

**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL  
AUDIT & CORPORATE GOVERNANCE COMMITTEE  
30 JULY 2019  
ANNUAL REPORT OF INTERNAL AUDIT**

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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 with then contribute to the Annual Governance Statement.

## **2 BACKGROUND**

- 2.1 The 2018 / 2019 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 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 If the audit reviews undertaken 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 & Corporate Governance Committee.

- 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, governance and risk management arrangements, during the financial year 2018/19, 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 a number of projects and key working groups.

#### **6 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

- 6.1 The Internal Audit team was independently assessed by CIPFA in 2018, using the Public Sector Internal Audit Standards and the Local Government Application Note. This concluded that the Internal Audit Team "generally conforms" with the requirements of the standards. This was the top-level accreditation and was reported separately to the Committee. This process is completed once every five years.
- 6.2 The Internal Audit team is committed to continuous improvement and also completes an annual self-assessment to the standards. This enables us to conclude that we still continue to conform with the professional standards.
- 6.3 The Internal Audit Team is a shared service, with Cambridge City Council. During 2018/19 we have been reviewing our working processes and consolidating our procedures to achieve efficiencies.
- 6.4 A Business Plan and Annual report is prepared as part of our Shared Service governance arrangements, and is reported to Cabinet. Management of resources is recognised as a risk in the Business Plan for the Shared Service. The team utilises agency workers to cover vacant posts, when needed. I am satisfied that there were adequate resources available to deliver the audit activities in the year and provide an annual opinion.
- 6.5 The audit work that was completed for the year to 31 March 2019 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.

- 6.6 Our reporting protocols have remained constant throughout the year with the following assurance ratings used:
- Full
  - Reasonable
  - Limited; and
  - No assurance
- 6.7 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
- 6.8 In 2018/19 we agreed with management that we would start to record actions within the corporate risk management system. This will help management keep track of their actions and will help us to monitor their progress.
- 6.9 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.
- 6.10 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, and audit opinions relating to these will continue to be reported during 2019 / 2020.
- 6.11 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 2018/19 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 2018/19, and this remains at a similar level to the previous year.

Jonathan Tully  
Head of Shared Internal Audit  
July 2019

## ANNEX A – AUDIT PLAN COVERAGE

The following pages provide information on work completed throughout the 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:

Review	Prior Review	Assurance	Actions summary					Total	Supporting information
			Critical	High	Medium	Low			
Agency Contract Audit	New review	Reasonable	0	0	2	3	5	<p>The recruitment of agency staff is managed through a framework contract, which is intended to provide the Council with an efficient and cost-effective solution, as the Council can spend up to £2m on Temporary Agency Workers. Our review of controls established that controls were operating effectively, and provided assurance that:</p> <ul style="list-style-type: none"> <li>• guidelines and procedures have been established and communicated to staff;</li> <li>• payments are made correctly and are appropriately authorised; and</li> <li>• value for money is being achieved.</li> </ul>	

			Actions summary					
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	Supporting information
Risk Management	New review	Reasonable	0	1	10	0	11	<p>We reviewed the Council's risk management framework, using best practice guidance. The Council scored highly and is placed just inside the top "Risk Enabled" organisational banding.</p> <p>The risk management and supporting procedures and protocols relating to risk registers have been widely and consciously embedded at the Council.</p> <p>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 (EMT) and the Corporate Management Team and also at quarterly performance meetings.</p> <p>We identified a number of opportunities for further improvement, once the new Business Plan was adopted and these are now being implemented.</p>

Review	Prior Review	Assurance	Actions summary					Supporting information
			Critical	High	Medium	Low	Total	
Gifts and hospitality	None	Reasonable	1	7	1	1	0	<p>We undertook a planned follow-up review as this area had previously received no assurance, and organisational changes presented a risk that agreed actions may have not been implemented.</p> <p>It is positive to note that actions have been implemented which has enabled us to provide an improved assurance level.</p> <p>We also identified a number of actions as part of this review, such a promotion to staff, and updating documents as part of the commencement of the constitutional review, which have been promptly implemented following this review.</p>

			Actions summary					
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	Supporting information
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>

			Actions summary					
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	Supporting information
Housing Options	New review	Reasonable	0	0	3	0	0	<p>This review concluded that there was good record keeping, voids are low and costs and arrears are well managed.</p> <p>Actions for improvement included: recruitment to vacant positions in the team and the board; improve data by exploring the use of a managed system to replace spreadsheets; and development of a maintenance contract.</p>

Review	Prior Review	Assurance	Actions summary					Supporting information
			Critical	High	Medium	Low	Total	
HRA – Electrical Safety Compliance	New review	Limited	0	3	9	0	12	<p>Under the Landlords and Tenants Act 1985, the Council have a legal duty to ensure that the electrical installation in a rented property is safe when a tenancy begins; and also throughout the tenancy. We reviewed controls and sample tested the electrical certificates for a selection of properties.</p> <p>There are areas of good practice within the team, and the Service has taken proactive measures to review the stock condition of all its HRA properties.</p> <p>Our review has also highlighted that although proactive work has been undertaken, there is still further work required to ensure properties comply with the electrical standards and that data held within asset management system is accurate. The main themes for improvement were around data cleansing prior to migration to a new system; improving contract management; and improving compliance reporting for management. This will be followed up in the current audit plan.</p>

Review	Prior Review	Assurance	Actions summary					Supporting information
			Critical	High	Medium	Low	Total	
HRA – Gas Safety Compliance	New review	Reasonable	0	0	8	3	11	<p>Under the 'Gas Safety (Installation and Use) (Amendment) Regulations 2018', the Council have a legal duty to ensure all Council owned gas appliances in the properties are checked at intervals of no more than 12 calendar months with a Landlords Gas Safety Record (LGSR) generated and issued to the tenant and the Council by a competent qualified engineer who is registered on the Gas Safe Register. Gas safety inspections, including gas servicing, are carried out by a contractor.</p> <p>Our review has highlighted that there are clear procedures in place for undertaking gas safety inspections within the 12-month mandatory period, including good processes for recording Landlord Gas Safety Records (LGSR). There are opportunities to improve the document management of certificates and void properties and this has been reflected in the action plan.</p>

			Actions summary					
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	Supporting information
Information Governance – GDPR	New review	Reasonable	0	0	0	0	0	<p>We reviewed the Councils preparation for the implementation of the General Data Protection Regulations and the revised Data Protection Act. There were no significant areas of concern, and the Council had a robust approach to identifying areas for improvement.</p> <p>This review is also included in the audit plan for 19/20 to monitor the improvement plan.</p>
Insurance	Limited	Reasonable	0	0	1	4	5	<p>We completed a follow-up review as the system had previously received Limited assurance. It is pleasing to note that of the two high category management agreed actions from the original report are now in progress and the assurance level has improved as a result.</p>

Review	Prior Review	Assurance	Actions summary					Supporting information
			Critical	High	Medium	Low	Total	
National Non-Domestic Rates	Reasonable	Substantial	0	3	4	1	8	<p>The Council's performance on of NDR income is strong. In 2017/18 it collected 99.4% of its collectable NDR income and in 2016/17 this figure was 99.5% of collectable 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 found these to be essentially adequate and sound.</p> <p>Opportunities for improvement include reviewing the counter fraud arrangements in response to emerging risks; and reviewing the governance of the Property Information Project, which has the objective of developing processes to share information across SCDC on planning permissions and the commencement, completion and occupation of developments both for business (the specific focus of NDR) and residential uses.</p>

			Actions summary					
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	Supporting information
Trading operations - Trade waste	New review	Reasonable	0	0	2	1	3	<p>We undertook a review of trade waste, prior to developing an embedded assurance process for ISO accreditation.</p> <p>Our review of controls established that controls were operating effectively, and provided assurance that:</p> <ul style="list-style-type: none"> <li>• Service provision is well documented with regards to Commercial / Trade Waste</li> <li>• The Shared Waste Service has a good market presence.</li> <li>• There is a process documented for booking Trade Waste, and income due is collected and banked intact.</li> <li>• A Memorandum of Understanding exists that records how GCSWS will be run including detail of how any loss / profit resulting from annual operations will be apportioned.</li> </ul>

Review	Prior Review	Assurance	Actions summary					Supporting information
			Critical	High	Medium	Low	Total	
Ermine Street - Governance	Reasonable	Reasonable	0	0	0	3	3	<p>Governance structure, roles and responsibilities are well documented; statutory reporting including external audit and lodging of accounts with Companies House are completed within the timeframes required. Business planning is particularly strong and consideration has been given to a wide range of sensitivities that the private sector rental market is exposed to through detailed financial modelling.</p> <p>Financial management of loans made by SCDC to ESH are well documented and there are clear procedures for the approval of proposed property acquisitions</p> <p>Boards and Committees are well structured and accurate record keeping of decisions and outcomes is maintained</p> <p>Policies and procedures require review to ensure that they are complete, up-to-date and relevant.</p> <p>Risks management is undertaken, although they could utilise the corporate risk management software.</p>

			Actions summary					
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	Supporting information
Building control fees	New review	Limited	0	4	4	1	9	The Building Control function is a shared service. Overall the system is performing well. However as it was going through a transitional period, to establish the shared service, we agreed some high level actions that would improve the new arrangements by updating delegations, reviewing debt management processes and updating risk management processes.

## **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 Committee in July 2018, 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 Committee in July 2018. Internal Audit has reviewed the methodology used to collect, collate and interpret the information. A revised Local Code of Corporate Governance was also prepared, reflecting the latest standards in the Good Practice Governance Framework for Local Authorities. Subsequent revisions have been required due to the delay in the completion of the Statement of Accounts.
National Fraud Initiative	Completed	The biannual fraud initiative. Data matches were received in February 2019 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.
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 completed in the 2018/19 year which provided assurance that the team conforms with the professional standards.

### **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.

### **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 organisation, and these are detailed below:

#### Added value

Members of the Internal Audit team participate in the following working groups, such as the Information Security Group and provide support such as advising on the control environment. Examples in the year included reviewing the Gifts and Hospitality policy and Accounts closure checklists. We recognise that the Statement of Accounts have not been completed to target timescales, and have agreed to complete some proactive assurance work in the 2019/20 plan.

#### 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. 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 administrative support and coaching on the use of the Risk Management system.