



REPORT TO: Audit & Corporate Governance Committee 24th March 2020

LEAD CABINET MEMBER: Not applicable

LEAD OFFICER: Head of Shared Internal Audit

Internal Audit update

Executive Summary

1. The purpose of this report is to inform the committee of the work of Internal Audit, completed between October 2019 to March 2020, and operational developments.
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

There are no significant implications arising.

Effect on Council Priority Areas

Growing local businesses and economies

Not applicable

Housing that is truly affordable for everyone to live in

Not applicable

Being green to our core

Not applicable

A modern and caring Council

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

Report Author:

Jonathan Tully – Head of Shared Internal Audit

Telephone: (01223) 458180

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. 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 September 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 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 were implemented promptly and effectively. Further information is available in Appendix B – Glossary of terms.

Resources and team update

Audit plan

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.

ISO assurance framework

6. The Council's Commercial Waste Service has been certified to ISO14001 and ISO9001 since September 2015. 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.
7. BSI attend the Service on regular intervals as set out in their audit programme and assess whether the standards are being upheld.
8. One of the ISO14001 requirements is that Management undertake their own internal audits of the standard's requirements. Earlier in the year we 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.
9. We have now undertaken two reviews using this approach and feedback from the BSI auditor on our approach was positive.

Progress of the plan

Finalised reviews

The following audit and assurance reviews have reached completion, since the previous report to the committee:

Audit	Assurance and actions		Summary of report and actions
Payroll	Assurance: Current: Previous: Actions: Critical High Medium Low	Reasonable Reasonable 0 1 4 3	The objectives of the Payroll system are to ensure the Council pays the right people, the right amount at the right time. Payroll is one of the Council's core financial systems and processed approximately £12m in salary payments in 2018/19. Given the importance of the system and the materiality of payments processed it is essential that there are sufficient and robust controls in place. Our testing provided reasonable assurance that controls are operating effectively.

Audit	Assurance and actions		Summary of report and actions
Accounts Receivable	<p>Assurance:</p> <p>Current:</p> <p>Previous:</p> <p>Actions:</p> <p>Critical</p> <p>High</p> <p>Medium</p> <p>Low</p>	<p>Limited</p> <p>Limited</p> <p>0</p> <p>5</p> <p>4</p> <p>3</p>	<p>Teams within the Council charge for services such as planning fees and obligations, licensing, trade waste, garage rent, home loans and life-lines. Debt collection and monitoring is undertaken by a Sundry Debtors team. A new Financial Management System (T1) went live on 1st October 2018, and we completed a review of the Sundry Debtor system.</p> <p>The Council's arrangements for managing and monitoring debts is effective, and the Sundry Debtors' team has made good progress with using the new T1 system.</p> <p>There are good transactional controls for setting up new accounts, invoices, credit notes and processing write offs. Our sample testing confirmed that invoices are being raised promptly for the correct amount.</p> <p>There are good controls in place for monitoring and managing levels of debt. As at 31 March 2019, the value of sundry debt arrears was 3.8% of the total invoices raised.</p> <p>We were only able to provide limited assurance overall as system reconciliations had not been completed following the implementation of T1. Postings had been made to two default suspense accounts but had not been cleared, and the Council has raised this as a technical point with T1 consultants for resolution.</p> <p>Regular reconciliation will provide assurance that all sundry income has been reconciled to the general ledger and has been accounted for correctly.</p>

Audit	Assurance and actions		Summary of report and actions
Grant assurance - Disabled Facility Grant	<p>Assurance:</p> <p>Current:</p> <p>Previous:</p> <p>Actions:</p> <p>Critical</p> <p>High</p> <p>Medium</p> <p>Low</p>	<p>Reasonable</p> <p>Full</p> <p>0</p> <p>0</p> <p>0</p> <p>2</p>	<p>Central Government funding is allocated to the County Councils as part of the Better Care Fund. A proportion of this is allocated to District Councils to enable them to carry out improvements to housing stock, and for disabled adaptations.</p> <p>We reviewed a sample of grants from the financial year, plus their supporting documentation and transactions. This provided assurance that:</p> <ul style="list-style-type: none"> • grant applications were legitimate, and only awarded to eligible applicants; • applications were supported by a qualified and independent medical referral; • applications were processed promptly; • suppliers and contractors were appropriately procured, and awarded based on value for money; • any project cost variations were appropriately reviewed and approved; • financial records were completed and reconciled; • projects were effectively managed by the Home Improvement Agency; and • grants were used for capital expenditure as set out in the MHCLG conditions. <p>Management have agreed to include additional data in the T1 accounting system to assist reporting, and also to review the template grant spreadsheets used to calculate Agency fees and VAT, which will minimise the risk of calculation errors.</p>

Audit	Assurance and actions		Summary of report and actions
Program assurance - ISO14001 - Visit 2	Assurance: Current: Previous: Actions: Critical High Medium Low	Reasonable Reasonable 0 0 0 0	<p>We completed a Program Assurance review to support the periodic BSI inspection, which covered:</p> <ul style="list-style-type: none"> • documentation, policies and procedures; • planning for risk and opportunity; • compliance obligations and evaluation of compliance; • objectives and targets, monitoring and measuring; • training, competence and awareness; • internal and external communication; • operational control and change management – depot tour; • emergency preparedness and response; and • nonconformity, correction and corrective action <p>The team had made progress through implementation of previous actions. There were no significant non-conformities arising.</p>
Program assurance - ISO9001 - Visit 2	Assurance: Current: Previous: Actions: Critical High Medium Low	Reasonable Reasonable 0 0 0 0	<p>We completed a Program Assurance review to support the periodic BSI inspection, which considered:</p> <ul style="list-style-type: none"> • Quality Management System; • product realisation, service delivery and inspection (monitoring); • customer feedback including customer complaints; and • plant, equipment and control of monitoring & measuring equipment. <p>The team had implemented previous actions; and there were no significant non-conformities arising.</p>

Works in Progress

The following reviews are currently in progress and plan updates:

Audit	Assurance and actions		Summary of current position and any emerging points
HRA – Voids and lettings	Previous:	Limited	We have completed our testing and are currently finalising our report.
Carbon Management – Data Quality	Previous:	New review	We have completed our testing and are currently finalising our report.
Capital - Strategy & Asset Management	Previous:	New review	We have completed our testing and are currently finalising our report.
Project Management Framework	Previous:	Limited	We have completed our testing and are currently finalising our report.
Key Performance Indicators	Previous:	Reasonable	We have completed our testing and are currently finalising our report.
Emergency planning - Business Continuity	Previous:	New review	We are currently undertaking our testing in this area.
Legal services	Previous:	New review	We are currently undertaking our testing in this area.
Accounts Payable	Previous:	New review	We are currently undertaking our testing in this area.
Main Accounting System	Previous:	New review	We are currently undertaking our testing in this area.
HRA – Former tenant Arrears	Previous:	New review	Now scheduled to commence in 20/21 following annual billing

Audit	Assurance and actions		Summary of current position and any emerging points
Scheme of Delegation	Previous:	New review	Now scheduled to commence in 20/21 following organizational change

Other assurance and consultancy work

Below is a summary of other work completed to date, from the current year. 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 last reported:	Assurance / Status:	Critical:	High:	Medium:	Low:
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

10. 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 from the biennial exercise and will continue throughout the year. In January we completed data quality assurance of Council Tax and Electoral Roll data, prior to submission to the Cabinet Office for the annual exercise. The Council procures the premium matching service, which provides an enhanced profiling of high-risk cases, and consequently provides assurance that other individuals entitled to the discount are receiving it correctly. Any significant matters arising in terms of fraud and error will be reported, and there are no matters arising at this time.

Other audit and assurance activity

11. 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.
12. We are currently undertaking compliance reviews for Ermine Street Housing and will be reported through the Board. This will also provide assurance for South Cambs Ltd which we can report to this committee.
13. We continue to review the governance framework which includes preparing the Annual Governance Statement, and the Local Code of Governance, which accompanies the Statement of Accounts. We have drafted the 18/19 Annual Governance Statement, which is ready for review with the accompanying Statement of Accounts.

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
Full Assurance	Controls are in place to ensure the achievement of service objectives and good corporate governance, and to protect the Authority against significant foreseeable risks.
Reasonable Assurance	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.
Limited Assurance	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.
No Assurance	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.

Term	Description
Major	The risks associated with the system are significant. If the risk materialises it would have a major impact upon the organisation.
Moderate	The risks associated with the system are medium. If the risk materialises it would have a moderate impact upon the organisation.
Minor	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:

Priority	Description	Timescale for action	Monitoring
Critical	Extreme control weakness that jeopardises the complete operation of the service.	To be implemented immediately.	Within 1 month
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.	Within 6 months
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.	Within 12 months
Low	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.