

**REPORT TO:** Audit & Corporate Governance  
Committee

**LEAD CABINET MEMBER:** Not applicable

**LEAD OFFICER:** Head of Shared Internal Audit

24<sup>th</sup> September 2019

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## Internal Audit update

### Executive Summary

1. The purpose of this report is to inform the committee of the work of Internal Audit, completed between April 2019 to September 2019, and the developments within the team.
2. 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.

### Recommendations

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

### Reasons for Recommendations

4. Regular reporting to the Audit & Corporate Governance Committee helps the Committee to understand the governance, risk and control environment, and contribute to the completion of the Annual Governance Statement.

### Details

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 & Corporate Governance Committee, to discharge its governance responsibilities. Our work supports the Council’s corporate objectives, and the corporate governance framework.
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.

## **Options**

There are no options to consider.

## **Implications**

9. There are no significant implications arising.

## **Effect on Council Priority Areas**

### ***Growing local businesses and economies***

10. Not applicable

### ***Housing that is truly affordable for everyone to live in***

11. Not applicable

### ***Being green to our core***

12. Not applicable

### ***A modern and caring Council***

13. The Internal Audit Plan is a key component in helping to provide assurance that the Council has a robust Governance, Risk and Control framework. The plan is cross-cutting, as it considers all Council activities, and also contributes to all Council Priorities.

## **Background Papers**

Not applicable

## **Appendices**

Appendix A: Progress Report

Appendix B: Glossary of terms

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# Appendix A – 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 & 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, to the committee, in July 2019.
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 – .

## **Resources and team update**

4. An audit plan is presented at least annually to the Audit & 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 commenced from April 2019.
5. Progress of the plan delivery is illustrated on the following pages for information.
6. We have been implementing new hardware and software as part of the corporate Council Anywhere roll-out. This is enabling us to start leveraging new technology to support the way that we work, by being more agile, and also developing our use of data analytics to support our assurance work.
7. We have started to use Teams software which enables us to hold virtual meetings and conference calling. The software enables us to co-author and display documents in real-time. This is particularly useful and is also helping us to reduce unnecessary travel between various sites.

## **ISO assurance framework**

8. The Council's Commercial Waste Service has been certified to ISO14001 and ISO9001 since September 2015. The Council has invested in certification for the Commercial Waste Service through assessment by the accredited body British Standards Institute (BSI). This has in turn demonstrated the Council and the Service's commitment to deliver excellence in waste collection services, meeting and exceeding its green targets which include environmental management and pollution control.
9. BSI attend the Service on regular intervals as set out in their audit programme and assess whether the standards to which the Service is committed to maintain are being upheld.
10. One of the ISO14001 requirements is that Management undertake their own internal audits of the standard's requirements.
11. We have recently developed an embedded assurance framework to comply with the standards. This enabled us to undertake a pre-inspection audit of the scheduled elements expected to be reviewed by the BSI Auditor. The purpose of this is to:
  - (a) ensure that the elements to be scrutinised by the external auditor have been reviewed by Management and improved where required; and
  - (b) demonstrate that the Shared Waste Service has an effective internal audit function as required by the ISO Standard.
12. Feedback from the BSI auditor on our approach was positive and we will continue this approach with another two planned reviews later in the year.

## Progress against the plan

### Finalised reviews

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

Audit	Assurance and actions		Summary of report and actions
Program assurance - ISO14001 - Visit 1	<b>Assurance:</b> Current: Previous: <b>Actions:</b> Critical High Medium Low	Reasonable New review  0 3 0 0	<p>ISO 14001:2015 helps an organization achieve the intended outcomes of its environmental management system, which provide value for the environment, the organisation itself and interested parties.</p> <p>The following areas and controls were working well:</p> <ul style="list-style-type: none"> <li>• management’s knowledge of the certification standard;</li> <li>• completeness of documentation;</li> <li>• monitoring and continuous improvement;</li> <li>• management confirmation that any historical management actions have been implemented</li> </ul> <p>We identified some areas which could improve, including:</p> <ul style="list-style-type: none"> <li>• pre-planning for inspection;</li> <li>• electronic file management;</li> <li>• job descriptions; and</li> <li>• inclusion of supporting documentary evidence in electronic files</li> </ul> <p>Overall there is Reasonable assurance that the system is operating effectively. The internal control system is well designed to meet the team’s objectives, address relevant risks, and key controls are consistently applied.</p>

Audit	Assurance and actions		Summary of report and actions
Program assurance - ISO9001 - Visit 1	<p><b>Assurance:</b></p> <p>Current:</p> <p>Previous:</p> <p><b>Actions:</b></p> <p>Critical</p> <p>High</p> <p>Medium</p> <p>Low</p>	<p>Reasonable</p> <p>New review</p> <p>0</p> <p>2</p> <p>0</p> <p>0</p>	<p>ISO 9001:2015 specifies requirements for a quality management system when an organisation:</p> <ul style="list-style-type: none"> <li>needs to demonstrate its ability to consistently provide products and services that meet customer and applicable statutory and regulatory requirements, and</li> <li>aims to enhance customer satisfaction through the effective application of the system, including processes for improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements.</li> </ul> <p>All the requirements of ISO 9001:2015 are intended to be applicable to any organisation, regardless of its type or size, or the products and services it provides.</p> <p>The following areas and controls were working well:</p> <ul style="list-style-type: none"> <li>management’s knowledge of the certification standard;</li> <li>completeness of most documentation;</li> <li>monitoring and continuous improvement;</li> <li>management confirmation that any historical management actions have been implemented</li> </ul> <p>We identified some areas which could improve, including:</p> <ul style="list-style-type: none"> <li>electronic file management;</li> <li>inclusion of supporting documentary evidence in electronic files</li> </ul> <p>We also completed a detailed review of the Integrated Management System, and highlighted opportunities for improvement to help support the system.</p> <p>Overall there is Reasonable assurance that the system is operating effectively. The internal control system is well designed to meet the team’s objectives, address relevant risks, and key controls are consistently applied.</p>

Audit	Assurance and actions		Summary of report and actions
Ermine Street - Operations	<p><b>Assurance:</b></p> <p>Current:</p> <p>Previous:</p> <p><b>Actions:</b></p> <p>Critical</p> <p>High</p> <p>Medium</p> <p>Low</p>	<p>Reasonable</p> <p>Reasonable</p> <p>0</p> <p>0</p> <p>0</p> <p>2</p>	<p>We completed a walk through from property acquisition, inspection, allocation and letting, maintenance of and income management for a representative sample of the property portfolio. This enabled us to:</p> <ul style="list-style-type: none"> <li>• review the day to day operational controls in place for the management of the property portfolio;</li> <li>• review the business case planning and controls in place for the acquisition of properties to the property portfolio; and</li> <li>• assess the internal control mechanisms in place to ensure third party management of properties outside practical geographical management</li> </ul> <p>Areas which were well controlled included:</p> <ul style="list-style-type: none"> <li>• Critical documents such as leases and deeds were maintained securely</li> <li>• Management had a good understanding of the statutory housing standards</li> <li>• Directors and Officers, roles and responsibilities are well documented</li> <li>• Financial feasibility studies are undertaken independently of the Ermine Street Housing staff.</li> <li>• Voids are managed in line with the private letting sector</li> </ul> <p>We made some low level recommendations as part of the review:</p> <ul style="list-style-type: none"> <li>• Record keeping standards could be improved</li> <li>• Policies and procedures require review to ensure that they are complete, and up-to-date for continuity</li> </ul>

## Works in Progress

The following reviews are currently in progress:

Audit	Assurance and actions		Summary of report and actions
Payroll	Current assurance Previous assurance	Reasonable	The objectives of the Payroll system is to ensure the Council pays the right people, the right amount at the right time. We have completed our testing and are currently finalising our report.
Accounts Payable	Current assurance Previous assurance	New review	We are currently undertaking our testing in this area. There are no significant issues arising at this stage.
Accounts Receivable	Current assurance Previous assurance	New review	We are currently undertaking our testing in this area. There are no significant issues arising at this stage.
HRA – Voids and lettings	Current assurance Previous assurance	New review	We are currently undertaking our testing in this area. There are no significant issues arising at this stage.
Key Performance Indicators	Current assurance Previous assurance	New review	We are currently planning our review of Key Performance Indicators.

**Other assurance and consultancy work**

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.

<b>Assurance</b>			<b>Actions</b>			
<b>System reviewed</b>	<b>Date last reported:</b>	<b>Assurance / Status:</b>	<b>Critical:</b>	<b>High:</b>	<b>Medium:</b>	<b>Low:</b>
Annual Internal Audit Opinion	July 2019	Completed	0	0	0	0
Public Sector Internal Audit Standards	July 2019	Completed	0	0	0	0
National Fraud Initiative	July 2019	Ongoing	0	0	0	0

## ***Counter fraud and corruption update***

13. 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 the 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 will be reported, and there are no matters arising at this time.
14. The Council regularly reviews its counter fraud framework. The most recent review identified an opportunity to improve our communications and we have refreshed our internal web-pages. This is helping us to proactively promote counter fraud awareness, and develop a library of topical risks, so that we can educate colleagues and help mitigate fraud risks.

## ***Other audit and assurance activity***

15. 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. In 2018 CIPFA independently verified that we “**Generally Conform**” with the Public Sector Internal Audit Standards (PSIAS) and the accompanying Local Government Application Note (LGAN). We completed an annual internal review which provides assurance that we continue to meet the standards.
16. We have provided advice and consultancy, and also completed some special investigations in the period. A contingency resource is included within our plan to manage a reasonable amount of unplanned work.
17. We continue to review the Annual Governance Statement, and the Local Code of Governance, which accompanies the Statement of Accounts. The draft version was reported to the Audit & Corporate Governance committee at a previous meeting, and the final version will accompany the Statement of Accounts.
18. We provided the lead on a review of the Terms of Reference for the Committee, which is part of a broader Constitutional review. This helps to ensure that the role of the committee reflects good practice set by professional bodies.

## Appendix B – Glossary of terms

### *Assurance ratings*

Internal Audit provides management and Members with a statement of assurance on each area audited. This is also used by the Head of Shared Internal Audit to form an overall opinion on the control environment operating across the Council, including risk management, control and governance, and this informs the Annual Governance Statement (AGS).

Term	Description
<b>Full Assurance</b>	Controls are in place to ensure the achievement of service objectives and good corporate governance, and to protect the Authority against significant foreseeable risks.
<b>Reasonable Assurance</b>	Controls exist to enable the achievement of service objectives and good corporate governance, and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with control process were identified and/or opportunities still exist to mitigate further against potential risks.
<b>Limited Assurance</b>	Controls are in place and to varying degrees are complied with, however, there are gaps in the process which leave the service exposed to risks. Therefore, there is a need to introduce additional controls and/or improve compliance with existing ones, to reduce the risk exposure for the Authority.
<b>No Assurance</b>	Controls are considered to be insufficient, with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Authority exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.

### ***Organisational impact***

The overall impact may be reported to help provide some context to the level of residual risk. For example if no controls have been implemented in a system it would have no assurance, but this may be immaterial to the organisation. Equally a system may be operating effectively and have full assurance, but if a risk materialised it may have a major impact to the organisation.

<b>Term</b>	<b>Description</b>
<b>Major</b>	The risks associated with the system are significant. If the risk materialises it would have a major impact upon the organisation.
<b>Moderate</b>	The risks associated with the system are medium. If the risk materialises it would have a moderate impact upon the organisation.
<b>Minor</b>	The risks associated with the system are low. If the risks materialises it would have a minor impact on the organisation.

## **Actions**

As part of our reviews we identify opportunities for improvement, which have been shared with Management. These are developed into actions to improve the effectiveness of the governance, risk management arrangements, and the internal control environment. Management are responsible for implementing their actions and providing assurance when they are completed. Timescales for implementing actions should be proportionate and achievable to the available resources. To help prioritise the actions we have produced guidance below:

<b>Priority</b>	<b>Description</b>	<b>Timescale for action</b>	<b>Monitoring</b>
<b>Critical</b>	Extreme control weakness that jeopardises the complete operation of the service.	To be implemented immediately.	Within 1 month
<b>High</b>	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.	To be implemented as a matter of priority.	Within 6 months
<b>Medium</b>	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.	Within 12 months
<b>Low</b>	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust.	To be implemented as soon as reasonably practical.	Within 24 months

The Council has a Risk Management system, which is used for tracking their progress.