



REPORT TO: Audit & Corporate Governance Committee 24 November 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 April 2020 to October 2020, the current opinion of Internal Audit, our forward plan of work, 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

9. There are no options to consider.

Implications

10. There are no significant implications arising.

Effect on Council Priority Areas

Growing local businesses and economies

11. Not applicable

Housing that is truly affordable for everyone to live in

12. Not applicable

Being green to our core

13. Not applicable

A modern and caring Council

14. 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. 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 March 2020.
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.
5. At the July 2020 meeting the Committee approved our current audit plan. We recognised that due to the Covid-19 pandemic, a six-month plan was the most appropriate approach, and that we would review this throughout the year. This

gave us the flexibility to respond to pandemic and deliver audit plan that added value to the Council.

6. As anticipated, we have been providing the Council with support on Business Grant stimulus packages. The amount of resource required for this activity has impacted our normal assurance work. However, we are pleased to have still completed audit reviews in the period as this will enable us to provide an opinion on the internal control environment.
7. Our plan is risk based, and in most cases any delayed reviews will commence at the next suitable opportunity. We have identified one new review to add to the plan, which is providing assurance on the Covid-19 Income Grants to Local Government. This work will need to be timed to support the statutory returns to Central Government.
8. Progress of the plan delivery, plus our forward plan, is illustrated on the following pages for information.
9. We have successfully appointed a Principal Internal Auditor to the team, which was recommended by our PSIAS inspection to support our long-term development of the team.
10. We started to use Teams and SharePoint software last year. This software enables us to hold virtual meetings and conference calling, plus co-author and display documents in real-time. We were keen to adopt this to reduce unnecessary travel between various sites. A further benefit is that we were relatively well prepared to adapt to homeworking during the pandemic, and can provide the Committee with assurance that we have been working effectively during this period.

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
<p>Carbon management - Data Quality</p> 	<p>Assurance:</p> <p>Current: Limited</p> <p>Previous: Limited</p> <p>Organisational Impact: Minor</p> <p>Actions:</p> <p>Critical 0</p> <p>High 2</p> <p>Medium 4</p> <p>Low 0</p>		<p>The Council collected carbon emission data to report its second set of annual GHG emissions accounts, for the reporting period 1st April 2019 – 31st March 2020. They follow the principles of the latest Environmental Reporting Guidelines issued by the Departments for Environment, Farming and Rural Affairs, (DEFRA), and Business Energy and Industrial Strategy (BEIS).</p> <p>We reviewed information presented in the draft annual report, the spreadsheet calculations, and sample tested available supporting data for accuracy. As a result of this work, we are able to confirm that:</p> <ul style="list-style-type: none"> • calculations and formulas have been accurately applied in the establishment of individual and total carbon emissions figures; • baseline data for 2018/2019 Footway Lighting should be restated due to changes in the collected data; • source data was verified for the majority of datasets, however there is scope for further improvement by using actual consumption data, rather than estimated or suppliers projected consumption figures in respect of some datasets. This would enable us to provide a greater level of assurance. <p>Overall, the reporting and calculation process is robust. As part of the review process we have also shared advice and tips on data collection, management and presentation where we identified opportunities for improvement.</p>

Audit	Assurance and actions		Summary of report and actions
<p>Grant assurance - Disabled Facility Grant</p> 	<p>Assurance:</p> <p>Current: Reasonable</p> <p>Previous: Limited</p> <p>Organisational Impact: Minor</p> <p>Actions:</p> <p>Critical 0</p> <p>High 0</p> <p>Medium 2</p> <p>Low 0</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>Our testing identified an immaterial reconciliation error, and some HIA fees from the period which still needed to be invoiced. These are easily rectified, and the team has agreed two actions that will help improve their internal processes.</p>

Audit	Assurance and actions		Summary of report and actions
Program assurance - ISO14001 - Visit 1 	Assurance: Current: Previous: Actions: Critical High Medium Low	Reasonable Reasonable 0 0 0 2	<p>We completed a Program Assurance review to support the periodic BSI inspection, which covered:</p> <ul style="list-style-type: none"> • context of the organisation – internal and external factors; • aspects and impacts; • objectives and targets, monitoring and measuring; • training, competence and awareness; • control of documented information; • operational control and change management; and • nonconformity, correction and corrective action <p>The team had implemented previous actions; and there were no significant non-conformities arising. We highlighted that the version control of the teams Integrated Management System could be updated to evidence the latest changes.</p>

Audit	Assurance and actions		Summary of report and actions
Program assurance - ISO9001 - Visit 1 	Assurance: Current: Previous: Actions: Critical High Medium Low	Reasonable Reasonable 0 0 0 1	<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; • Customer related processes, Contracts, Specifications and KPIs; • Purchasing, Subcontractors, Supplier Evaluation, Stores and Materials; and • Resources: Competence Training and Awareness. <p>The team had implemented previous actions; and there were no significant non-conformities arising. We highlighted that the version control of the teams Integrated Management System could be updated to evidence the latest changes.</p>

Audit Opinion

11. 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.
12. Our work is carried out to assist in improving control. Management maintains responsibility 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.
13. 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.
14. 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.
15. 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. The Council has had to adapt to the Coronavirus pandemic and has maintained internal controls effectively in this period. The level of assurance remains at a similar level to the previous year.

Our work in progress and forward plan

Below is a table of our forward plan for the next six months. Some reviews are in progress, and we have also provided an update on their status:

Audit	Assurance type	Progress update	Scope and description
A modern and caring Council			
Corporate Complaints and Feedback	Compliance	This was approved in our original plan. It is now scheduled for the second half of 2020/2021.	Review of the complaints process to provide assurance that it is effective in helping the Council to continuously improve its services
Procure to Pay	Compliance	This was approved in our original plan. It is now scheduled for the second half of 2020/2021.	Desktop review of the procurement system and new processes. A sample of transactions will be reviewed to ensure they are promptly and appropriately authorised.
Information Governance - GDPR	Compliance	This was approved in our original plan. It is now scheduled for the second half of 2020/2021.	Compliance check on a selection of thematic areas and participation in corporate information governance program.
Growing local businesses and economies			
Program assurance - ISO14001 - Visit 2	Compliance	This review is planned for the second half of 2020/2021.	Allocation of resource to provide independent assurance for the continuous ISO program for environmental standards
Program assurance - ISO9001 - Visit 2	Compliance	This review is planned for the second half of 2020/2021.	Allocation of resource to provide independent assurance for the continuous ISO program for quality standards

Audit	Assurance type	Progress update	Scope and description
Planning Fee Income	Risk based	This was approved in our original plan. It is now scheduled for the second half of 2020/2021.	Review of system for managing planning fee income. Ensuring that policies are in place for both discretionary and nationally set charging, and that income opportunities are maximised, debts collected, and balances reconciled to main accounting systems.
Housing that is affordable for everyone to live in			
HRA - Electrical Safety Compliance - Follow-up	Follow-up	This review is currently in progress	Follow-up review to ensure that actions have been implemented successfully.
HRA - Gas Safety Compliance - Follow-up	Follow-up	This review is currently in progress	Follow-up review to ensure that actions have been implemented successfully.
Core Assurance Work			
Payroll	Key Financial System	This was approved in our original plan. It is now scheduled for the second half of 2020/2021.	An annual key controls audit as part of cyclical review of core systems.
Accounts Receivable	Key Financial System	This was approved in our original plan. It is now scheduled for the second half of 2020/2021.	Follow up review to ensure actions from our previous review were implemented effectively.

Audit	Assurance type	Progress update	Scope and description
Covid19 - Central Govt Income Relief Grants	Grant assurance	This is a new review which has been added to the plan.	To provide assurance that grant allocation from Central Government has been calculated correctly, to minimise grant claw back.

Other audit and assurance activity

National Fraud Initiative

16. 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.
17. We have started preparing for the 2020/2021 exercise. This includes extracting, checking and processing data from Council systems; plus reviewing compliance with data protection regulations. Relevant datasets include: Trade Creditors; Council Tax and reductions; Payroll; Licenses – Taxi drivers; Housing; Electoral Register; and Business Grant recipients. At this stage we have already processed 17,619 records.

Business Grants

18. The team has been assisting the Council with delivery of Central Government funded Business Grant schemes. This work has included undertaking fraud and error risk assessments, so that we can proactively advise on the design of low friction controls. The schemes include funding to Retail Hospitality and Leisure, Small Business Grants and also our Local Discretionary Grant Scheme.
19. To help safeguard the public purse and ensure that funds are provided to legitimate applicants, we have developed a post-assurance plan, which sets out checks and tests. This involves various tests across the 2,189 grant payments made to date. We are utilising government recommended tools to check applicants for compliance with scheme eligibility. In addition, we have also designed our own local assurance tools, and this has helped us to proactively prevent some applications that were non-compliant with the regulations.
20. The work helps the Council to have assurance that it has taken proportionate and effective controls to mitigate the risk of fraud and error.
21. We are expecting to undertake similar work for the next round of grants from Central Government, for the National Lockdown scheme.

Public Sector Internal Audit Standards

22. 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).
23. We completed our annual internal review which provides assurance that we continue to meet the standards. In addition, we have been responding to guidance issued by our professional bodies, and undertaking pandemic related risk assessments to help maintain compliance with the standards.

Governance

24. We facilitated the review of the Annual Governance Statement, and the Local Code of Governance, which accompanies the 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.