



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

Telephone: (01954) 713445

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