LGSS Internal Audit & Risk Management

East Cambridgeshire District Council

Internal Audit Progress Report

As at 31st March 2017

Introduction

With effect from 1st October 2016 LGSS took over responsibility for the provision of the internal audit service for East Cambridgeshire District Council. This report provides a summary of the work completed under the former arrangements to 30th September 2016 in addition to progress against the audit plan moving forward to 31st March 2017 which is the responsibility of LGSS.

1. *Progress against the plan*

Finalised Assignments

1.1 The following audit assignments have reached completion as set out below. Reports 1 to 4 relate to assignments completed under the previous internal audit arrangements. Although not part of the LGSS work plan the assurance opinions will feed into the overall annual internal audit opinion.

No.	Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational Impact
1	Operations	Disabled Facilities & Minor Works Grants	Overall significant assurance		
2	Cross cutting	National Fraud Initiative – Data Upload	Overall compliance with data requirement/timetable		
3	Operations	Rent Deposit Scheme – Follow Up Review	Overall significant assurance		
4	Cross cutting	Government Procurement Cards	Overall significant assurance		
5	Cross cutting	Procurement Compliance	Good	Limited	Minor
6	Cross cutting	Information Governance	Good	Good	Moderate
7	Resources	Treasury Management	Substantial	Substantial	Minor
8	Cross cutting	Payroll	Substantial	Substantial	Minor
9	Cross cutting	Accounts Payable	Substantial	Substantial	Minor
10	Cross cutting	Bank Reconciliations	Substantial	Substantial	Minor

1.2 At the conclusion of an audit an assurance opinion of the system is reported. With effect from 1st October 2016 as good practice the internal audit team has adopted a new approach to reporting, by providing further analysis of the assurance by control, compliance and organisational impact.

1.3   Controls are operating effectively for the key financial systems that have been reviewed.

1.4   Treasury Management has substantial control and compliance assurance. There are arrangements in place to ensure compliance with the requirements set out in the CIPFA Code of Practice on Treasury Management and DCLG guidance including the approval of the annual Treasury Management Strategy and regular reporting on aspects of treasury management performance during the year. Testing of a sample of investment transactions confirmed that agreed policies and procedures had been adhered to.

1.5   The Payroll system has substantial control and compliance assurance. There are controls in place for starters and leavers, amendments to pay, reconciliations, exception reports and payroll runs and testing confirmed that the controls were operating effectively. In addition the Council had complied with the requirements to submit payroll data for the National Fraud Initiative 2016/17.

1.6   Accounts Payable has substantial control and compliance assurance. There are controls in place for the raising and authorisation of purchase orders and payment of suppliers invoices and testing undertaken during the review confirmed that controls had operated effectively. In addition the Council had complied with the requirements to submit creditor data for the National Fraud Initiative 2016/17.

1.7   Bank reconciliation has substantial control and compliance assurance. There are controls in place to ensure that bank reconciliations are completed promptly and accurately. The bank reconciliation process has been simplified to make it more efficient and less resource intensive. A sample of transactions was traced through the process to ensure they had been properly recorded.

1.8   Procurement compliance has good control but limited compliance assurance. There are Contract Procedure Rules in place that are currently being reviewed. There are weakness in that some areas of non compliance with Contract Procedure Rules were identified, however because this relates to historic procurement that has in most cases been completed, the organisational impact is only minor. Training will be provided in this area to ensure that incidences of non compliance are kept to a minimum once the revised Contract Procedure Rules have been approved by Full Council. In addition procurement compliance audit reviews are proposed for inclusion in future annual audit plans.

1.9   The levels of both Control and Compliance assurance are explained further in Appendix B – Audit Definitions.

Draft/Interim Reports

1.10 At the time of producing this report, the following audit assignments are at draft report stage:

No.	Directorate	Assignment
1	Cross cutting	Council Tax (West Suffolk Internal Audit)
2	Cross cutting	Housing Benefit (West Suffolk Internal Audit)
3	Cross cutting	NNDR (West Suffolk Internal Audit)
4	Cross cutting	LATC Set Up (West Suffolk Internal Audit)
4	Cross cutting	Accounts Receivable
5	Cross cutting	Safeguarding

1.11 Further information on work planned by LGSS and in progress for the period October 2016 to March 2017 may be found in the Audit Plan, attached as Appendix A.

Performance

1.12 Good progress has been made to deliver the audit plan. At the time of presenting this report all reviews have either been completed to final report or draft report stage.

1.13 It is good practice to keep audit plans under review and update them to reflect current issues and risks, revisions to corporate priorities, and resourcing factors which may affect the delivery of the audit plan. Where required, these are discussed and agreed with the Corporate Management Team.

1.14 Some minor changes have been made to the annual audit plan originally approved by this Committee in March 2016 with the agreement of the former Director (Resources). The re-profiled plan is illustrated in Appendix A.

1.15 In addition a full review of the Council's strategic audit plan is being completed. This includes engaging with the Corporate Management Team, Service Leads and the Corporate Governance & Finance Committee to develop a new plan which captures the Council's risks. A two year plan is being presented to the Corporate Governance & Finance Committee.

1.16 Following an internal audit review of Open Data, undertaken in 2015/16 which received a limited assurance opinion, LGSS Internal Audit was requested to undertake some additional work. The purpose was to complete a high level review of the information governance framework, focusing on the fundamental controls, to help the Council identify what can be done to improve information governance. The findings arising are included in Section 4 below.

2. *Fraud and corruption update*

Counter fraud awareness

2.1 The Council completed a review of its Anti-Fraud and Corruption Strategy and updated its Fraud Response Plan. This was approved by CMT in October 2016.

Data matching

2.2 The Council participates in a national data matching exercise known as the National Fraud Initiative (NFI), which is run by the Cabinet Office. Data is extracted from Council systems for processing and matching. It flags up inconsistencies in data that may indicate fraud and error, helping Councils to complete proactive investigations. Nationally it is estimated that this work has identified £1.7billion of Local authority fraud, errors and overpayments since 1996, however historically, the process has not identified significant fraud and error at East Cambridgeshire, which provides some assurance that internal controls continue to operate effectively.

2.3 The Council has met its requirements to submit data sets for the current National Fraud Initiative exercise and the results were made available in late January 2017. From a total of 964 matches there are a total of 129 matches that meet the NFI's recommended filter as being of higher importance based on previous NFI exercises. These matches will be prioritised in terms of investigation as these are areas where fraud and error is most likely to occur.

3. *Implementation of management actions*

3.1 Where reviews identify opportunities for improvement, these are agreed with management as part of an action plan.

3.2 The actions are prioritised according to the significance of the control weakness, and the urgency of implementing the improved control. These are explained further in Appendix B – Audit Definitions.

3.3 High level actions are actively monitored to ensure they are implemented promptly.

3.4 The last progress report highlighted that a total of 11 High priority recommendations were outstanding. Progress has been reviewed and it is pleasing to report that all of these recommendations have either been implemented or are in the process of being implemented.

Audit title	Year	High Priority Actions	Summary of actions and Update
Procurement	2014/15	4	• Review and update Contract Procedure Rules to include e-procurement • Review and update Contract Procedure Rules – financial limits • Provide procurement training • Ensure compliance with Contract Procedure Rules
			Contract Procedure Rules have been reviewed and updated, and were approved by Corporate Management Team in February 2017. The next stage of the process will be approval by Full Council.
NNDR	2015/16	1	• Strengthen empty property visits procedure to confirm property status and correct rewarding of relief
			This recommendation was followed up as part of the 2016/17 internal audit review. The review found that improvements are still needed to ensure that visits are recorded and a full management trail is evident. This recommendation has been superseded by a recommendation included in the current audit report which is at draft stage.
Open Data	2015/16	3	• Review Data Quality Strategy to complement Transparency Code principles • Review information contained on the Open Data web page • Provide a link to the Local Government Transparency Code 2015 in guidance documents.
			The recommendations contained in this report have dependencies on the current wider work being undertaken to deliver the Council's Transformation Programme. Part of the implementation has involved the audit team undertaking an independent review of the Council's approach to Information Management. As a result of this review the Council has set up an Information Governance Group which will be led by the Business Transformation Manager who takes up post in April 2017. The implementation of the recommendations will continue to be monitored.
Rent Deposit Scheme	2015/16	3	• Review information available on website • Produce guidance notes for staff • Introduce robust recovery procedure
			The information on the website is still work in progress. Guidance notes have now been written and the recovery procedure is now sufficiently robust.

3.5   There are also two further high level actions being monitored, which are scheduled to be implemented in the future. Both of these relate to the review of information governance.

4. *Summaries of completed audits with moderate or less assurance*

At the conclusion of an audit an assurance opinion of the system is reported. This reflects the effectiveness of control, compliance and organisational impact. These are explained further in Appendix B – Audit Definitions.

4.1   Reviews, which highlight there is only moderate or less assurance, are reported to the Committee for awareness.

4.2   The following reports issued received only a moderate or less assurance:-

Information Governance – Moderate impact

4.3   Following an internal audit review of Open Data undertaken in 2015/16 which received a limited assurance opinion, LGSS Internal Audit were requested to undertake an additional piece of work, the purpose of this review being to complete a high level review of the framework, focussing on the fundamental controls, to help the Council identify what can be done to improve information governance across the following key themes:

- Governance and Strategy

- Data Quality

- Compliance with laws and regulations

- Records Management

- ICT Security

- Information sharing and processing

4.4   Internal Audit was provided with assurance across the review that policies and guidance are periodically reviewed and updated to reflect latest legislation and good practice. There were lots of pockets of good practice in the Council, and all of the employees involved in the review demonstrated a good understanding of the importance of information governance.

4.5   However, in contrast to this, it was apparent that some felt there was no corporate lead for information governance and there were opportunities to improve how it is co-ordinated. The report contained four high level recommendations, three medium level and four low level recommendations.

4.6   Recognising that the Council is unlikely to appoint a specific officer, who has all of the right skills required for leading on information governance, the review recommended that a collaborative group be created, facilitated by a senior officer, but supported by a team of officers with specific technical skills, and this group should meet periodically, and could be tasked with delivering the actions highlighted in the report. Such a group has been established and terms of reference agreed, and will be chaired by the Council's appointed Senior Information Risk Owner (SIRO).

Appendix A – Internal audit plan

East Cambridgeshire October 2016 – March 2017

Audit title	Status	Directorate	Qtr opened	Qtr closed	Profile days
Operational plan grand total					108
Key Financial Systems Total					38
Bank Reconciliations	Closed	Resources	Q4	Q4	6
Creditors (Accounts Payable)	Closed	Cross cutting	Q3	Q4	10
Debtors (Accounts Receivable)	Draft Report	Cross cutting	Q4		5
Payroll	Closed	Cross cutting	Q4	Q4	5
Procurement Compliance	Closed	Cross cutting	Q3	Q4	6
Treasury Management	Closed	Cross cutting	Q4	Q4	6
Non Fundamental Systems					8
Government Procurement Cards (Completion)	Closed	Cross cutting	Q3	Q3	1
Rent Deposit Scheme Follow Up (Completion)	Closed	Operations	Q3	Q3	1
Safeguarding	Draft Report	Cross cutting	Q4		11
Risk Management Total					10
Risk Management Strategy	Open	Cross cutting	Q4		10
Policies & Procedures Total					3
Debt Recovery Policy (Completion)	Draft Report	Cross cutting	Q3		6
Anti-Fraud and Corruption Total					12
Fraud Response Plan (Completion)	Closed	Cross cutting	Q2	Q3	1
National Fraud Initiative	Closed	Cross cutting	Q3-4	NA	6
Preventative & Pro-Active Fraud Work	Closed	Cross cutting	Q3-4	NA	5
Transformation					20
Information Governance (Additional Work)	Closed	Cross cutting	Q3	Q3	5
IT Project Implementation – Stage 1 Review	Open	Cross cutting	Q3-4		5
Advice & Guidance Total					17
Committee/CMT Reporting/Audit Planning	Open	Cross cutting	Q3-4	NA	5
Follow-Ups of Agreed Actions	Closed	Cross cutting	Q3-4	NA	5
Manage West Suffolk Work in Progress	Open	Cross cutting	Q3-4	NA	9

Appendix B – Audit Definitions

There are three elements to each internal audit review, and an assurance opinion is provided against each element at the conclusion of the audit. The following definitions are used by Internal Audit in assessing the level of assurance which may be provided against each key element, and in assessing the impact of individual findings:

Control Environment Assurance

Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place which mitigate the risk of those objectives not being achieved.

Control Environment Assurance	
Level	Definitions
Substantial	There are minimal control weaknesses that present very low risk to the control environment.
Good	There are minor control weaknesses that present low risk to the control environment.
Moderate	There are some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

Compliance Assurance

However, controls are not always complied with, which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.

Compliance Assurance	
Level	Definitions
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected.
Moderate	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact

The overall organisational impact of the findings of the audit will be reported as major, moderate or minor. All reports with major organisational impact will be reported to SMT along with the relevant Directorate's agreed action plan.

Organisational Impact	
Level	Definitions
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.

Findings prioritisation key

When assessing findings, reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks.

For ease of reference, we have used a high/medium/low system to prioritise our findings, as follows:

H	Failure to respond to the finding has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial/ reputational loss. The finding is critical to the system of internal control and action be implemented immediately.	M	Failure to respond to the finding may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial/ reputational loss. The finding has a significant effect on the system of internal control and action should be implemented as a matter of priority.	L	The finding is important to maintain a reasonable system of internal control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently. Management should review, make changes if considered necessary or formally agree to accept the risks.