

**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL**  
**CORPORATE GOVERNANCE COMMITTEE**  
**27 JUNE 2014**

**ANNUAL REPORT OF THE INTERNAL AUDIT SERVICE 2013 / 2014**

**RECOMMENDATIONS:**

**That Corporate Governance Committee notes:**

- **Annual report into the provision of the Internal Audit service and the opinion of the Head of Internal Audit into the adequacy of governance, risk management and internal control arrangements;**
- **The effectiveness of the service together with an assessment of the service against best practice Public Sector Internal Audit Standards; and**
- **Progress against the delivery of the 2014 / 2015 Audit Plan**

|                |  |
|----------------|--|
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- 1 **INTRODUCTION**
- 2 **ANNUAL REPORT**
  - 2.1 Background
  - 2.2 Arriving at an Opinion
  - 2.3 Overall Audit Opinion
  - 2.4 Analysis of Audit Activity 2013 / 2014
3. **EFFECTIVENESS OF INTERNAL AUDIT AND COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS**
  - 3.1 Current Arrangements
  - 3.2 Staffing and Resources
  - 3.3 PSIAS Compliance
4. **AUDIT PLAN 2014 / 2015**
  - 4.1 Progress

## 1...INTRODUCTION

1.1 The purpose of this report is to bring the Corporate Governance Committee up to date with:

- An opinion on the adequacy of controls and systems within South Cambridgeshire as at 31 March 2014;
- An assessment of the status and abilities of the current service and any improvements which can be made to enhance it; and
- Progress against the delivery of the 2014 / 2015 audit plans.

## 2...ANNUAL REPORT

### 2.1 BACKGROUND

2.1.1 As the provider of the internal audit service for South Cambridgeshire District Council, we are required to provide the Section 151 Officer and the Corporate Governance Committee with an opinion on the adequacy and effectiveness of the organisation's governance, risk management and internal control arrangements.

2.1.2 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. Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating the effectiveness in achieving the organisation's objectives.

2.1.3 This report is the culmination of the work during the course of the year and seeks to provide an opinion on the adequacy of the control environment and report the incidence of any significant control failings or weaknesses. The report also gives an overview of audit performance during the year.

### 2.2 ARRIVING AT AN OPINION

2.2.1 The opinion is derived from work carried out by Internal Audit during the year, as part of the agreed Internal Audit Plan for 2013 / 2014 as determined by RSM Tenon. For continuity purposes, we have utilised this plan for the remainder of the year following the start of our service provision from July 2013. We have conducted our audits both in accordance with the mandatory standards and good practice and additionally from our own internal quality assurance systems. Our opinion is limited to the work carried out by Internal Audit but, where possible, we have considered the work of other assurance providers, such as External Audit.

### 2.2.2 There are three elements to each internal audit review.

- Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables internal audit to establish an opinion on the adequacy of the control framework in place.
- However, controls are not always complied with which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to form a view on the extent to which the control environment, designed to mitigate risk, is being complied with.
- Finally, where there are significant control weaknesses or where the controls are not being complied with and only limited assurance can be given, internal audit undertakes further substantive testing to ascertain the impact of these control weaknesses.

2.2.3 Where appropriate, each report we issue during the year is given an overall opinion based on the criteria below. Certain pieces of work do not result in an audit report with an opinion – such as consultancy work, involvement in working groups, review of National Fraud Initiative (NFI) reports and follow-ups. The assessment from each report, along with our consideration of other audit work, is used to formulate the overall Opinion.

| <b>AUDIT ASSURANCE</b> |  |
|------------------------|--|
| <b>Assurance</b>       | <b>Definitions</b>   |
| Full                   | The system is designed to meet objectives / controls are consistently applied that protect the Authority from foreseeable risks.   |
| Significant            | 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 / failure to achieve key objectives. |

2.2.4 This is based upon the number and type of recommendations we make in each report and is for any control weaknesses that jeopardises the complete operation of the service. The prioritisation is established as follows:

| <b>RECOMMENDATIONS MADE TO IMPROVE ASSURANCE LEVELS</b> |   |                                 |
|---|---|---------------------------------|
| <b>Status</b>   | <b>Definitions</b>  | <b>Implementation</b>           |
| Critical  | Extreme control weakness that jeopardises the complete operation of the service.  | Immediately                     |
| High  | Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.                | As a matter of priority         |
| Medium  | Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. | At the first opportunity        |
| Low   | Control weakness, which, if corrected, will enhance control procedures that are already relatively robust.                          | As soon as reasonably practical |

### 2.3 OVERALL AUDIT OPINION 2013 / 2014

The internal control environment is fundamentally well established and continues to operate well in practice throughout the year. While we have identified a number of weaknesses within the control environment these were not sufficiently significant to result in material risk to the organisation.

The overall conclusion based on our work is that South Cambridgeshire District Council has a sound governance framework from which those charged with governance can gain reasonable assurance.

Internal Audit has made a number of recommendations to further improve the systems of control and the organisation is actively working to make improvements in these areas. Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound although there are some areas where improvements are necessary.

*It must be reiterated, however, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.*

*Head of Internal Audit  
June 2014*

## 2.4 ANALYSIS OF AUDIT ACTIVITY 2013 / 2014

### 2.4.1 Assurance and Compliance Work

| AUDIT ACTIVITY              | Assurance Level | ACTIONS AGREED |        |     | Commentary  |
|-----------------------------|-----------------|----------------|--------|-----|---|
|                             |                 | High           | Medium | Low |   |
| Welfare Reform              | N/a             | N/a            | N/a    | N/a | <p>Ongoing reviews have been undertaken by the business to ensure that the impact on residents is minimised. Regular and appropriate reports have been produced and discussed at senior level with agreement by members.</p> <p>We have analysed the outcomes and note the developments put in place to alleviate under occupancy and benefits caps. We will maintain a watching brief to ensure that the continued progress is maintained.</p> |
| Business Planning           | Significant     | 0              | 3      | 0   | <b>RSM TENON REPORT</b>   |
| Corporate Governance        | Significant     | 0              | 2      | 2   | Our audit focussed on the corporate complaints process. While we identified that the processes in place are sound there were a number of occasions of non-compliance.   |
| Risk Management             | Significant     | 0              | 1      | 1   | Risk management arrangements are reviewed annually and it can be demonstrated that there are adequate and effective arrangements in place. Regular refreshes take place throughout the year of the strategic and operational risks. Going forward, as the Council looks into alternative service delivery models, appropriate risk registers will need to be established.   |
| Annual Governance Statement | N/a             | N/a            | N/a    | N/a | Audit deleted following agreement with the Executive Director. There were no actions identified within the previous Annual Governance Statement to be followed up   |

## 2.4.2 Financial Control Activities

| AUDIT ACTIVITY                              | Assurance Level        | ACTIONS AGREED |        |     | Commentary  |
|---|------------------------|----------------|--------|-----|---|
|   |                        | High           | Medium | Low |   |
| Income / Debtors                            | Significant            | 0              | 2      | 6   | Improvements were identified in relation to the use of management information to better inform the Council on the level of, and status of debts.  |
| Budgetary Control                           |                        |                |        |     | In progress   |
| General Ledger                              |                        |                |        |     | in progress   |
| Creditors – Automated<br>Creditors – Manual | Significant<br>Limited | 0              | 2      | 1   | Two levels of assurance provided. Expenditure is expected to be committed through the electronic system E-BIS to ensure that appropriate checks, approvals etc. take place. Our review identified that this was working well. However, a significant number of items are raised using manual orders, heightening the risk of a lack of segregation of duties and the potential for fraud. |
| Cash / Bank / Treasury                      | Full                   | 0              | 0      | 0   | Full assurance established.   |
| Payroll / Expenses                          | Significant            | 0              | 1      | 4   | Prior to the service transfer to Cambridge City, we reviewed the current service provided and identified a number of improvements that could be made.   |
| Capital / Asset Management                  |                        |                |        |     | In progress   |
| Procurement                                 | Significant            | 0              | 1      | 1   | Our review identified non-compliance in relation to the use of the exemption process for extending contracts.   |
| NNDR / Council Tax                          | Significant            | 0              | 0      | 1   | Previously undertaken as separate reviews, these have been combined as they utilise the same system. Previous actions have been addressed.  |
| Housing Benefits                            | Significant            | 0              | 0      | 1   | Minor errors identified   |
| Housing Rents                               | Significant            | 0              | 1      | 1   | Improvements identified in relation to the reconciliation process   |

### 2.4.3 Other Audit Activities

| AUDIT ACTIVITY                   | Assurance Level | ACTIONS AGREED |        |     | Commentary  |
|----------------------------------|-----------------|----------------|--------|-----|---|
|                                  |                 | High           | Medium | Low |   |
| Safeguarding                     | Significant     | 0              | 4      | 3   | RSM TENON REPORT  |
| Environmental Health (Waste)     | n/a             | n/a            | n/a    | n/a | RSM TENON REPORT  |
| Housing Allocations and Voids    | Significant     | 0              | 0      | 2   | A number of systems are utilised which are not interfaced, as a result there is the risk of error through data entry transcription. |
| Customer Contact Centre          | Green           | 0              | 0      | 2   | RSM TENON REPORT  |
| ICT Change Control               | Significant     | 0              | 2      | 1   | RSM TENON REPORT  |
| Proactive Fraud Work (Suppliers) | n/a             | 0              | 3      | 0   | RSM TENON REPORT  |

### 2.4.4 Follow-Up Arrangements

The following audits have been followed up in the year to ensure actions have been completed. No actions remain outstanding.

- HR – Absence Management (including redundancies)
- Housing Maintenance; Planned and Cyclical (including voids)
- Information Governance
- Contract Services
- Environmental Health (Licence Fees)

### 2.4.5 Business Efficiency Proposals

As part of our work, as well as ensuring that controls are in place for each system reviewed, we have also looked to provide suggestions as to how they could be delivered more efficiently. Various proposals included have been:

- Improved interfaces between a number of IT systems to reduce the levels of data re-entry;
- Removal of a number of manual systems, bureaucratic checks and effort duplication; and
- Debt collection improvement.



#### 2.4.6 Allegations of Fraud / Irregularity and Breaches of Code of Conduct

Ongoing liaison takes place with the Fraud Team, primarily as we move towards the next tranche of the National Fraud Initiative. As the delivery of investigating fraud will change by the creation of the Single Fraud Investigations Service within DWP, discussions are ongoing to establish a robust model to protect the Councils interests, whether internally or in partnership with other councils. From our work there are no items to be reported for member attention. As we look to take this important activity forward, as an integral part of good governance, Internal Audit recommend that an annual report is produced on fraud and irregularities and the steps taken to mitigate and reduce. This will also include review of the appropriate policies to ensure that they remain relevant and raise the awareness and appreciation amongst officers / members.

#### 2.4.7 Significant Control Weaknesses

As part of our audit works, we are required to form an opinion on the quality of the internal control environment which includes consideration of any significant risk or governance issues and control failures which arise. We did not identify any critical recommendations which needed addressing, nor did we conclude that any system that we reviewed as providing no assurance.

### **3...EFFECTIVENESS OF INTERNAL AUDIT AND COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)**

#### **3.1 CURRENT ARRANGEMENTS**

3.1.1 The Accounts and Audit Regulations 2011 require all Councils to annually review the effectiveness of its internal audit and to present the results of that review to the appropriate committee. A self-assessment toolkit based on the "*The Public Sector Internal Audit Standards 2013*" has been completed by the Head of Audit and an action plan has been put in place to ensure future compliance.

3.1.2 Internal Audit is provided through an in-house service, and also in partnership with Peterborough and Cambridge City. It works closely with others in the Council tasked with assurance, governance and risk management but retains a separate identity in relation to the performance of Internal Audit. Reporting lines are to the Corporate Director.

3.1.3 The overarching strategy for the service is set out in the Annual Audit Plan (approved in March each year) and this is reiterated in its Audit Charter. Internal Audit work follows recognised best practice standards and is independently reviewed by External Audit.

3.1.4 To examine the system of internal audit, this review considered several key elements and assessed their contribution to enabling the section to fulfil its responsibilities. These were:

- The structure and resourcing level, including qualifications and experience of the audit team; and
- The extent of compliance with the Public Sector Internal Audit Standards.

#### **3.2 STAFF RESOURCES**

3.2.1 During 2013 / 2014, resources were made up as follows:

- Head of Audit. 1 officer. Shared between Peterborough (40%), Cambridge City (40%) and South Cambridgeshire (20%).
- Senior Auditor. 1 officer (1.00 fte). Appointed October 2014

3.2.2 Training plans encourage ongoing improvement via both career progression and continuing professional development. There is a varied mix of qualifications / experience within the team such as:

Audit experience:

- Head of Audit: Over 20 years' experience at senior level within the Internal Audit environment; and
- Senior Auditor: Over 8 years' experience in internal audit in the public sector.

Qualifications:

- Qualified Accountants – CIPFA (x1);
- Association of Accounting Technicians – Member (MAAT x2)

### 3.3 PSIAS COMPLIANCE

3.3.1 PSIAS came into effect from 1 April 2013, although demonstrating compliance against them is not required until 31 March 2014. A self-assessment checklist has been undertaken against these standards following analysis, a summary improvement plan has been established. Following the review, in accordance with standard 1322, significant deviations to the standards must be reported. It is pleasing to note that only minor issues have been identified – such as continuing to regularly review our procedures (which are undertaken anyway) and the new requirement for an external appraisal of the service (refer to table below). For the purposes of the review, the following definitions are used:

- Chief Audit Executive (CAE) = Head of Audit
- Board = Corporate Governance Committee
- Senior Management = Executive Management Team

It can be concluded therefore that there are **no significant areas** to be addressed.

3.3.2 In order to obtain an external assessment of the service, which should be undertaken as a minimum every 5 years, it is planned for this to be undertaken in 2015. Discussions are ongoing to establish suitable arrangements.

3.3.3 Based on the self-assessment, it can be concluded that **the Council has an effective system of internal audit including a policy framework, internal audit function and effective management engagement.** A separate exercise will be commissioned in 2014 to assess the effectiveness of the Corporate Governance Committee.

| <b>Table: COMPLIANCE AND QUALITY IMPROVEMENT PLAN</b> |   |  |
|---|---|--|
| <b>Ref.</b>   | <b>STANDARD</b>   | <b>OBSERVATION / ACTION TO ADDRESS</b>   |
| <b>1110</b>   | <b>Organisational Independence</b>  |  |
| <b>1110.2</b>   | <p>The CAE must report to a level within the organisation that allows Internal Audit to fulfil its responsibilities. The CAE must confirm to the Board, at least annually, the organisational independence of the Internal Audit activity. This means:</p> <ul style="list-style-type: none"> <li>- The CAE must establish effective communication links with the Chair of the Board and Chief Executive</li> </ul>                       | <p>Communication links are in place through the committee process. Although the Head of Audit has unfettered access to senior management on request, there are no formal meetings organised except with the Corporate Director.</p> <p>Action:</p> <ul style="list-style-type: none"> <li>• Agree with Chair of committee if there is a need for additional meetings / liaison outside of the formal committee times.</li> <li>• Formalise a half yearly meeting with Chief Executive</li> </ul> |
| <b>1130</b>   | <b>Impairment to Independence and Objectivity</b>   |  |
| <b>1130.1</b>   | <p>If independence or objectivity is impaired, the details must be reported. This includes: Conflicts of Interest; Scope limitations; Restrictions on access; Resource limitations; Imposition of outside influences.</p> <p>In addition, auditors should not accept gifts, hospitality etc. (other than allowed under SCDC policy); should comply with the Bribery Act 2010 and should not use information gained for personal gain.</p> | <p>Internal Audit has established a Code of Ethics which was agreed at committee in March 2014. Council policies are in place to cover all other aspects.</p> <p>Action:</p> <ul style="list-style-type: none"> <li>• A Conflict of Interest Register will be re-issued on an annual basis for completion.</li> </ul>  |
| <b>1220</b>   | <b>Due Professional Care</b>  |  |
|   | Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.  | Internal Audit has established an Audit Manual which sets out its standards, expectations etc. and was updated in July 2013. An annual review is commissioned to ensure continued compliance.  |
| <b>1300</b>   | <b>Quality Assurance and Improvement Programme</b>  |  |
|   | The CAE must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.   | Referred to in this section.   |
| <b>1312</b>   | <b>External Assessments</b>   |  |
|   | External assessments must be conducted at least once every 5 years by a qualified independent assessor from outside the organisation.   | Ongoing discussions with other local authorities within the county to look to undertake a peer review in order to minimise costs. It is proposed for external assessment to be undertaken during 2015 for consistency across the partnership   |

## 4...AUDIT PLAN 2014 / 2015

### 4.1 PROGRESS

#### CORE SYSTEMS ASSURANCE WORK

| AUDIT ACTIVITY                     | COMMENTARY                                   |
|------------------------------------|--|
| Housing Benefits                   | Planned for quarter 4                        |
| Council Tax                        | Planned for quarter 4                        |
| NNDR                               | Planned for quarter 4                        |
| Main Accounting                    | Planned for quarter 3                        |
| Cash, Bank and Treasury Management | Planned for quarter 3                        |
| Accounts Payable                   | Planned for quarter 3                        |
| Payroll                            | Assurance to be received from Cambridge City |
| Accounts Receivable                | Planned for quarter 3                        |
| Capital Accounting                 | Planned for quarter 4                        |
| Housing Rents                      | Planned for quarter 3                        |
| BACS Payments                      | Planned for quarter 2                        |
| VAT                                | Planned for quarter 2                        |

**GOVERNANCE AND ASSURANCE WORK**

| <b>AUDIT ACTIVITY</b>              | <b>COMMENTARY</b>                                     |
|------------------------------------|---|
| Annual Governance Statement        | Planned for quarter 2                                 |
| Annual Audit Opinion               | To Corporate Governance Committee June 2014           |
| Internal Audit Effectiveness       | To Corporate Governance Committee June 2014           |
| Corporate Governance Effectiveness | Planned for quarter 4 following provision of training |
| National Fraud Initiative          | Planned for quarter 3                                 |
| Partnership Governance             | Planned for quarter 3                                 |
| Performance Management             | Planned for quarter 2                                 |

**CORPORATE CROSS CUTTING AUDITS**

| <b>AUDIT ACTIVITY</b>      | <b>COMMENTARY</b>     |
|----------------------------|-----------------------|
| Human Resources / Staffing | Planned for quarter 2 |
| s.106 Contributions / CIL  | In progress           |
| Community Chest Grants     | Draft stage           |
| Business Efficiency Agenda | In progress           |

**DEPARTMENTAL SPECIFIC**

| <b>AUDIT ACTIVITY</b> | <b>COMMENTARY</b>     |
|-----------------------|-----------------------|
| Responsive Repairs    | Planned for quarter 4 |
| New Build Strategy    | Planned for quarter 3 |
| Housing Company       | Planned for quarter 4 |
| ICT Governance        | Planned for quarter 3 |
| Depot                 | Planned for quarter 2 |
| Development Control   | In progress           |