

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL
AUDIT AND CORPORATE GOVERNANCE COMMITTEE
30 JUNE 2017

ANNUAL REPORT OF THE INTERNAL AUDIT SERVICE 2016 / 2017

RECOMMENDATION:

Members of the Audit and Corporate Governance Committee are asked to consider, review, and provide challenge to the attached Head of Internal Audit Annual report for the year ended 31 March 2017.

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ANNUAL REPORT

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1. INTRODUCTION

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

2. BACKGROUND

- 2.1 The 2016 / 2017 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards and the requirements of the Accounts and Audit Regulations 2015.
- 2.2 The Council continues to evolve and change. The drivers for change are both organisational (e.g. developing smarter ways of working) and financial (e.g. national austerity programme). During a period of change it is important that any increased business risks are identified and managed in an effective manner. Our 2016 / 2017 audit plan reflected these changes by concentrating on those areas of highest risk.

3. ASSURANCE

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

3.3 Our work is carried out to assist in improving control. **However management is responsible for developing and maintaining an internal control framework.** This framework is designed to ensure that:

- The Council's resources are utilised efficiently and effectively;
- Risks to meeting service objectives are identified and properly managed; and
- Corporate policies, rules and procedures are adequate, effective and are being complied with.

3.4 Assurance is received from a number of sources. These include the work of Internal Audit; assurance from the work of the External Auditor; the Annual Governance Statement and the risk management process. This enables a broader coverage of risks and ensures that the totality of the audit, inspection and control functions deployed across the organisation are properly considered in arriving at the overall opinion.

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

4. ADDED VALUE SERVICES

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

5. QUALITY, PERFORMANCE AND CUSTOMER FEEDBACK

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

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

- 5.3 The internal audit plan for 2016 / 2017 contained 242 days, and these have been delivered. I am satisfied that there was adequate staffing resources available to deliver the audit activities in the year. The section is made up of a complement of 1.20 FTE and there were no staffing changes during the year.
- 5.4 The audit work that was completed for the year to 31 March 2017 is listed in **ANNEX B**, which summarises all the audits undertaken and their results in terms of the audit assurance levels provided and the number of actions agreed.
- 5.5 Our reporting protocols have remained constant throughout the year with the following assurance ratings used:
- Substantial (replaced 'Full' in April 2016);
 - Reasonable (replaced 'Significant');
 - Limited; and
 - No
- 5.6 Similarly, the agreed actions are categorised in the following types, based on their severity, and these have remained the same during the year:
- Critical
 - High
 - Medium
 - Low
- 5.7 At the year-end a number of audits were in various stages of completion and audit opinions relating to these will be reported during 2017 / 2018.
- 5.8 Following professional changes, there is no longer a requirement for the Committee to be provided with a report into the effectiveness of Internal Audit on an annual basis. However, this report is seen as going someway to maintaining / providing that on-going assessment. A regular review will still be undertaken of the service and any issues identified will be referred through to Members.
- 5.9 It should be noted the continuation of shared management arrangements with Peterborough City and Cambridge City Councils for the full year although this was due to cease at the end of the financial year. Discussions are currently in train as to how the service moves forward

as a two way shared service with Cambridge City Council as reported through Cabinet in January 2017. Recruitment to the post of Head of Audit has proved to be unsuccessful. Consultation is in hand for the TUPE transfer of the Senior Auditor to Cambridge.

- 5.10 In undertaking the audit plan it is important that dialogue across the Council works well. During the year, it was noted that response times increased, leading to delays in completing audits (due to requested information not being provided) and also agreeing draft reports and the associated recommendations. In order to look to address this, we will look to revisit our Audit Charter, setting out our standards and what we expect from Officers, and use this document to publicise and raise our profile through Corporate Management Team.

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

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

7. **2017 / 2018 PROGRESS**

- 7.1 As well as finalising the works from the previous year, we have commenced on our new Audit Plans. Progress to date has been in relation to audits in relation to Taxi Licensing and also Waste Services.

Steve Crabtree
Head of Internal Audit
June 2017

ISSUES ARISING FROM THE DELIVERY OF THE INTERNAL AUDIT PLAN DURING 2016 / 2017

Annual Governance Statement (AGS):

CIPFA have introduced a new governance framework for local government which was produced in April 2016. The new framework applies from 2016 / 2017 and will shape the local code of governance and underpin the AGS. The draft code will, following submission require approval at Council. We have provided some commentary to these draft document which will be finalised for the September committee cycle.

National Fraud Initiative:

The Council is required to participate in the National Fraud Initiative, a national data matching exercise organised by the Cabinet Office every 2 years. This matches data within and between audited bodies to prevent and detect fraud. This includes police, fire and rescue authorities, health provision as well as other Councils and Housing Associations. This is a wide ranging exercise and includes various datasets, including Housing Benefits, Payroll, Housing Rents, Insurance claims, Creditors, and Licences. This activity is currently linked with Internal Audit although it was reported as part of the Audit Plan 2017 / 2018 that this would no longer be the case – no time is included in the plans – but has not yet transferred. There is some time implications on the new audit plan which will be analysed and reported at the next meeting.

Corporate Governance (Gifts and Hospitality):

No assurance was reported into this activity. A lack of evidence was available in relation to declarations although steps have been adopted to address this. A follow up will be commissioned to look at progress.

AUDIT PLAN COVERAGE

CARRIED FORWARD ACTIVITIES									
Housing Benefits	Prior Review: FULL March 2015	New Assurance: REASONABLE	Critical: 0	High: 1	Medium: 0	Low: 1	Total: 2	There is an expectation that officers within the section notify their team leaders / managers of any individuals they may know who is on benefits. These accounts are then blocked from their access. Regular declarations are made by staff. However, while these are in place, they had not all been actioned on the system. Management agreed to review all declarations to ensure they had been suppressed on the system.	
Accounts Payable	Prior Review: SIGNIFICANT March 2015	New Assurance: REASONABLE	Critical: 0	High: 2	Medium: 0	Low: 0	Total: 2	There has been improvement in the use of electronic system, E-BIS to make payments, however further improvements can be made to reduce the reliance on manual intervention.	
Corporate Governance (Gifts and Hospitality)	Prior Review: Not applicable	New Assurance: NO	Critical: 0	High: 8	Medium: 1	Low: 0	Total: 9	<p>The Council has clear guidance in place in relation to Gifts, Hospitality and Sponsorship for both Officers and Members.</p> <p>There was no evidence that any declarations that have been made had been reviewed or who was responsible for such reviews. Furthermore, were the declarations were recorded electronically, no one had access to review these logs.</p> <p>Ownership has been agreed with the Head of Legal Practice who will instigate a full review following the appointment of the Deputy Monitoring Officer.</p>	

HOMES FOR OUR FUTURE								
Ermine Street Housing	Prior Review: Not applicable	WORK IN PROGRESS						
Homelessness	Prior Review: Not applicable	Assurance: LIMITED	Critical: 0	High: 3	Medium: 1	Low: 1	Total: 5	<p>The objective of the audit was to ensure that the Council complies with legislative changes, use of Bed and Breakfast accommodation and the management of data / systems.</p> <p>The audit did not undertake an in-depth assessment of other forms of temporary accommodation, or to assess whether the strategic leadership, direction and other aspects of the day to day management of the service were of an appropriate standard.</p> <p>A number of gaps, particularly in relation to policies and procedures; personal data storage; and the data systems were identified.</p>

CORE SYSTEMS ASSURANCE WORK (Follow Up Of Previous Audits on Core Activities)								
Accounts Receivable (Follow Up)	Prior Review: LIMITED	New Assurance: REASONABLE	Completed: 4	In Progress: 1	Outstanding: 2	Cancelled: 0	Additional: 0	
Benefits (Follow Up)		Prior Review: REASONABLE	New Assurance: REASONABLE	Completed: 1	In Progress: 1	Outstanding: 0	Cancelled: 0	Additional: 0
VAT (Follow Up)		Prior Review: FULL	New Assurance: FULL	Completed: 0	In Progress: 0	Outstanding: 0	Cancelled: 0	Additional: 0
Housing Rents (Follow Up)		Prior Review: SIGNIFICANT	New Assurance: REASONABLE	Completed: 1	In Progress: 1	Outstanding: 0	Cancelled: 0	Additional: 0
Business Rates / Council Tax		Prior Review: SIGNIFICANT	New Assurance: SIGNIFICANT	Completed: 1	In Progress: 0	Outstanding: 0	Cancelled: 0	Additional: 0

CORE SYSTEMS ASSURANCE WORK		
Budgetary Control	Prior Review: Not applicable	DEFERRED Due to the ongoing works on implementing the Main Financial System across three Councils – it has been considered appropriate to defer this audit into 2017 / 2018. Time has been reallocated to the Safeguarding Audit and the Ermine Street Housing Audit.

ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK

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

Annual Governance Statement	COMPLETED. The Annual Governance Statement was submitted to Audit and Corporate Governance Committee in September 2016 following review at Executive Management Team in the same month. Internal Audit has reviewed the methodology used to collect, collate and interpret the information and have identified no gaps. Internal Audit has provided suggestions and commentary on taking this forward in light of new changes made to the Good Practice Governance Framework for Local Authorities.	
Annual Audit Opinion	COMPLETED. The Annual Audit Opinion was submitted to Audit and Corporate Governance Committee in June 2016, highlighting all Internal Audit activity for the previous 12 months together with any areas of concern.	
Fraud and Corruption	COMPLETED As part of the realignment of fraud investigations, Internal Audit has been an active member of the working group set up to provide appropriate solutions. A separate report on this is due to be submitted to EMT in Quarter 4. THIS HAS SUBSEQUENTLY BEEN DEFERRED TO JUNE 2017.	
National Fraud Initiative	ONGOING The biannual fraud initiative. Data matches were received in February 2017 covering a series of datasets provided to an external body. Internal Audit has undertaken a routine sift and those requiring investigation have been allocated to a number of officers across the Council to investigate. At present Internal Audit retain the coordination role but is expected to transfer as part of the above review. COMMENT ABOUT RESOURCES IN MAIN BODY	
Safeguarding	Prior Review: Not applicable	DRAFT The audit is focussed on the policies, procedures, awareness and evaluation of safeguarding across the Council. Matters arising from this audit have been provided to the Directors for comment prior to producing the report.

ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK

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Flexible Working Arrangements	Prior Review: Not applicable	Assurance: REASONABLE	Critical: 0	High: 1	Medium: 3	Low: 2	Total: 6	The review focussed on the current policies and procedures in place as the Council looks to the future for a greater level of smarter ways of working. The existing policies, procedures and guidance while satisfactory, will need to be improved in order for the Council to be more agile.
Driver Competency	ABORTED The audit was due to commence In Quarter 3 however it was put on hold during testing following request from senior management due to separate works being undertaken at the Depot. The audit as at May 2017 has not been resurrected.							
Performance Management (Follow Up)	Prior Review: LIMITED	Assurance: REASONABLE	Completed: 4	In Progress: 0	Outstanding: 0	Cancelled: 0	Additional: 4	Due to organisational changes within SCDC i.e. the use of Corporate Management Team to oversee aspects of Performance Management, additional actions were identified to improve on its governance arrangements.

UNPLANNED ACTIVITIES: PROJECT MANAGEMENT / GENERAL ADVICE

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

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

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

- Corporate Fraud Project