

**Appendix 1**



**EAST CAMBRIDGESHIRE DISTRICT COUNCIL**  
**INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE**  
**MARCH 2021**

**Date: 25<sup>th</sup> March 2021**

## ***Introduction***

- 1.1 The Internal Audit service for East Cambridgeshire District Council provides 210 days to deliver the 2020/21 Annual Audit Plan.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Finance and Assets Committee to satisfy itself that it is receiving appropriate assurance about the controls put in place by management to address identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting and an overview of the performance of the audit team.

## ***Performance***

### **2.1 Delivery of the 2020/21 Audit Plan**

At the time of reporting, fieldwork is either complete or underway in relation to 100% of the planned work.

Progress on individual assignments is shown in Table 1.

### **2.2 Are clients satisfied with the quality of the Internal Audit assignments?**

To date, four survey responses have been received in relation to feedback on completed assignments for the 2020/21 audit plan and results are summarised in Table 4.

### **2.3 Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?**

Since the last Committee meeting, four audit reports have been finalised. To date, the audit work has not highlighted any issues or weaknesses which would impact upon the overall Internal Audit opinion. The key findings from the report were as follows:

#### Treasury Management

The Council is responsible for its treasury decisions and activity and must ensure that it complies with treasury management regulations and best practice, whilst balancing the security and return on investments. The Council has remained debt free, and at the end of November 2020, investments with approved counterparties totalled £18.28 million. The audit of the treasury management system forms part of the 2020/21 suite of annually performed key financial system reviews and is undertaken in order to inform the Head of Internal Audit's overall opinion on the control environment, which supports the Annual Governance Statement.

Overall the governance arrangements for treasury management were found to be sound. The Council has in place a Treasury Management Strategy for the financial year 2020/21 and has also

produced a Capital Strategy for the financial year 2020/21 in accordance with the CIPFA revised Prudential and Treasury Management Codes. These were approved by Full Council in February 2020. These are supported by operational procedure notes and Treasury Management Practice notes. Testing of a sample of investments made by the Council confirmed that in each case there were sufficient surplus funds available to make the investments, investments were made within the approved counterparty limits, and were approved either by the Finance Manager or Director Commercial. Testing of a sample of investments recalled confirmed that there was a justified reason for monies to be recalled, they were appropriately authorised and had been received back into the Council's bank account on the due date.

There are monthly control reconciliations completed for both investments and interest between the loans records (Treasury Management Spreadsheet) and the general ledger which are prepared by the Senior Accountant and reviewed by the Finance Manager. At the time of the audit these had been completed up to November 2020. Testing of two months' reconciliations confirmed that they had been completed in a timely and accurate manner.

Based on the work performed during the audit, overall substantial assurance can be given that there are effective controls in operation. The assurance opinions are given as follows:

Assurance Opinion		
Control Environment	Substantial	●
Compliance	Substantial	●
Organisational Impact	Minor	●




#### Bank Reconciliations

The maintenance of accurate and complete bank reconciliations is vital to the Council's overall financial control framework. The effective operation of controls to maintain accurate records is pivotal in ensuring that the Council's financial statements are produced promptly and accurately. The bank reconciliation process ensures that transactions appearing on the Council's accounting records are compared with bank statements allowing differences to be appropriately managed. Generally, these will be timing issues such as cheques being issued but not presented or cash in transit.

There are written operational procedure notes covering the bank reconciliation process and these provide assurance over the resilience of the process should there be a change in staffing or loss of key personnel through absence. The audit review tested the accuracy of the completed bank reconciliations for the months of September 2020 and December 2020 and confirmed that the figures included in the reconciliations could be matched to supporting records and that they had been promptly prepared. This included the verification of monies in transit at the end of each month. Each of the bank reconciliations completed for the months April 2020 to December 2020 included a small balancing item of £223.16 - this difference has been raised with the Senior Accountant who has stated that as it is not a material item, it will remain as an unreconciled item for the remainder of the financial year.

Completed reconciliations are held electronically and signed off by both the preparer (Senior Accountant) and reviewer (Finance Manager) and this was evidenced on each of the completed reconciliations for the period April 2020 to December 2020.

Based on the work performed during the audit, overall substantial assurance can be given that there are effective controls in operation. The assurance opinions are given as follows:

Assurance Opinion		
Control Environment	Substantial	
Compliance	Substantial	
Organisational Impact	Minor	




### Data Protection

The General Data Protection Regulation (GDPR) came into force on 25<sup>th</sup> May 2018 and together with the Data Protection Act (DPA) 2018 replaces former legislation on data protection. Whilst many of the GDPRs main concepts and principles are consistent with those detailed in the former DPA 1998, the GDPR does include new elements and significant enhancements, with greater emphasis on the documentation that data controllers must keep to demonstrate their accountability. The objective of this review was to provide assurance over compliance with the GDPR and DPA in handling data across the Council.

The Council has issued policies, codes of practice and guidance for staff which are available on the Council's intranet, the majority of which have been reviewed and revised since their first issue. The Council does not currently have a clear desk policy and consideration should be given to how risks are managed, particularly with increased homeworking. A review of the Council's corporate Data Retention Schedule and Record of Processing Activity were found to be complete with the exception of information relating to the information ICT Service. It is essential that the Council holds a complete and up to date record of data held to comply with statutory requirements so this omission should be addressed as a matter of urgency. It is the responsibility of Service Managers to maintain a register of documents destroyed within their service. From discussion with a small number of Service Managers, this requirement is not being consistently complied with.

Review of service specific privacy notices confirmed that they correctly identified the lawful basis for processing personal data and special categories of personal data, the data retention period and individual's rights to complain. A review of subject access requests records showed that of the 47 completed requests in the period covered by the review of the 46 (92%) had been responded to within the one-month timescale. There are procedures in place to ensure that new employees and Members are provided with appropriate GDPR training as part of the induction process, and there is a requirement for annual data protection training to be completed. For the last round of training (2019) approximately 70% of staff and 20% of Members completed the training, therefore there is scope for improvement in this area.

Based on the work performed during the audit, overall good assurance can be given that there are effective controls in operation. The assurance opinions are given as follows:

Assurance Opinion		
Control Environment	Substantial	
Compliance	Satisfactory	
Organisational Impact	Minor	

#### Local authority trading companies

The East Cambs Trading Company (ECTC) was incorporated in March 2016 by East Cambridgeshire District Council. The property and community housing division was set up to deliver high-quality and design-led housing of all tenures, generating future dividends for the Council. The commercial services division was set up to manage and operate the Ely Markets on behalf of the Council and provide grounds maintenance services. The Finance and Assets Committee acts as the 'shareholder committee' for ECTC.

The East Cambs Street Scene (ECSS) is the company owned by East Cambridgeshire District Council that was incorporated in January 2018 to provide the recycling and waste service across the District. The Operational Services Committee acts as the 'shareholder committee' for ECSS.

The two main objectives of this audit were to review and comment on:

- the ongoing governance arrangements within the Council that exist to regulate both companies' relationship with the Council; and
- the contract management arrangements in place to ensure that services provided by the two companies are in accordance with the Council's requirements and expectations.

The audit concluded that the governance and contract management arrangements are operating in line with current governing documents for both companies. Legal advice previously received by the Council stated that current governance arrangements effectively manage the relationship that exists between the Council and the companies, and audit testing confirmed those arrangements to be working in practice. In total, six recommendations have been made in respect of further strengthening the governance arrangements currently operating.

The current pandemic has precipitated a number of financial risks to both trading companies. This audit confirmed that there are reporting and monitoring processes in place that should provide Council officers and members with regular and transparent financial performance information for ECTC and ECSS.

The audit further confirmed that the Council has arrangements in place to oversee delivery of services provided by the two companies (ECTC - Ely markets and grounds maintenance; ECSS – waste management and street cleansing).

Based on the work performed during the audit, the following assurance opinions have been given:

Assurance Opinion		
Control Environment	Good	●
Compliance	Good	●
Organisational Impact	Minor	●

#### 2.4 Implementation of audit recommendations by officers

Where an Internal Audit review identifies any areas of weakness or non-compliance with the control environment, recommendations are made and an action plan agreed with management, with timeframes for implementation. In order to provide the Committee with assurances that these actions are being implemented in a timely and effective manner, a more robust follow up process has been implemented for the 2020/21 financial year.

Since the last Committee meeting, six agreed actions have been implemented by officers. An overview is provided in Table 2.

At the time of reporting, there is one action which remains overdue for implementation, further details are provided in Table 3.

**Table 1 - Progress against 2020/21 Internal Audit Plan**

						Assurance Opinion			
Assignment		Planned start	Status		Assurance sought	Control Environment	Compliance	Org impact	Comments
Governance & Counter Fraud									
Counter Fraud Procedures		Q2	Complete			Consultancy			
National Fraud Initiative		Q3	Complete		Data upload in Q3	Consultancy			
Risk Management support		Q1 – Q4	In progress			Consultancy			
Annual Governance Statement		Q1	Complete		Not applicable	Consultancy			
Procurement compliance		Q4	Fieldwork underway						
Key Financial Systems									
Bank Reconciliation		Q3	Final report issued		To review the design of, and compliance with, key controls within the Council’s financial systems, working on a cyclical basis. Providing assurance over the controls to prevent and detect fraud and error.	Substantial	Substantial	Minor	See section 2.3
Creditors		Q4	Fieldwork completed						
Debtors		Q4	Fieldwork underway						
Payroll		Q4	Fieldwork underway						

						Assurance Opinion			
Assignment		Planned start	Status		Assurance sought	Control Environment	Compliance	Org impact	Comments
Treasury Management		Q4	Final report issued		To review the design of, and compliance with, key controls within the Council’s financial systems, working on a cyclical basis. Providing assurance over the controls to prevent and detect fraud and error.	Substantial	Substantial	Minor	See section 2.3
Budgetary Control		Q4	Planning						
Key policy compliance									
Off contract spend		Q4	Fieldwork underway						
Risk based audits									
Local Authority Trading Companies		Q3	Final report issued		To seek assurance over the ongoing governance arrangements that exist to regulate both companies’ relationship with the Council; the contract management arrangements in place to ensure that services provided by the two companies are in accordance with the Council’s requirements and expectations.	Good	Good	Minor	See section 2.3
Asset management		Q3	Fieldwork completed						
Data protection/GDPR		Q3	Final report issued		To provide assurance over compliance with the GDPR and Data Protection Act in the handling of data across the Council.	Substantial	Satisfactory	Minor	See section 2.3



						Assurance Opinion			Comments
Assignment		Planned start	Status		Assurance sought	Control Environment	Compliance	Org impact	
S106 monitoring		Q2	Fieldwork completed						
Disabled facilities grants		Q1	Final report issued		<i>To provide assurance over the management of DFGs in relation to the application and verification process to manage the risk of fraud, and the delivery of value for money from spend.</i>	Good	Good	Minor	Summarised at September 2020 committee meeting
Building control		Q2	Final report issued		<i>To provide assurance over the efficient and effective delivery of the service and recovery of costs.</i>	Good	Substantial	Minor	Summarised at November 2020 committee meeting
Cyber Security		Q3	Fieldwork underway						

**Table 2 - Implementation of Audit Recommendations**

	‘High’ priority recommendations		‘Medium’ priority recommendations		‘Low’ priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and <b>implemented</b> since last Committee meeting	1	100%	4	80%	1	100%	6	86%
Actions <b>overdue by less than three months</b>	-	-	-	-	-	-	-	-
Actions <b>overdue by more than three months</b>	-	-	1	20%	-	-	1	14%
<b>Totals</b>	<b>1</b>	<b>100%</b>	<b>5</b>	<b>100%</b>	<b>1</b>	<b>100%</b>	<b>7</b>	<b>100%</b>

**Table 3 – Actions overdue more than three months (high or medium priority)**

Audit plan	Audit title	Agreed action and context	Priority	Responsible officer	Date for implementation	Officer update / revised date
DFGs						
2019/20	Disabled Facilities Grants (DFGs)	<i>To implement a procurement framework specific to DFG works.</i>	Medium	Environmental Services Manager	30/09/2020	It was agreed to go out to tender out for tender for a four year framework contract in relation to bathroom adaptations, internal alterations, and external access door alterations. Work is underway to prepare for the tender, with advertising planned for May 2021.

**Table 4: Customer Satisfaction**

At the completion of each assignment, the Auditor issues a Customer Satisfaction Questionnaire (CSQ) to each client with whom there was a significant engagement during the assignment. There has been one survey response received during the year to date.

Responses	Outstanding	Good	Satisfactory	Poor
Design of assignment	1	3	-	-
Communication during assignment	1	3	-	-
Quality of reporting	1	3	-	-
Quality of recommendations	-	2	-	-
<b>Total</b>	<b>3</b>	<b>11</b>	<b>-</b>	<b>-</b>

**Note – For two reviews there were no recommendations so question on quality of recommendations not asked**

At the completion of each assignment the Auditor will report on the level of assurance that can be taken from the work undertaken and the findings of that work. The table below provides an explanation of the various assurance statements that Members might expect to receive.

Compliance Assurances		
Level	Control environment assurance	Compliance assurance
<b>Substantial</b> ●	There are minimal control weaknesses that present very low risk to the control environment.	The control environment has substantially operated as intended although some minor errors have been detected.
<b>Good</b> ●	There are minor control weaknesses that present low risk to the control environment.	The control environment has largely operated as intended although some errors have been detected.
<b>Satisfactory</b> ●	There are some control weaknesses that present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
<b>Limited</b> ●	There are significant control weaknesses that present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
<b>No</b> ●	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact	
Level	Definition
<b>Major</b> ●	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
<b>Moderate</b> ●	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
<b>Minor</b> ●	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

## ***Limitations and Responsibilities***

### ***Limitations inherent to the internal auditor's work***

LGSS Internal Audit is undertaking a programme of work agreed by the Council's senior managers and approved by the Finance and Assets Committee subject to the limitations outlined below.

### ***Opinion***

Each audit assignment undertaken addresses the control objectives agreed with the relevant, responsible managers.

There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work; were excluded from the scope of individual internal assignments; or were not brought to Internal Audit's attention.

### ***Internal Control***

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and unforeseeable circumstances.

### ***Future Periods***

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

### ***Responsibilities of management and internal auditors***

It is management's responsibility to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.