



EAST CAMBRIDGESHIRE DISTRICT COUNCIL
INTERNAL AUDIT ANNUAL REPORT
2018/19



1. Background

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide an annual Internal Audit opinion and report that can be used by the organisation to inform its governance statement. The Standards specify that the report must contain:
- an Internal Audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
 - a summary of the audit work from which the opinion is derived and any work by other assurance providers upon which reliance is placed; and
 - a statement on the extent of conformance with the Standards including progress against the improvement plan resulting from any external assessments.

2. Head of Internal Audit Opinion 2018/19

- 2.1 This report provides a summary of the work carried out by the Internal Audit service during the financial year 2018/19 and the results of these assignments. Based upon the work undertaken by Internal Audit during the year, the Head of Internal Audit's overall opinion on the Council's system of internal control is that:

It is my opinion that Satisfactory Assurance can be given that there is generally a sound system of internal control, designed to meet the organisation's objectives and that controls are generally being applied consistently.

Controls relating to key financial systems for bank reconciliations, debtors, budgetary control and treasury management which were reviewed during the year were generally concluded to provide a level of at least Good Assurance. The audit of the creditors system highlighted a number of improvements in controls compared with 2017/18 but some areas for improvement remain subject to further development.

Where any areas for improvement to control environments have been identified during audit assignments, recommendations have been made and an action plan agreed with management. The implementation rate in relation to actions agreed in 2018/19 has been very strong, with 97% of actions due for implementation being completed during the year.

No systems of controls can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

- 2.2 The basis for this opinion is derived from an assessment of the individual opinions arising from assignments from the risk-based Internal Audit plan that have been undertaken throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in addressing any control weaknesses. A summary of audit opinions is shown in Table 1.

Table 1 – Summary of audit opinions 2018/19:

Area	Substantial	Good	Satisfactory	Limited	No
Financial systems	1	7	8	-	-
Key policy compliance	-	3	-	3	
Risk based audits	1	3	2	-	-
Governance	-	-	2	-	-
Total	2	13	12	3	0
Summary	6%	44%	40%	10%	-
2017/18 summary – for information	25%	40%	15%	20%	-

3. Review of audit coverage

Audit opinion on individual audits

3.1 The Committee is reminded that the following assurance opinions can be assigned:

Table 2 – Assurance categories:

Level of Assurance	Definition
Substantial	There are minimal control weaknesses that present very low risk to the control environment. The control environment has substantially operated and either no, or 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.

Level of Assurance	Definition
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.

3.2 All individual reports represented in this Annual Report are final reports and, as such, the findings have been agreed with management, together with the accompanying action plans.

Summary of audit work

3.3 Table 3 details the assurance levels resulting from all audits undertaken in 2018/19 and the date of the Committee meeting at which the outcome of the audit was presented.

3.4 All assignments have been delivered in accordance with the agreed terms of reference and provide assurance in relation to the areas included in the specified scope.

Table 3 – Summary of audit opinions 2018/19:

Audit Area	Design of Control Environment	Compliance	Organisational Impact	Committee Date
Anglia Revenues Partnership				
Council Tax	Satisfactory assurance (Adequate/Reasonable)			June 2019
NNDR	Satisfactory assurance (Adequate/Reasonable)			June 2019
Housing Benefit	Satisfactory assurance (Adequate/Reasonable)			June 2019
Overpayments	Satisfactory assurance (Adequate/Reasonable)			June 2019
Financial				
Bank Reconciliations	Good assurance	Good assurance	Minor	March 2019
Budgetary Control	Good assurance	Good assurance	Minor	March 2019

Audit Area	Design of Control Environment	Compliance	Organisational Impact	Committee Date
Creditors	Satisfactory assurance	Satisfactory assurance	Minor	June 2019
Debtors	Good assurance	Good assurance	Minor	June 2019
Payroll	Satisfactory assurance	Satisfactory assurance	Minor	June 2019
Treasury Management	Substantial assurance	Good assurance	Minor	March 2019
Key policy compliance				
Agency Staff - IR35 Compliance	Limited assurance	Limited assurance	Minor	November 2018
Scheme of Delegation	Good assurance	Good assurance	Minor	November 2018
Invoices over £500	Good assurance	Limited assurance	Minor	November 2018
Risk based audits				
Waste Management	Good assurance	Good assurance	Minor	June 2019
Business Continuity	Satisfactory assurance	Satisfactory assurance	Moderate	November 2018
Taxi Licensing	Good assurance	Substantial assurance	Minor	July 2018
Governance				
General Data Protection Regulation (GDPR)	Satisfactory assurance	Satisfactory assurance	Minor	June 2019

3.5 An assurance mapping exercise has also been conducted in relation to the governance of the Local Authority Trading Companies. Given the changes in the Council's committee structure for the new municipal year, it has not been possible or timely to provide an assurance opinion on the current governance arrangements but a number of recommendations have been made for consideration in the development and embedding of the revised reporting arrangements.

3.6 In addition to the audit assignments above, Internal Audit has also drafted the Annual Governance Statement for the Council for 2018/19 and overseen the collation of assurances to support this.

Implementation of Internal Audit recommendations

3.7 Internal Audit follow up on progress made against all recommendations arising from completed assignments to ensure that they have been fully and promptly implemented. Internal Audit trace follow up action on a monthly basis and provide a summary to the Finance and Assets Committee.

3.8 A total of 34 audit recommendations have been made during 2018/19.

3.9 Details of the implementation rate for audit recommendations made during 2018/19 are provided in Table 4.

Table 4 - Implementation of audit recommendations from 2018/19 reports:

	Category 'Essential' recommendations	Category 'Important' recommendations	Category 'Standard' recommendations	Total
Agreed and implemented	4	11	15	30 (88%)
Agreed and not yet due for implementation	-	2	1	3 (9%)
Overdue for implementation	-	1	-	1 (3%)
TOTAL	4	14	16	34 (100%)

3.10 It should be noted, however, that in addition to this year's audit recommendations, there remain three further audit recommendations which are overdue from previous years' audit reports. A full overview of overdue actions as at 31st March 2019 is provided in Table 5.

Table 5 - Summary of overdue recommendations as at 31st March 2019

Audit Title	Audit Year	Essential		Important	
		Over 3 months overdue	Under 3 months overdue	Over 3 months overdue	Under 3 months overdue
Business continuity	2018/19	-	-	-	1
Budgetary control	2017/18	-	-	1	-
Information governance	2016/17	1	-	1	-
Totals		1	-	2	1

Other sources of assurance

- 3.11 In addition to the Internal Audit work, assurances from other sources are also taken into consideration in informing the annual Internal Audit opinion.
- 3.12 In 2018, the Council achieved Public Sector Network compliance certification. This provides a source of assurance over the security of the Council's IT network.

4.0 Internal Audit contribution

Added value

- 4.1 It is important that Internal Audit demonstrates its value to the organisation. The service provides assurance to management and members via its programme of work and also offers support and advice to assist the Council in new areas of work.
- 4.2 The Council commissioned 210 days from LGSS to deliver the 2018/19 Audit Plan. This involved delivery of the current year Audit Plan, client liaison, support, reporting and attendance at the Resources and Finance Committee.
- 4.4 LGSS has delivered **100%** of the assignments from the 2018/19 Audit Plan.

Internal Audit contribution in wider areas

- 4.5 Key additional areas of Internal Audit contribution to the Council in 2018/19 are set out in Table 6:

Table 6 – Internal Audit Contribution

Area of Activity	Benefit to the Council
Facilitation of Risk Management Group and attendance at quarterly meetings. During 2018/19, this has included the development of a new risk management framework and register.	To support effective risk management arrangements – in identifying, assessing and managing corporate risks.

Area of Activity	Benefit to the Council
Delivery of cyber security session, organised by Internal Audit and with support from the police East Midland Cyber Crime unit.	To benefit from partnerships built by LGSS and ensure management are clear on the risks of cyber attacks and controls to manage these effectively.
Maintaining good working relationships with External Audit.	Reduce duplication and saving costs where possible.
Presence at East Cambridgeshire District Council offices.	Assistance with ad-hoc queries and advice. Raising the profile of Internal Audit with service leads to increase the effectiveness of the service.

Professional Standards

- 4.6 The Public Sector Internal Audit Standards (PSIAS) were adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) from April 2013. The standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector.
- 4.7 The objectives of the PSIAS are to:
- Define the nature of internal auditing within the UK public sector;
 - Set basic principles for carrying out internal audit in the UK public sector;
 - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
 - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 4.8 A detailed self-assessment against the PSIAS has been completed by the Head of Internal Audit, a copy of which can be provided on request. The outcome of the assessment was that the Internal Audit service is operating in general compliance with the Standards. In order to strengthen the effectiveness of the Internal Audit process at East Cambridgeshire District Council, during 2018/19 a more robust process for following up on implementation of actions arising from audit reports has been introduced. This involves a quarterly request for updates and regular reports on progress to the Council's Corporate Management Team. The format and content of the progress reports presented to the Resources and Finance Committee will be revised during 2018/19 to ensure these are suitably focused upon key findings and actions being taken to address any weaknesses.
- 4.9 During 2016/17, LGSS Internal Audit was subject to an external assessment against the PSIAS, as is required on a four yearly basis. This concluded that the delivery of the audit service was generally in accordance with the Standards.