

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

CORPORATE GOVERNANCE COMMITTEE

26 JUNE 2015

ANNUAL REPORT OF THE INTERNAL AUDIT SERVICE 2014 / 2015

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 2015 / 2016 Audit Plan**

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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 2015;
- 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 2015 / 2016 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 2014 / 2015. 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.

2.2.2 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.

AUDIT ASSURANCE	
Assurance	Definitions
Full	Controls are in place to ensure the achievement of service objectives and good corporate governance, and to protect the Authority against significant 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.

2.2.3 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:

RECOMMENDATIONS MADE TO IMPROVE ASSURANCE LEVELS		
Status	Definitions	Implementation
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 2014 / 2015

As Head of Internal Audit, in line with the Public Sector Internal Audit Standards and prior best practice, I am required to provide an opinion on the overall adequacy and effectiveness of the Council's control environment. I have undertaken the following in order to form a basis for providing my assurance:

- Assessed the quantity and coverage of internal audit works against the 2014 / 2015 internal audit plan to allow a reasonable conclusion as to the adequacy and effectiveness of the Council's risk management, control and governance processes;
- Reviewed the reports from the reviews undertaken during the year by Internal Audit and other assurance providers where appropriate;
- Considered any significant actions not accepted by management and the consequent risks, of which there were none;
- Considered the effects of significant changes in the Council's objectives or systems;
- Reviewed and considered matters arising from reports to Council committees; and
- Considered whether there were any limitations which may have been placed on the scope of Internal Audit

Following consideration of the above, I am able to provide the following Head of Audit Opinion for 2014 / 2015

I am satisfied that sufficient quantity and coverage of Internal Audit work and other independent assurance work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's risk management, control and governance processes. In my opinion, the Council has adequate and effective systems of internal control in place to manage the achievement of its objectives. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes.

Notwithstanding my overall opinion, Internal Audit's work identified a number of opportunities for improving controls and procedures which management has accepted and are documented in each individual audit report.

*Head of Internal Audit
June 2015*

2.4 ANALYSIS OF AUDIT ACTIVITY 2014 / 2015

2.4.1 Assurance and Compliance Work

The status for audit work undertaken against the current plan is as follows:

CORE SYSTEMS ASSURANCE WORK

AUDIT ACTIVITY	COMMENTARY					
	Rating	No. of Recommendations / Severity				Commentary
Accounts Payable (Creditors)	Assurance: Significant / Limited	Critical: 0	High: 0	Medium: 4	Low: 0 Verification that appropriate processes are in place for the procurement and payment of goods and services. While the Council has a recognised electronic ordering system (e-BIS) which is integrated with Open Accounts, it still operates a number of manual arrangements. These include the use of manual orders which then require an appropriate supporting certification slip, and verbal orders (usually over the telephone) which do not have any back up information to support them. From our analysis, of the 8,070 payments made during the period under review, only 1,260 were generated from e-BIS. Our assurance has been split, with a significant rating for the electronic process and limited for the manual process.	

Accounts Receivable (Debtors)	Assurance: Significant	Critical: 0	High: 0	Medium: 2	Low: 0	<p>Verification that appropriate processes are in place for the raising and collection of income together with the ongoing recovery of longer term debts.</p> <p>The focus of our assurance identified good practices in place for the management of income. Recommendations were made into the arrangements for managing outstanding debts.</p>
Accounts Receivable (Trade Waste)	IN PROGRESS. DRAFT REPORT STAGE					<p>This was planned to be covered within the overall review of Debtors (see above).</p> <p>However, a separate review was instigated following our initial assessment of the refuse system, "Whitespace", which has undergone a fundamental upgrade during the year together with a wide scale changes in resources.</p>
BACS Payments	Assurance: Significant	Critical: 0	High: 1	Medium: 2	Low: 4	<p>The review undertook to consider BACS submission which included Housing Rents, NNDR, Council Tax and Creditors. Payroll submissions were out of scope as these are now administered by Cambridge City Council.</p> <p>Improvements are required around the administration of the system to ensure there are appropriate checks in place with data held securely.</p>
Benefits	Assurance: Full	Critical: 0	High: 0	Medium: 0	Low: 0	<p>Previous recommendations had been addressed and a number of efficiencies introduced into the process for the management of benefits claims.</p>

Capital Accounting	Put on hold at request of Finance. Initial works have been covered within External Audit works as part of final accounts process.					
Housing Rents	Assurance: Significant	Critical: 0	High: 1	Medium: 0	Low: 0	Our testing highlighted a well-controlled environment, although minor improvements were suggested outside of the report. An improvement in the reconciliation process has been identified and agreed for action.
Treasury Management	Assurance: Full	Critical: 0	High: 0	Medium: 0	Low: 0	Our testing highlighted a well-controlled environment with efficient processes in place for the investment and management of council funds in line with agreed protocols.
VAT	Assurance: Full	Critical: 0	High: 0	Medium: 0	Low: 0	On review of the management of VAT, we found no shortcomings in the system.

NB: Full system reviews were undertaken last year to document each activity as no audit files were available. Audit were able to place significant reliance on the majority of these. Our audit works will focus on any key changes within each area, and various substantive testing.

GOVERNANCE AND ASSURANCE WORK

AUDIT ACTIVITY	COMMENTARY
Annual Governance Statement	<p>COMPLETED</p> <p>The Annual Governance Statement was approved at Corporate Governance Committee in September 2014. No material issues were identified for attention of management / members within the Statement. Internal Audit has reviewed the methodology used to collect, collate and interpret the information and have identified no gaps.</p>
Annual Audit Opinion	<p>COMPLETED</p> <p>The Annual Audit Opinion was submitted to Corporate Governance Committee in June 2014</p>
Internal Audit Effectiveness	<p>COMPLETED</p> <p>The report in to the effectiveness of Internal Audit was submitted to Corporate Governance Committee in June 2014</p>
National Fraud Initiative	<p>Data downloads were submitted to timescale to the Audit Commission for data matching purposes. Appropriate fair processing notices were used on all datasets. Where anomalies have been identified in the data, these have been referred to management.</p> <p>With the creation of the Single Fraud Investigation Service (Department for Works and Pensions), the fraud unit has transferred across at the end of February 2015. Internal Audit have produced a draft strategy to look to take forward the NFI within SCDC.</p> <p>Data matches have been returned via the secure website. Internal Audit is in the process of sifting through the data for appropriate investigations. This will be reported to Executive Management Team and Corporate Governance Committee on a periodic basis.</p>
Partnership Governance	<p>A Partnership Checklist has been developed. This will be applied against a number of established 3rd parties which the Council links with to ensure that appropriate governance has been adopted.</p>

Performance Management	Assurance: Limited	Critical: 0	High: 0	Medium: 4	Low: 0	While there are steps in place to review performance across the organisation, there is not always a separate check on the data provided for accuracy, particularly from third parties.
Corporate Governance Committee Effectiveness	<p>COMPLETED</p> <p>The Committee has been benchmarked against best practice and no material weaknesses have been identified. The review concludes that the Committee can demonstrate that overall it has been established in accordance with best practice and that it has operated effectively during the last year.</p> <p>The Committee should be alert to any changes in its membership and the expertise of its Members so that it can arrange suitable training.</p> <p>Secondly, the Committee has not received annual reports setting out the delivery of works relating to fraud and corruption and it is suggested that this should be considered going forward.</p> <p>Finally, in order to raise the profile of the committee, a further suggestion is to produce an annual report documenting the works of the committee which is referred through to Council.</p>					

CORPORATE CROSS CUTTING AUDITS

AUDIT ACTIVITY	COMMENTARY					
Human Resources / Staffing	Assurance: Limited	Critical: 0	High: 1	Medium: 1	Low: 5	<p>The audit focussed on compliance of service managers with HR policies / practices in relation to sickness absence management.</p> <p>The Council has sound policies in place for sickness absence and flexible working. These are not always consistently applied by departments.</p>

s.106 Contributions / CIL	Assurance: Significant	Critical: 0	High: 0	Medium: 1	Low: 1	<p>The Community Infrastructure Levy will be replacing current contributions arrangements for new developments. The Council has identified the need for suitable project planning to implement CIL and is looking to put this in place in order to meet its desired implementation of 2015.</p> <p>Our review identified no material weaknesses.</p>
Community Chest Grants	Assurance: Limited	Critical: 0	High: 2	Medium: 1	Low: 0	<p>Community Chest Grants are payable on application, subject to appropriate scrutiny and meeting specific criteria requirements. With a limited level of funding set aside each year, there is a need for this to be robust so as to ensure that funds are used appropriately.</p> <p>From our review, while grants have been awarded / rejected in line with the scheme, there was no formal documentation to assist in the decision making process and promoting transparency.</p>
Business Efficiency Agenda	Assurance: Significant	Critical: 0	High: 0	Medium: 2	Low: 0	<p>Our initial evaluation of the processes in place for project management highlighted that there was a lack of business cases for the first tranche of projects undertaken.</p> <p>However, it is noted that arrangements are in place to address all future projects going forward.</p>

DEPARTMENTAL SPECIFIC

AUDIT ACTIVITY	COMMENTARY					
Housing Company	Assurance: Limited	Critical: 0	High: 4	Medium: 3	Low: 1	<p>The objectives was to evaluate the administrative processes operated by South Cambridge Ltd., and identify any control weaknesses.</p> <p>There is a requirement for service level agreements to be established together with appropriate processes and procedures to back these up.</p>
Responsive Repairs: Contract Performance	<p>COMPLETED – REPORT AWAITING AGREEMENT</p> <p>Our review focussed on the performance of the contract in terms of the robustness of the current contract monitoring arrangements and an evaluation of the key performance indicators.</p> <p>Our testing established that escalation processes for poor performance are not routinely followed with a reluctance to issue default notices. Performance targets have not been increased in line with the contract and there are inconsistencies with the data provided.</p>					
New Build Strategy	Deferred into 2015 / 2016. This has been incorporated into the review of the HRA Business model.					
Depot	<p>Deferred. Focus of the audit plan was to review the works of the waste service. This is subject to ongoing works between South Cambridgeshire and Cambridge City Council as part of a shared service arrangement. Separate governance and reporting lines are covering this.</p> <p>(The days set aside for this audit have been utilised to cover the review of Trade Refuse (Debtors) following the changes made to Whitespace).</p>					

2.4.2 Separate advice has been provided to officers within the Council in relation to:

- National Fraud Initiative #1: Data quality issues were identified and resolved prior to its submission;
- National Fraud Initiative #2: Following the transfer of staff to the Single Fraud Investigation Service, a Strategy has been developed to ensure that the data matches can be appropriately investigated;
- National Fraud Initiative #3: Links to the contract with Datatank was verified to ensure that single person discount anomalies could be progressed;
- Document Retention. Advice was given on various information held and when it was practical to remove and destroy;
- Corporate Contracts: Advice on monitoring of spending;
- Use of memory sticks and their impact on thin client computers;
- The recording and treatment of expenditure in relation to member lunches; and
- Provision of examples of internal controls which Finance can use as part of ongoing training to all managers.

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.

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 2015, 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).

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)

3.2.3 The Senior Auditor is currently undertaking professional training with the Institute of Internal Auditors.

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 undertaken in 2014 established a summary improvement plan. 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 An external assessment is required every 5 years. We have planned for this to be undertaken in 2015 / 2016 (the third year). We have been advised that the current standards are being updated / amended which may have some impact on any assessment. Due to the cost of an external assessment we will await clarification as to the changes made before committing ourselves to the assessment. If the evaluation has to be deferred in to 2016 / 2017, this would still be within the 5 year timeframe.

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 to assess the effectiveness of the Corporate Governance Committee has also been completed in the year.

Table: COMPLIANCE AND QUALITY IMPROVEMENT PLAN		
Ref.	STANDARD	OBSERVATION / ACTION TO ADDRESS
1110	Organisational Independence	
1110.2	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.	<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>Progress:</p> <ul style="list-style-type: none"> • Where appropriate, separate meetings will be held.
1130	Impairment to Independence and Objectivity	
1130.1	<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>Progress:</p> <ul style="list-style-type: none"> • A Conflict of Interest Register is issued annually.
1220	Due Professional Care	
	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. Ongoing reviews ensure continued compliance.
1300	Quality Assurance and Improvement Programme	
	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.
1312	External Assessments	
	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. The current proposal for external assessment to be undertaken during 2015 is subject to the comments made in 3.3.2 above

4...AUDIT PLAN 2015 / 2016

4.1 PROGRESS

CORE SYSTEMS ASSURANCE WORK

AUDIT ACTIVITY	COMMENTARY
Housing Benefits	Planned for quarter 3
Accounts Payable (Creditors)	Planned for quarter 3
Accounts Receivable	Planned for quarter 4
Housing Rents	Planned for quarter 2

GOVERNANCE AND ASSURANCE WORK

AUDIT ACTIVITY	COMMENTARY
Annual Governance Statement	Planned for quarter 3
Annual Audit Opinion	Completed To Corporate Governance Committee June 2015
Internal Audit Effectiveness	Completed To Corporate Governance Committee June 2015
National Fraud Initiative	In progress. Ongoing works to follow up data matches.
Corporate Fraud Arrangements	Planned for quarter 4
Risk Management	Planned for quarter 2
Project Management	Planned for quarter 2

CORPORATE CROSS CUTTING AUDITS

AUDIT ACTIVITY	COMMENTARY
Service Preparations for Growth	Planned for quarter 4
Human Resources (Recruitment Process)	In progress. Works focussing on the departmental compliance with corporate recruitment arrangements.
Corporate Governance	Planned for quarter 2
Service Delivery Vehicles	Planned for quarter 4

DEPARTMENTAL SPECIFIC

AUDIT ACTIVITY	COMMENTARY
Allocation and Voids	Planned for quarter 2
HRA Self Financing	Planned for quarter 3
Insurance	Planned for quarter 2
ICT Governance	Planned for quarter 3 / 4
CO2 Emissions	Planned for quarter 3
Members Allowances	In progress. Verification that monies paid are correct and in accordance with the scheme.
Community Right to Bid	In progress. Verification that all assets have been appropriately assessed and included on the register (or rejected in line with the scheme).
RECAP	Planned for quarter 2
Urban Design	Planned for quarter 3