



EAST CAMBRIDGESHIRE DISTRICT COUNCIL
INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE

FEBRUARY 2020



Date: 6th February 2020

Introduction

- 1.1 LGSS provides the Internal Audit service for East Cambridgeshire District Council and has been commissioned to provide 210 days to deliver the 2019/20 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 2019/20 Audit Plan

At the time of reporting, fieldwork on twelve assignments from the 2019/20 Audit Plan is either complete or underway, representing 71% of the planned work. As such, delivery is on schedule.

Progress on individual assignments is shown in Table 1.

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

To date, six survey responses have been received in relation to feedback on assignments and all have rated the service as either 'good' or 'outstanding' in all areas. The results are provided in Table 2.

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, three audit reports from the 2019/20 audit plan have been finalised. To date, these have not highlighted any issues or weaknesses which would impact upon the overall Internal Audit opinion. The key findings from the reports 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 time of the audit, investments with approved counterparties totalled £12.310 million. The audit of treasury management forms part of the 2019/20 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 2019/20 and has also produced a Capital Strategy for the financial year 2019/20 in accordance with the CIPFA revised

Prudential and Treasury Management Codes. These were approved by Full Council in February 2019. 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 by either 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 between the loans records (Treasury Management Spreadsheet) and the general ledger for investments made and recalled which are prepared by the Senior Accountant and reviewed by the Finance Manager. Testing of a sample of control account reconciliations confirmed that they had been completed in a timely and accurate manner. For interest received there are monthly reconciliations completed between the amount received in the bank and the financial ledger. Interest received is not presently recorded on the Treasury Management Spreadsheet however this is considered to be a low risk to the Council and periodic random checks could be introduced to provide assurance over the accuracy of interest received from investments.

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

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

Grants to Voluntary Organisations

The Council provides grant funding to three voluntary sector organisations that deliver valuable services to the East Cambridgeshire community, which is agreed annually through the Committee process. The total budget for the financial year 2019/20 is £102,433. Grants awarded have remained at the same level for a number of years. In addition there is a small community grants scheme which aims to work in partnership with local communities to provide new and innovative community services and initiatives which develop the quality of life in East Cambridgeshire. The total budget for the financial year 2019/20 is £7,650 with a maximum grant of £1,000 being available. The objective of the audit was to provide management with assurance that the controls in place were operating effectively.

Testing completed on the award of grants to the three voluntary sector organisations confirmed that for both the financial years 2018/19 and 2019/20 they had been approved by Committee and supporting documentation was held on file including copies of audit accounts, a signed copy of the Service Level Agreements and monitoring reports. For the small community grants scheme there had been a total of eleven grants awarded in the last two financial years. Pre-grant due diligence procedures are undertaken as part of the grant award process and testing

completed on a sample of grants confirmed that all the required documentation was held. The grant fund process also requires reports to be submitted by organisations to demonstrate value for money and a positive outcome for the community. Testing of individual grants confirmed that in each case reports had been provided.

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

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

Health and Safety

East Cambridgeshire District Council has a duty to protect the health, safety and welfare of its employees, in accordance with the Health and Safety at Work Act 1974. The objective of the review was to provide management with assurance over the Council’s compliance with Health and Safety legislation and to review the design of controls against best practice.

The Council has a Corporate Health and Safety Policy in place which was last reviewed and formally approved by the Finance & Assets Committee in June 2019. The Corporate Health and Safety Policy is supported by a number of individual Codes of Practice.

There is a designated senior officer with overall responsibility for health and safety whose role is to facilitate and provide the means for Service Leads to manage health and safety within their service areas as well as providing the expert advice on health and safety as the Council’s nominated ‘competent person’. The Council complies with health and safety regulations by displaying the relevant health and safety law poster and has a valid employers’ liability insurance. There is an annual review of health and safety risks which is the responsibility of Service Leads to complete. At the time of the audit there were a number of outstanding risk assessments which had not been completed for the 2019/20 review.

There are designated Fire Wardens for specific areas of the Council’s offices who receive accredited training including the use of fire extinguishers. Fire alarms are tested weekly and the fire evacuation procedure half yearly. There are also fully trained first aiders who have attained the relevant qualification. There is a Health and Safety Working Group which is defined in the Corporate Health and Safety Policy as the senior health and safety decision making body in the Council which is led by the Director Commercial. The review has identified however that there is no reporting on health and safety to Members. There is a standard health and safety induction process for all new employees. The Council has recently introduced a health and safety E-Learning training package called ‘Office Health & Safety’ which all officers will be required to complete.

Based on the work performed during the audit, overall satisfactory assurance can be given that there are effective controls in operation, however testing completed on a sample of Codes of Practice identified some areas of non-compliance. The assurance opinions given are as follows:

Assurance Opinion		
Control Environment	Good	●
Compliance	Satisfactory	●
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 2019/20 financial year.

Since the last committee meeting, 10 agreed actions have been implemented by officers. An overview is provided in Table 3.

At the time of reporting, there are six actions which are overdue for implementation. Of these, one has been assessed as 'High' or 'Medium' priority and has been overdue for more than three months. As such, further details are provided in Table 4.

Table 1 - Progress against 2019/20 Internal Audit Plan

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Governance & Counter Fraud							
Counter Fraud Procedures	Q2	In progress	<i>Supported drafting of revised policy.</i>	Consultancy			
National Fraud Initiative	Q3	In progress	<i>Support with reviewing and investigating matches identified by the National Fraud Initiative</i>	Consultancy			
Risk Management support	Q1 – Q4	In progress		Consultancy			
Ethical Governance	Q3	Planning					
Annual Governance Statement	Q1	Complete	<i>Not applicable</i>	Consultancy			
Key Financial Systems							
Bank Reconciliation	Q3	Fieldwork underway					
Creditors	Q4	Planning					
Debtors	Q4	Planning					
Payroll	Q4	Planning					
Treasury Management	Q3	Final report issued	<i>To provide assurance over the controls to prevent and detect fraud and error.</i>	Substantial 	Substantial 	Minor 	See section 2.3

					Assurance Opinion				
Assignment		Planned start	Status		Assurance sought	Control Environment	Compliance	Org impact	Comments
Budgetary Control		Q3	Fieldwork underway						
Key policy compliance									
Absence management		Q1	Final report issued		<i>To provide assurance over compliance with key Council policies and procedures, based on sample testing.</i>	Good ●	Good ●	Minor ●	Reported in September 2019
Use of Government Procurement Cards (GPCs)		Q2	Final report issued		<i>To provide assurance over compliance with key Council policies and procedures, based on sample testing.</i>	Good ●	Satisfactory ●	Minor ●	Reported in September 2019
Contract extensions		Q2	Draft report						
Grants to voluntary organisations		Q3	Final report issued		<i>To provide assurance over compliance with key Council policies and procedures, based on sample testing.</i>	Substantial ●	Substantial ●	Minor ●	See section 2.3
Risk based audits									
Homelessness Reduction Act		Q2	Fieldwork complete						
Leisure centre income		Q1	Final report issued		<i>To provide assurance that the Council receives income due from the operator in accordance with contractual arrangements.</i>	Good ●	N/A	Minor ●	Reported in July 2019







Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Community Infrastructure Levy (CIL) income	Q1	Final report issued	To provide assurance over the recovery and monitoring of Community Infrastructure Levy (CIL) monies.	Good 	Good 	Minor 	Reported in September 2019
Health and Safety	Q1	Final report issued	To provide assurance over the Council's compliance with Health and Safety legislation and to review the design of controls against best practice.	Good 	Satisfactory 	Minor 	See section 2.3
ICT and Information Governance							
Controls review of critical systems / Cyber Security	Q4	Not started					

Table 2: 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 have been six survey responses received during the year to date.

Responses	Outstanding	Good	Satisfactory	Poor
Design of assignment	1	5	-	-
Communication during assignment	3	3	-	-
Quality of reporting	3	3	-	-
Quality of recommendations	2	2	-	-
Total	9	13	-	-

Table 3 - 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 implemented since last Committee meeting	-	-	6	67%	4	57%	10	56%
Actions overdue by less than three months	1	50%	-	-	1	14%	2	11%
Actions overdue by more than three months	1	50%	3	33%	2	29%	6	33%
Totals	2	100%	9	100%	7	100%	18	100%

Table 4 – Actions overdue more than three months (high and medium priority)

Audit plan	Audit title	Agreed action	Priority	Responsible officer	Date for implementation	Officer update / revised date
Information Governance						
2016/17	Information Governance	Refresh and promote the information security policy.	High	ICT Manager	01/12/2017	January 2020: The Information Security Policy has been completed and will be presented to F & A Committee on 6 th February 2020 for consideration and approval.”

Notes

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
Substantial	●	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.
Good	●	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.
Satisfactory	●	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.
Limited	●	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.
No	●	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
Major	●	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.
Moderate	●	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.
Minor	●	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.