - Target risk.
14. Currently the Council uses Inherent risk and Current risk, and these are included in the standard report formats.
15. Feedback from risk management workshops and management meetings highlighted that the using target risk scores will provide a more action focussed approach to risk management compared to using inherent risk scores. The reporting emphasis would be on where we are now, and where we would like to be.

Risk reporting

16. Feedback from risk management workshops and management meetings highlighted that there were a number of existing strategic risks which were being managed effectively, and the Current risk was reduced to an acceptable level.
17. This provided an opportunity to challenge the benefit of reporting these risks.
18. Currently the criteria for reporting a risk is based on the Inherent Risk score. It is proposed to change this to the Current Risk level.
19. An example from the previous risk workshops was “Inadequate IT Investment”. As the risk is being effectively managed it would not need to be reported. The risks could still be recorded in the 4 Risk Management system, for historical purposes and could be a useful point of reference, should we need to provide assurance that key risks are being managed.
20. This would potentially change what risks would be reported on the Strategic Risk Register, depending on the risk appetite being agreed with EMT.

4 Risk system training

21. The review highlighted that managers would welcome additional training on using the 4 Risk system.

22. Further training will be delivered to managers following adoption of the revised Risk Management Strategy and Risk Management Process.

Risk categories

23. The Risk Management Process contains a number of categories for risks. This can be useful for analysis throughout the organisation.
24. These have been reviewed and we have added a “Commercial Activities” category reflecting that this is increasingly becoming a focus for the Council.

Summary

25. The Risk Management Strategy is presented for annual approval without any changes made since June 2017.

Considerations

26. Useful things to consider, when reviewing the document, could include:
- Are there any areas which do not make sense, and require clarification?
 - Are there any other aspects of risk management which should be included in the document (i.e. where you would welcome further guidance)?

Options

27. Not applicable

Implications

28. 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

29. The Risk Management Strategy is key to ensuring management understand their roles and responsibilities for managing risk.

Background documents

- Risk Management Strategy (appended).
- Risk Management Process (appended).

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Appendix A – Risk Categories

Risk Category	Risk Description
<i>Growth</i>	Opportunity to influence the growth agenda to ensure the Council meets its Objectives.
<i>Financial</i>	Failure to effectively manage the Council's assets and finances including budget monitoring, financial priorities, medium/long term planning, fraud prevention.
<i>Health & Safety</i>	Failure to manage health and safety effectively leading to a prosecution under the Corporate Manslaughter Act or other health and safety legislation.
<i>Major Projects</i>	Failure to adequately manage and control major SCDC projects.
<i>Climate Change</i>	Failure to meet Council's climate change commitments.
<i>Recruitment & Retention</i>	Failure to recruit and retain adequate number of suitable staff leading to key person dependency and loss of capacity building opportunities.
<i>Legislation</i>	Failure to ensure compliance with legislation.
<i>Business Continuity</i>	Failure to adequately plan and manage processes for unforeseen events (Civil Emergency Plan, Business Continuity Plans, IT failure)
<i>Reputation</i>	Damage to Council's reputation through adverse media coverage.
<i>Partnerships</i>	Failure to adequately manage and control partnerships working and joint agency activity and key contractor relationships.
<i>Equalities/Social Exclusion</i>	Failure to manage equalities/social exclusion (including duties for specific vulnerable groups).
<i>Political</i>	Ineffective political leadership, policy development and community leadership; member support.
<i>Officer/Member Relationships</i>	Ineffective officer/member working relationships.
<i>Planning & Leadership</i>	Opportunity to maintain and continue to improve Council efficiency through clear strategic focus, planning and leadership.
<i>Governance *</i>	Inappropriate internal governance.
<i>Procurement & Contract Management</i>	Failure to ensure effective procurement and contract management arrangements.
<i>IT & Technology</i>	Failure to properly manage IT, data and the Council's website.
<i>Change Management</i>	Ineffective management of change, inadequate capacity and knowledge.
<i>Physical Property & Assets</i>	Failure to properly manage property and other assets, to prevent damage, loss or theft.
<i>Commercial Activities</i>	Council entering into commercial projects leading to financial loss, reputational damage or conflict of interests.

** (N.B. Governance refers to the framework of policies and procedures in place that ensure accountability and transparency of the way in which the Council undertakes its activities).*

Appendix B – Risk Scoring

South Cambridgeshire District Council – Risk Matrix

Impact	5	5-10 Medium	5-10 Medium	12-15 Significant	16-25 High	16-25 High
	4	1-4 Low	5-10 Medium	12-15 Significant	16-25 High	16-25 High
	3	1-4 Low	5-10 Medium	5-10 Medium	12-15 Significant	12-15 Significant
	2	1-4 Low	1-4 Low	5-10 Medium	5-10 Medium	5-10 Medium
	1	1-4 Low	1-4 Low	1-4 Low	1-4 Low	5-10 Medium
		1	2	3	4	5
		Likelihood				

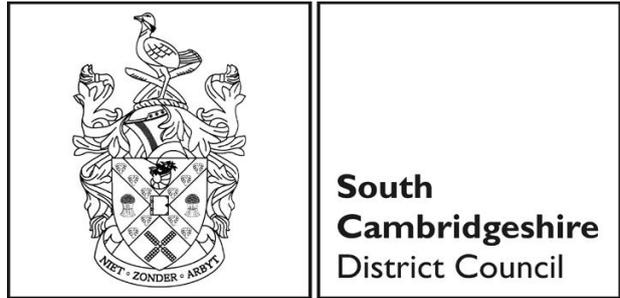
Score	Impact	Description
5	Critical	The consequences of this event occurring could cause the failure of a number of services or result in the Council having its powers removed through government intervention. The level of financial impact is likely to be over £500,000 in any year.
4	Significant disruption &/or damaging	Significant – the consequence of such an event occurring could cause the failure of the service or bring the Council into serious disrepute. The level of financial impact is likely to be up to £500,000 in any year.
3	Noticeable effect	This type of risk event would have a significant impact on a service's ability to provide its full range of activities. The result of this is that the integrity of the service/Council would be called into question by, for example an inspection service. The level of financial impact is likely to be up to £300,000.
2	Some limited disruption	These types of events can normally be dealt with through the normal day to day management of the service and internal control mechanisms. The level of financial impact is likely to be up to £50,000 in any year.
1	Virtually no impact	These events may be recognized internally but generally have no external impact and can be resolved quickly. The level of financial impact is likely to be under £5,000 in any year.

Score	Likelihood	Description
5	Dead Cert	In this case the event(s) may have already happened in the relatively recent past. Without controls it will happen again and may even occur despite controls. Projected increase in insurance premiums
4	Probable	The event is more likely to happen than not but there remains some possibility it will not. The chance of occurrence may be around 75%+.
3	Strong possibility	There is an even chance that this event may occur. (A probability would be around one in two, (50%)).
2	Some possibility	These events are not likely to occur but there remains some possibility it will. (A probability of a one in ten chance of this event occurring (10%)).
1	Little chance	These events will only occur in exceptional circumstances. (A probability of less than one in fifty (2%)).

Appendix C – Definitions used at the Council

Term	Guidance
Cause	The trigger for the risk to occur.
Consequence	What the Council will see happen as a result of this risk occurring.
Impact	Significance to the Council should this risk occur.
Likelihood	The likelihood of something happening over the next 5 years.
Controls	Processes in place at the Council designed to reduce the impact or likelihood of the risk occurring.
Actions	Additional processes which, if put in place, will further reduce the impact or the likelihood of the risk occurring.
Risk tolerance	The amount of risk which the Council can manage.
Risk appetite	<p>The amount of risk which the Council is prepared to take, in pursuit of its objectives.</p> <p>Risk appetite is typically lower than risk tolerance.</p> <p>For example the impact of reductions in government funding may be above the appetite, but this risk can be managed and is within the risk tolerance.</p>
Inherent risk score (called Gross on 4Risk)	<p>This is the impact and likelihood of the risk arising, if no controls were in place.</p> <p>This is sometimes called the gross risk or pure risk. It can be useful to consider this when designing a new activity or system.</p>
Current risk score (called Net on 4Risk)	<p>This is the impact and likelihood of the risk arising, after controls have been implemented.</p> <p>This is sometimes referred to as a net risk, and is useful for communicating the level of risk at this point in time.</p>
Target risk score	<p>This is the impact and likelihood of the risk arising, which can be achieved by further actions.</p> <p>This is useful for communicating what the future risk level will be after actions have been implemented.</p> <p>The actions will reflect the risk appetite. Typically the target score will be lower than the current score, as improved controls are implemented. However in some circumstances the score may increase, as the Council may be undertaking a riskier activity to achieve some positive outcomes.</p>
Service risk	This is a risk, and is typically assigned to a service, which can be managed operationally by the officers undertaking the activity.
Strategic risk	<p>This is a risk affecting the Council as a whole and needing a solution at a senior management level or higher.</p> <p>This is sometimes referred to as a Corporate Risk, and may be relevant to more than one service.</p> <p>Where a service risk reaches a level of importance so that it can affect the Council as a whole, the Strategic Risk register should be reconsidered in the light of this new risk.</p>

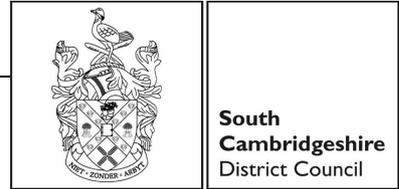
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Risk Management Strategy

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Risk Management Strategy



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Appendix A Roles and Responsibilities

1. Definition of Risk

- 1.1 South Cambridgeshire District Council considers risk to be the possibility that an unwanted or uncertain action or event
- will cause injury, loss, damage,
 - will prevent the Council from identifying and taking advantage of opportunities or
 - will adversely impact the ability of the Council to deliver its services, or achieve its objectives and priorities.

2. Governance

- 2.1 The governance framework is the system which helps South Cambridgeshire District Council to ensure that it achieves the right outcomes for the residents of South Cambridgeshire in an open and honest way.
- 2.2 The Council's primary role is to fulfil its statutory obligations. The Council also has a Long Term Vision that South Cambridgeshire will continue to be the best place to live, work and study in the country. Supporting the Vision is a Corporate Plan with strategic objectives and associated actions.
- 2.3 The Council has a responsibility to consider risks involved in providing or enabling service delivery, both in fulfilment of its statutory obligations and in achieving its strategic objectives
- 2.4 EMT will review the report on Risk Management Strategy and Process annually, or more frequently if required, and make any recommendations regarding them to the Audit and Corporate Governance Committee. The Audit and Corporate Governance Committee will receive a report on the Risk Management Strategy and Process and approve the Strategy annually, or more frequently if required.

3. Risk Management – purpose and objectives

- 3.1 The objective of the Risk Management Process is to identify, evaluate and control risks. Risk Management is a key element of the Council's Governance framework.
- 3.2 It will not always be feasible completely to eliminate risk. Indeed, calculated risk-taking may be required in certain circumstances to achieve innovative or creative solutions.
- 3.3 Risk appetite - the amount and type of risk the Council is willing to take in order to meet its strategic objectives. The Council sets baseline level of risk it is prepared to accept before taking an action at financial loss of £50,000, as well as the likelihood and impact of threats having a net rating of 4 in accordance with the Council's risk scoring matrix.

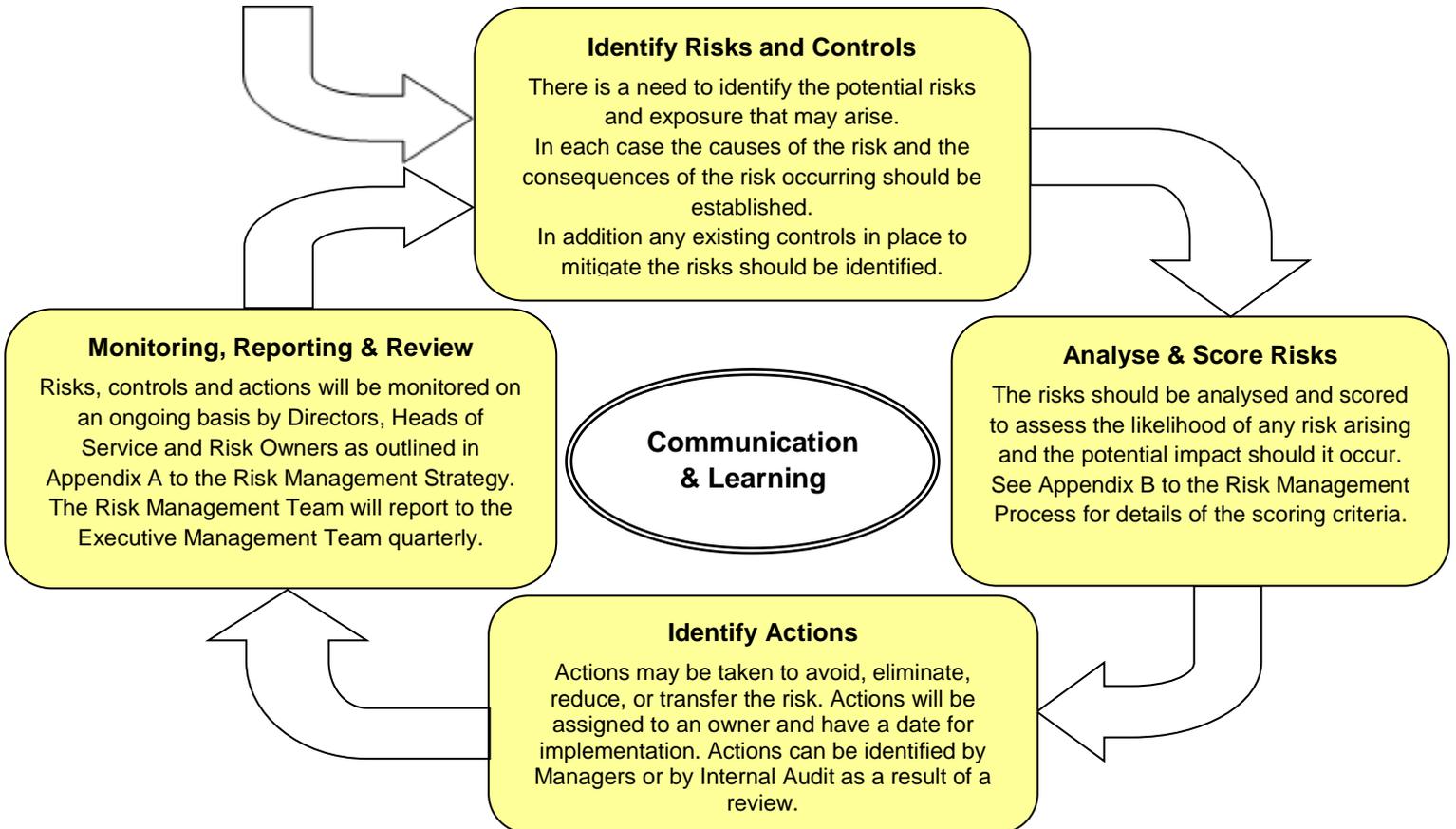
- 3.4 The Council's decision-making should be risk-aware but not risk-averse, as part of which risk appetite will be applied on a case by case basis, after evaluating the balance of risk and benefit presented.
- 3.5 The system of internal control is a key part of the governance framework and is designed to manage risk to a reasonable level. Internal Audit regularly reviews the system of internal control, providing independent assurance on the adequacy and effectiveness of the controls in place to manage risks. Actions are also agreed with management to improve controls.
- 3.6 Risk management also enables the Council to take up opportunities in a controlled manner, where the risks exist, but are recorded, mitigated and monitored.
- 3.7 Roles and responsibilities within the Council for embedding and monitoring Risk Management are outlined in Appendix A to this document.
- 3.8 The Benefits of Good Risk Management in assisting the Council to achieve objectives and deliver services are as follows:
- Support Governance Framework
 - Greater control of insurance costs
 - Helps to inform the decision making process
 - Better management of change programmes
 - Identifies and explores opportunities to enable innovation
 - Supports value for money
 - Supports the Performance Management Framework
 - Minimises the impact of failure
 - Maintains service provision through adversity
 - Manages partnerships, suppliers, contractors and ongoing services
 - Helps to comply with legal and regulatory requirements
 - Manage external changes in culture, political environment, etc

4. Objectives of the Risk Management Strategy

- 4.1 The objectives of the strategy are to:
- (a) Integrate Risk Management into the culture of the Council, including a process to identify and report upon existing and emerging risks to the Council.
 - (b) Manage risks in accordance with best practice, so that they are eliminated or controlled to an acceptable level.
 - (c) Raise awareness of the need for managers responsible for the Council's delivery of services to undertake Risk Management.

5. Approach to Risk Management.

5.1 The Council employs a simple four step process to manage its risks:



5.2 These steps, and how they are achieved, are outlined in greater detail in the Risk Management Process document and Roles and Responsibilities in Risk Management are outlined in Appendix A.

5.3 In accordance with best practice, Risk Management at the Council incorporates the identification and management of strategic risks, service area risks, project, programme and shared service risks. The process is thus embedded throughout the Council.

5.4 This Risk Strategy document aims to ensure that risk is appropriately managed in accordance with Statutory Instrument 2015 No. 234 for Local Government, England & Wales: Accounts and Audit Regulations 2015.

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Roles and Responsibilities

It is vital that everybody understands the role that they play in effective risk management, with every employee and Member of SCDC being responsible for ensuring effective risk management. The roles and responsibilities in the Risk Management Process are detailed below:-

Group or Individual	Roles and Responsibilities
Audit and Corporate Governance Committee	Members of the Committee have the role of overseeing the effective management of risk by officers. In effect this means that they will approve the Strategy put forward by officers and review its application.
Portfolio Holders	Portfolio holders will ensure that risks are considered as part of the Service Planning and review risks regularly with the relevant Director.
Cabinet	Cabinet will review and approve the Strategic Risk Register quarterly.
Executive Director (Corporate Services)	The Executive Director (Corporate Services) is the senior manager responsible for Risk Management and will ensure that the Council's Risk Management Strategy and Process are reviewed at least annually and that the Council's Strategic Risk register is reviewed quarterly.
Executive Management Team	Executive Management Team will review the Risk Management Strategy and Process. They will carry out quarterly reviews of the key risks facing the Council and progress with the implementation of overdue and outstanding actions.
Company Directors of Companies controlled by the Council	Company Directors of the Companies controlled by the Council are part of the Council's Risk Management strategy and process. Company Directors are responsible for managing the risks within their Company and ensuring that risk activity and targets for implementing actions are achieved and that the risk register is updated on a timely basis on the Risk Management Software.
Corporate Management Team / Heads of Service	Corporate Management Team / Heads of Service will support the Risk Management strategy and process. Heads of Service are responsible for managing the risks within their service and associated projects and ensuring that risk activity and targets for implementing actions are achieved and that the risk register is updated on a timely basis on the Risk Management Software. Corporate Management team will review on a quarterly basis Service Risk Register reports and Risk Registers relating to the risks presented to the Council.
Project Managers	Identify risks likely to impact upon the successful delivery of project objectives as part of project initiation and business case development, analysing each for its likelihood and impact and identifying appropriate mitigations. Draft and maintain project risk register, identifying interdependencies with strategic and service risks as required.

<p>Risk Management Team</p>	<p>The Risk Management team (PA (GF&P) and Internal Audit) is responsible for the implementation of the integrated strategy and process on behalf of the Council and its Executive Management Team. This team is essentially fulfilling a controlling and facilitation role – to ensure the processes are implemented and to offer guidance and advice. The Risk Management Team provides advice, guidance, support and challenge on all aspects of Risk Management including training on the use of the Risk Management Software (4Risk).</p>
<p>Internal Audit</p>	<p>Internal Audit provides independent assurance on the effectiveness of controls within the Council to mitigate risks. Internal Audit supports the risk management process. It utilises the risk register for monitoring the progress of management agreed actions resulting from audit reports. As part of the production and presentation of the annual Head of Internal Audit Opinion to the Audit and Corporate Governance committee, Internal Audit comments on the appropriateness of the risk management process within the Council; as well as identifying areas of no or limited assurance and the associated actions required.</p>
<p>Partners (including Shared Services, Combined Authority and Companies)</p>	<p>SCDC works with a wide range of partners in delivering its services. It is important that those partners are brought into the risk management framework. At times it will be appropriate for partnerships / shared services to be undertaken. However, it is essential that accountabilities are adequately determined and that SCDC does not overlook any risks that may fall on it arising from its part in a joint venture. Even where there is transfer of operational risks, there will undoubtedly be some residual risks falling on the authority. It is not possible to transfer responsibility for the risk management process.</p>