



EAST CAMBRIDGESHIRE
DISTRICT COUNCIL

Internal Audit Progress and Performance Update

July 2023

Introduction

- 1.1 The Internal Audit service for East Cambridgeshire District Council provides 210 days to deliver the 2023/24 Annual Audit Plan.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Audit 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 2023/24 Audit Plan

At the time of reporting, fieldwork is either complete or underway in relation to approximately 37% 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, one survey response has been received in relation to feedback on completed assignments for the 2023/24 audit plan – this is summarised in Table 3.

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 Audit Committee meeting, the Internal Audit team has finalised two audit reports. The key findings were as follows:

Asset related audits – follow up (2022/23 audit)

Over the past two years, asset related internal audits had identified some areas for improvement in relation to both asset management (compliance regimes and management of leased assets) and the fixed asset records. This audit was scheduled as a follow up to the actions agreed in the 2020/21 Asset Management audit and the 2021/22 Fixed Assets audit.

Since the last audit, the Council has invested in dedicated software for maintaining the fixed asset register. This provided a timely opportunity to review the content and implement the audit recommendations in relation to review of useful lives and production of procedural notes. The software, produced by CIPFA, should enable timely and accurate record keeping going forward. Physical verification checks had recently been completed by the Finance team and would also form part of year end processes. All recommendations from the Fixed Assets audit had been evidenced as completed.

In relation to operational assets, the Council has developed its tracker records for compliance works and incorporated tracking of remedial actions. Sample testing on




compliance regimes confirmed consistent compliance on gas safety and electrical wiring checks and evidence of all selected servicing regimes. The only exceptions related to records of portable appliance testing, water temperature checks and fire door assessments at the depot, which have been highlighted for resolution.

The Council has recently invested in training on asbestos and legionella for two officers, to enable resilience on the completion of regular in-house checks in these areas.

The 2020/21 audit of Asset Management had highlighted a lack of energy performance certificate (EPC) ratings for some new/renewed leases. Evidence has been provided that EPCs are now held for assets upon agreement of leases and that these are tracked on the compliance records. It must be noted, however, that there remain some leased assets for which an EPC is not held and from April 2023 it is a legal requirement to hold these for all leased assets, throughout the duration of the lease – not just for new leases.

Sample testing on invoicing confirmed that rents were being recovered in line with the latest agreed rents. Sample testing has also, however, highlighted a lack of clear and consistent process for rent reviews. There is currently no system for tracking and flagging when these become due and no audit trail within the sample of assets selected in testing to demonstrate that all rents were reviewed in accordance with the lease. An example of a discounted rent applied on one asset highlighted a lack of documented audit trail regarding associated approval processes.

Based on the work performed during the audit, assurance opinions were given as follows:

Assurance Opinion		
Control Environment	Satisfactory	
Compliance	Good	
Organisational Impact	Minor	

Fees and charges

Fees and charges are a significant source of income for the Council. The Council has over 500 individual charges ranging from 50p for daily off-peak parking to £64,000 for licensing of large-scale public events. As well as generating significant income, effective charging policies can also support broader policy objectives such as targeting of subsidies and managing demand for services. This audit provides assurance over the setting of fees and charges for Council services and the consistent application of these in invoicing, covering both statutory and discretionary fees and charges.

Internal audit testing concluded that 2023/24 fees and charges were reviewed and approved in line with Council requirements, as part of the annual budget setting process and roles and responsibilities are outlined in the Constitution. However, the Council could benefit from developing a clear corporate charging policy to help clarify and reinforce the Council's objectives relating to fees and charges and provide budget holders with a clear and consistent framework for establishing and reviewing fees.

Testing of statutory charges confirmed that all have been established in accordance with the relevant statutory or regulatory requirements. For 2023/24, a 7% inflationary increase was applied to most discretionary fees and charges - with the exception of building control and licensing where a formal review informed pricing decisions. Sample testing of discretionary fees in five service areas identified that four areas had not been subject to a formal review in, at least, the last five years. This increases the risk of over or under-recovery of costs, potential legal challenge and financial losses.

Furthermore, a review of E-space rental charges (£ per square metre) confirmed that all current rents are charged at a lower rate than the published 2023/24 discretionary rates approved at Full Council.

Based on the work performed during the audit, assurance opinions were given as follows:

Assurance Opinion		
Control Environment	Moderate	●
Compliance	Moderate	●
Organisational Impact	Medium	●

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.

Since the last Committee meeting, 21 agreed actions have been implemented by officers. An overview is provided in Table 2.

At the time of reporting, there are 2 actions which remain overdue for implementation. Of these, there are no actions categorised as 'High' or 'Medium' priority which are more than three months overdue.

2.5 Real time risk assurances

Risk management and compliance with the Risk Management Strategy is the responsibility of the Council's management but Internal Audit is seeking to provide assurance over the effectiveness of the risk management process via these rolling risk assurance reviews.

Internal Audit select risk entries listed within the register on a rolling basis and conduct targeted reviews to confirm that the controls listed on the register are (a) in place and (b) evidenced in practice. Given that there is a reliance upon these controls to manage the key risks and achieve the residual risk scores, the validity and effectiveness of the controls listed will be verified and reported back to the Audit Committee in regular progress reporting.

The content of the risk entry is also reviewed with the lead officer to seek assurance that the current scoring and details reflect the risk environment at this time. Any potential changes in risk scoring or content are fed back to the Risk Management Group for

discussion/amendment. Internal Audit do not input into risk scoring or content, maintaining independence from this.

The latest of the rolling risk assurance reviews has been completed and the risk selected was **A2: East Cambridgeshire Trading Company (ECTC) fails to deliver upon its business plan and expected levels of performance.**

At the time of reporting, the current risk scoring for this entry is 15 (3 for likelihood and 5 for impact) and the residual risk is 10 (2 for likelihood and 5 for impact). As such, the listed controls are claimed to reduce the likelihood of the risk occurring. Assurance has been sought over the existence of those controls.

The findings for each control are detailed in Table 4. The risk scoring was not amended as a result of this review.

A RAG (red, amber, green) rating – as defined below Table 4 – has been assigned to each control. The review resulted in recommended amendments to the wording of two controls, in order to clarify how these operate in practice, based on evidence reviewed of these controls in action. It was also agreed, following the review, that the risk owner should be amended from the Director Commercial to the s151 Officer, to avoid any potential/perceived conflict of interest.

Table 1 - Progress against 2023/24 Internal Audit Plan

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Key financial systems							
Bank reconciliation	Q4	Not started					
Creditors	Q4	Not started					
Debtors	Q4	Not started					
Payroll	Q4	Not started					
Treasury management	Q4	Not started					
Budgetary control	Q4	Not started					
Key policy compliance							
Fees and charges	Q1	Final report issued	To provide assurance over the setting of fees and charges for Council services and the consistent application of these in invoicing. To cover both statutory and discretionary fees and charges.	Moderate	Moderate	Medium	See section 2.3
Payment Card Industry Data Security Standard (PCI DSS)	Q1	Draft report					
Risk based audits							
Use of agency staff and consultants	Q1	Fieldwork underway					

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Information governance	Q2	Planning					
Governance of trading companies	Q2	Not started					
Private sector housing enforcement and empty homes strategy	Q3	Not started					
Grant claims	As required	Fieldwork underway					Disabled facilities grant audit underway
IT audits							
Cyber security	Q2	Planning					
Governance and Counter Fraud							
Counter Fraud support / promotion / policies	Q2	As required	Not applicable – consultancy work.	Daily monitoring of Report Fraud mailbox			
National Fraud Initiative	Q3	Ongoing	Not applicable – consultancy work.				Matches under review.
Risk management support and real time assurances	Q1 – Q4	Ongoing	Ongoing assurances over the controls listed in the Risk Register and supporting embedding of risk management.	Assurances provided on risk entries throughout the year.			See Table 4
Annual Governance Statement support	Q1	Complete					
Procurement compliance	Q4	Not started					

Table 2 - Implementation of agreed management actions

	'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 implemented since last Committee meeting	5	100%	9	90%	7	88%	21	92%
Actions overdue by less than three months	-	-	1	10%	-	-	1	4%
Actions overdue by more than three months	-	-	-	-	1	12%	1	4%
Totals	5	100%	10	100%	8	100%	23	100%

Table 3: 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	N/A	Outstanding	Good	Satisfactory	Poor
Design of assignment	-	1	-	-	-
Communication during assignment	-	1	-	-	-
Quality of reporting	-	1	-	-	-
Quality of recommendations	-	1	-	-	-
Total	-	4	-	-	-


Table 4: Risk register entries – rolling review of controls




Risk entry			
A2: East Cambridgeshire Trading Company (ECTC) fails to deliver upon its business plan and expected levels of performance			
Assurance and Findings			
Key Control Reference	Key Control	RAG Rating (Red, Amber, Green)	Auditor Comment & Opinion
A2.01	Business Plans, Articles of Association and Shareholder Agreements.	● Green	<p>Findings Business Plans for 2021/22, 2022/23 and 2023/24 have been presented to the Council's Finance and Assets Committee and are available on the Council's website.</p> <p>Articles of Association (rules by which the company will be run and governed) were agreed in November 2019.</p> <p>Shareholder Agreement – latest version of the Shareholder Agreement dated January 2020.</p> <p>Recommendation None</p>
A2.02	Established shareholder arrangements.	● Green	<p>Findings Shareholder Agreement – as the only shareholder, this agreement sets out how the Council will participate in the Company. Latest version of the Shareholder Agreement dated January 2020.</p> <p>Recommendation None</p>
A2.03	Regular reporting to Finance and Assets Committee (in remit as Shareholder	● Amber	<p>Findings In accordance with the Shareholder Agreement (section 5, point 3), reporting to the Shareholders Committee (Finance and Assets Committee) takes place at least twice a year.</p> <p>Schedule of reporting to Finance and Assets Committee for the last three years seen.</p>

Risk entry			
A2: East Cambridgeshire Trading Company (ECTC) fails to deliver upon its business plan and expected levels of performance			
Assurance and Findings			
Key Control Reference	Key Control	RAG Rating (Red, Amber, Green)	Auditor Comment & Opinion
	Committee) and Full Council.		<p>The terms of reference for the Finance and Assets Committee include its responsibilities in its capacity as the Shareholder Committee. This forms part of the Council's Constitution and is published on the Council's website.</p> <p>The terms of reference refer to an Annual All Members Seminar, the Company Secretary confirmed that these seminars consist of a presentation updating members of the last 12 months performance and what is coming up in the next 12 months. It was confirmed that the next seminar will be held over the summer 2023. Dates of the previous seminars confirmed as:</p> <ul style="list-style-type: none"> • 2021 – 9th June • 2022 – 8th September <p>It was confirmed that there is no requirement for reporting to Full Council under the Shareholder Agreement as the Finance and Assets Committee acts as the Shareholder Committee and there is no regular reporting to Full Council. As such, the reference to reporting to Full Council should be removed from this Key Control.</p> <p>Historic reporting to Full Council confirmed as follows:</p> <ul style="list-style-type: none"> • Establishment of the ECTC was presented to and approved by Full Council in January 2016. • Proposed governance changes to the ECTC were approved at full Council in October 2019. <p><u>Recommendation</u></p>

Risk entry			
A2: East Cambridgeshire Trading Company (ECTC) fails to deliver upon its business plan and expected levels of performance			
Assurance and Findings			
Key Control Reference	Key Control	RAG Rating (Red, Amber, Green)	Auditor Comment & Opinion
			It was confirmed that there is no requirement for reporting to Full Council, as the Finance and Assets Committee acts as the Shareholder Committee - therefore, agreed that this wording should be removed from this Key Control.
A2.04	Company Business Plans include Risk Register.	● Green	<p><u>Findings</u> In accordance with the Shareholder Agreement (section 5, point 5), Business Plans (including mid-year reporting) are presented to the Finance and Assets Committee in their capacity as the Shareholder Committee and all have risk registers included.</p> <p>Business Plans checked for 2021,22,23.</p> <p><u>Recommendation</u> None</p>
A2.05	Independent Chairperson.	● Green	<p><u>Findings</u> In January 2016 the appointment of the Chairman was approved at Full Council.</p> <p>Governance/recruitment arrangements for the appointment of an Independent Chairman of the Board were agreed at the ECTC Establishment Committee in November 2015.</p> <p><u>Recommendation</u> None</p>
A2.06	Independent external audit review of accounts, and opportunity to	● Green	<p><u>Findings</u> External Auditors - Price Bailey have conducted the annual financial audit of the ECTC accounts for the past three years.</p>

Risk entry			
A2: East Cambridgeshire Trading Company (ECTC) fails to deliver upon its business plan and expected levels of performance			
Assurance and Findings			
Key Control Reference	Key Control	RAG Rating (Red, Amber, Green)	Auditor Comment & Opinion
	commission ad-hoc advice if required.		<p>The External Auditor report formed part of the published annual Directors' Report and Financial Statement presented to the Finance and Asset Committee (in their capacity as the Shareholder Committee) each year. This was 'noted' by the Committee for all three years.</p> <p>The Company Secretary confirmed that there has been no requirement to contact the external auditors for ad-hoc advice to date. However, should this be required they would be contacted appropriately for advice.</p> <p><u>Recommendation</u> None</p>
A2.07	s151 Officer and Monitoring Officer present as non-voting members at Board meetings.	 Amber	<p><u>Findings</u> A review of the Monitoring Officer and Section 151 Officer's attendance on Board Meetings for the past three years found that since January 2020 there have been 14 Board Meetings;</p> <ul style="list-style-type: none"> • The Section 151 Officer has attended all 14 meetings; • The Monitoring Officer has attended 6 of the 14. In one instance 4 meetings were missed consecutively (between June 2020 and Feb 2021). <p>The Company Secretary confirmed that the Council's Section 151 Officer and Monitoring Officers are invited to attend the Board Meetings as Council representatives/observers. Their attendance is not a requirement as they are not 'members' of the Board.</p> <p><u>Recommendation</u> An amendment to the key control is suggested to provide clarity to the role and required/expected attendance of the Section 151 Officer and Monitoring Officer to Board Meetings.</p>

Risk entry			
A2: East Cambridgeshire Trading Company (ECTC) fails to deliver upon its business plan and expected levels of performance			
Assurance and Findings			
Key Control Reference	Key Control	RAG Rating (Red, Amber, Green)	Auditor Comment & Opinion
A2.8	Council has a Debenture Agreement in place providing security over all loan funding it provides to the Company.	 Green	<p><u>Findings</u> The Council has a Debenture Agreement dated July 2022.</p> <p>The Section 151 Officer confirmed there is one loan facility up to a value of £7.5m. The loan amount is defined in the Loan Agreement (including repayment) which is referenced within the Debenture Agreement. Both documents were signed on the same day. The Loan Agreement references the Debenture.</p> <p>The Council instructed Trowers & Hamlins to draft the Debenture. A copy of the draft Loan Agreement was provided to them to facilitate the drafting of the Debenture.</p> <p><u>Recommendation</u> None</p>

RAG Rating Indicator Values & Assurances	
 Red	Control is not present or not currently operating.
 Amber	Control is not operating fully or consistently in line with risk register entry.
 Green	Control in place and evidenced as operating as stated.

Glossary

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 the Committee might expect to receive.

Compliance Assurances		
Level	Control environment assurance	Compliance assurance
Substantial ●	There is a sound system of internal control to support delivery of the objectives.	The control environment is operating as intended with no exceptions noted which pose risk to delivery of the objectives.
Good ●	There is generally a sound system of internal control, with some gaps which pose a low risk to delivery of the objectives.	The control environment is generally operating as intended with some exceptions which pose a low risk to delivery of the objectives.
Moderate ●	There are gaps in the internal control framework which pose a medium risk to delivery of the objectives.	Controls are not consistently operating as intended, which poses a medium risk to the delivery of the objectives.
Limited ●	There are gaps in the internal control framework which pose a high risk to delivery of the objectives.	Key controls are not consistently operating as intended, which poses a high risk to the delivery of the objectives.
No ●	Internal Audit is unable to provide any assurance that a suitable internal control framework has been designed.	Internal Audit is unable to provide any assurance that controls have been effectively applied in practice.

Organisational Impact		
Level	Definition	
High ●	The weaknesses identified during the review have left the Council open to a high level of risk. If the risk materialises it would have a high impact upon the organisation as a whole.	
Medium ●	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a medium impact upon the organisation as a whole.	
Low ●	The weaknesses identified during the review have left the Council open to low risk. This may have a low impact on the organisation as a whole.	

Limitations and Responsibilities

Limitations inherent to the internal auditor's work

Internal Audit is undertaking a programme of work agreed by the Council's senior managers and approved by the Audit 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.