

**EAST CAMBRIDGESHIRE DISTRICT COUNCIL**

**INTERNAL AUDIT ANNUAL REPORT FOR THE FINANCIAL YEAR 2014/15**

**INTRODUCTION**

The requirement for an internal audit function in local government is detailed in the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:-

“undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance”.

The standards for “proper practices” in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 (the Standards). The role of internal audit is best summarised through the definition within the Standards as an:-

“independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

It is the responsibility of the Council to establish and maintain appropriate risk management processes, control systems, accounting records and governance arrangements. The role of internal audit is to provide an assurance to the Council that these arrangements are in place and operating effectively. The Council’s response to internal audit activity (individual audit reports) should lead to the strengthening of the control environment and therefore contribute to the achievement of the organisations objectives.

**SUMMARY OF WORK UNDERTAKEN**

**Resources**

The Internal Audit function is resourced by a mixture of in-house provision and the procurement of additional resources from the West Suffolk Internal Audit Team (Forest Heath District Council & St Edmundsbury Borough Council).

The Internal Audit plan for the financial year 2014/15 was approved by the former Finance & Governance Committee in March 2014 providing a total of 350 days, including unproductive days for annual leave etc. The plan is not a static document and during the year it was amended as demands on the service changed. A total of 351 days were completed during the financial year, one day in excess of the original plan.

## **Individual Audit Reviews**

Much of the planned audit work undertaken each year is structured to gain assurance on the adequacy of internal controls, in particular those areas classified as “core audits”.

Essentially these are the main financial systems and include areas such as Council Tax, Housing Benefit, Payroll and Procurement. These systems are reviewed on an annual basis and are planned to be completed late in the year to enable testing to cover as much of the financial year as possible. In addition, other audit assignments are undertaken on a rolling cyclical programme, the frequency determined by an assessment of risk and available resources.

All internal audit assignments result in the publication of a formal audit report. The purpose of the report is to provide an independent and objective opinion to the Council on the control framework and make recommendations for further improvement. During the financial year 2014/15 a total of twelve audit reports were issued although a number are still in draft format awaiting final agreement by management.

Individual audit reports are given one of four assurance opinions based on an evaluation of the system controls in place and whether the controls are being consistently applied:-

<b>OPINION</b>	<b>EVALUATION OPINION</b>	<b>TESTING OPINION</b>
Full Assurance	There are sound controls in place designed to mitigate the risks identified.	The controls are being consistently applied.
Significant Assurance	Basically there are sound controls in place, there are risks without controls, which put some of the system objectives at risk.	There is evidence that the level of non-compliance identified may put some of the system objectives at risk.
Limited Assurance	There are risks without effective controls, which put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
No Assurance	There are risks without controls, which leave the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The opinion assigned to each internal audit review, including draft reports, is as follows:-

<b>Level of Assurance</b>	<b>Number of Reports</b>
FULL ASSURANCE	2
SIGNIFICANT ASSURANCE	7
LIMITED ASSURANCE	3
NO ASSURANCE	0

Appendix A provides in summary format details of those reports issued where a Limited Assurance opinion was given.

## **Other Work**

In addition to the completion of the above reviews Internal Audit has been involved in work in a number of other areas where a formal audit report is often not the end product however significant audit resource is used.

**Counter Fraud** – The Principal Auditor has continued to act as the key contact for the National Fraud Initiative which is a mandatory exercise carried out every two years. Work has also continued to raise awareness of fraud across the Council principally through the issue of six monthly Fraud Awareness Newsletters which are circulated to all staff and Members.

In addition fraud awareness bite-sized training sessions were provided to staff new to the Council and in December 2014 a fraud awareness training session was given to members of the Corporate Governance and Finance Committee.

Internal Audit is also heavily involved in a project to set up a county-wide anti-fraud network on the back of a successful bid of £335,100 from the Department for Communities and Local Government's Counter Fraud Fund. The project aims to deliver additional savings in fraud and error of up to £10m across Cambridgeshire over the next five years.

Whilst the prevention and detection of fraud and corruption is ultimately the responsibility of management, Internal Audit is aware of its own responsibilities in this area. During the year Internal Audit has not undertaken any internal fraud investigations.

**Corporate & Governance** – The Principal Auditor is responsible for undertaking a number of reviews during the year covering both corporate and governance issues. These include the annual review of the local Code of Corporate Governance and production of the Annual Governance Statement. Internal audit also conducted a review of the Council's Anti-Fraud & Corruption Strategy during the financial year and a revised Strategy was approved by Committee in September 2014.

## **AUDIT OPINION ON THE INTERNAL CONTROL ENVIRONMENT**

Internal Audit, along with other assurance process within the Council, has a statutory obligation to provide assurance from the work they undertake in respect to the internal control systems operating within the Council.

The assurances gained from the work of Internal Audit feed into the annual review of internal control, which then feeds into the Annual Governance Statement, which is published alongside the annual Statement of Accounts.

### **Internal Audit Opinion**

**Whilst no assurance can be absolute, on the basis of the work undertaken by Internal Audit during the financial year 2014/15, and the implementation by management of the recommendations made, I can give significant assurance that the systems of internal control within the areas examined were operating satisfactorily.**

**Trevor Bowd  
Principal Auditor  
July 2015**

### **QUALIFICATIONS TO THE OPINION**

Internal Audit has had unrestricted access to all areas and systems across the Council, and has received appropriate co-operation from officers and Members.

### **IMPLEMENTATION OF AUDIT RECOMMENDATIONS**

The primary purpose of Internal Audit reporting is to communicate to management, information that provides an independent and objective opinion on the risk and control environment. Management has responsibility for ensuring that recommendations arising from individual reviews are implemented. Recommendations are followed up to ensure they have been implemented, and this is achieved either by review as part of the following years audit if one is undertaken, or as part of a specific follow up review if this is not the case.

Follow up of the audit recommendations made in the financial year 2013/14 has identified that good progress has been made to implement the agreed actions.

### **PERFORMANCE**

There are a number of performance measures and targets that relate to the delivery of the audit plan. These include the percentage of productive time, the total number of days compared with the annual plan, and the percentage of audits completed within the allocation. These are reported through the Performance Appraisal process and the Service Delivery Plan for Financial Services.

### **QUALITY ASSURANCE AND REVIEW**

The work of Internal Audit is controlled by the Principal Auditor to ensure that a continuous and effective level of performance is maintained. The work of auditors from West Suffolk Internal Audit is reviewed by their Audit Manager, with a sample being reviewed by the Principal Auditor before being "signed off" as complete. The Council's External Auditors also

review a sample of audit files each year to ensure they can place reliance on the work of Internal Audit.

## **COMPLIANCE WITH PROFESSIONAL STANDARDS**

The service is required to comply with proper practice as defined by the Public Sector Internal Audit Standards (the Standards). The measured level of compliance is based on a self-assessment against a check list of 342 different elements and is used to evaluate the effectiveness of the internal audit service. The level of compliance is detailed below and for comparison the status reported last year is included for reference.

<b>Year</b>	<b>Full</b>	<b>Partial</b>	<b>No</b>	<b>N/A</b>	<b>Total</b>
<b>2013/14</b>	274	33	9	27	342
<b>2014/15</b>	292	15	5	31	342

The above table demonstrates good progress towards achieving full compliance against the Standards. Full compliance now stands at 94% against 87% reported to this Committee in July 2014. The overall conclusion is that the system of internal audit is operating effectively. A revised Action Plan is being put in place to ensure that those areas of Partial/Non compliance are further developed. Progress against the Action Plan will be reported to this Committee as part of the Interim Internal Audit Report in December 2015.

## **CONCLUSION**

As with previous financial years, Internal Audit continues to provide significant assurance that overall the systems of internal control within the Council are operating satisfactorily and that management is taking appropriate action to implement the improvements recommended as a result of individual audit reviews.

Trevor Bowd  
Principal Auditor  
July 2015

## APPENDIX A

### AUDIT REPORTS ISSUED WITH AN OPINION OF LIMITED OR NO ASSURANCE

Report	Income Controls		
Level of Assurance	Limited		
Recommendations Made	High	Medium	Low
	2	7	0

#### Introduction

This review was prompted by two instances where cheque payments had been made to the Council that had not been accounted for promptly. The second instance resulted in a formal complaint being made by the customer as the payment was in respect of Council Tax and had resulted in a reminder letter being sent to the customer. In the written response to the customer it was stated that the Council's Principal Auditor would undertake a review of income controls to provide assurance that adequate procedures were in place to prevent any further cases occurring. As part of the planning process for the review it was agreed to extend the scope to cover general cash and cheque security arrangements across the Council.

#### Scope and Objectives

The agreed scope and objective of the audit was to make enquiries and undertake testing of key controls to determine whether:-

- a) There are procedures in place covering post opening procedures and these are adhered to (including attendance and observation).
- b) Proper arrangements exist to account for income received through the post.
- c) There are robust arrangements in place to deal with income received through the post or from personal callers.
- d) There are proper arrangements in place within departments for the safe custody of cash and cheques.

#### Executive Summary

The Council operates in a broadly cashless way as was the intention after the closure of the cash office in March 2007. Cash is only received as part of the operation of specific services and outside of these services, if customers wish to pay by cash they are redirected to the Council's bankers.

The failure to process cheque payments received was considered a rare occurrence, evidenced by the number of reported instances however, notwithstanding this, post opening procedures were not considered to be sufficiently robust to ensure this never occurs.

The key findings from the review provided opportunity to perform tasks more efficiently and improve the customer experience, specifically that:-

- Management should strongly consider the viability of moving to a Chip and Pin system for card payments at reception and make more use of the self-service area for making on-line payments.
- Some aspects of the layout and general environment of the post opening room were not conducive to effective and efficient operation, and post opening procedures should be reviewed.
- Management should also consider whether cheque recording and processing could be streamlined to aid efficiency and reduce the risk of cheques being mislaid.

### **Progress Implementing Recommendations**

The implementation of the recommendations is progressing, notably the introduction of Chip and Pin for card payments at reception. The recommendations made in the report will be followed up during the financial year 2015/16.

Report	Procurement		
Level of Assurance	Limited		
Recommendations Made	High	Medium	Low
	5	2	0

### **Introduction**

This review set out to test compliance with Contract Procedure Rules (CPRs) by selecting a sample of payments for the supply of goods and services. Both the previous reviews in this area had also resulted in a limited assurance opinion being issued.

### **Scope and Objectives**

The scope and objective of the review was to ensure that:-

- a) The control framework for the processing of procurement/contracts is adequate.
- b) The procurement/contract process is carried out in accordance with the Council's CPRs contained in the Constitution.
- c) Relevant documentation exists and is available for review.
- d) Recommendations arising from the last review in 2013/14 have been implemented.

### **Executive Summary**

Following CPRs is the best defence against allegations that a purchase has been made incorrectly or fraudulently. The key findings from the review were that:-

- The CPR process is very much targeted at a manual process and there is scope to explore the benefits of an electronic tendering process.
- CPRs require updating due to the 2014 EU Procurement Directives which make e-procurement mandatory in the EU by September 2018.
- There is no link between providing access to the purchasing system (Agresso) and undertaking procurement training, increasing the risk of incorrect procurement practices.
- CPR's had not been complied with in some of the cases selected for testing, resulting in a lack of documentation to evidence competitive pricing and transparency within the procurement process.
- There were instances where a contract was not in place and may be required based on the aggregated value of expenditure.
- As there is no internal procurement resource, the Council needs to explore where/how ongoing support will be sourced.

### **Progress Implementing Recommendations**

The implementation of the recommendations is progressing. A focus group has been held with purchasing officers to identify barriers to complying with CPRs. A revised version of CPRs has been drafted and the Council is actively considering options for ongoing procurement support. The recommendations made in the report will be followed up during the financial year 2015/16.

<b>Report</b>	<b>Treasury Management</b>		
<b>Level of Assurance</b>	<b>Limited</b>		
<b>Recommendations Made</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
	<b>5</b>	<b>4</b>	<b>2</b>

### **Introduction**

Treasury management is one of the key financial systems and as such is the subject of an annual review.

### **Scope and Objectives**

The scope and objective of the audit was to review and test processes and procedures in place covering treasury management to determine whether:-

- a) An investment strategy is approved annually and compliments the CIPFA Code of Practice on Treasury Management.
- b) Accurate, complete and timely information is produced to allow for effective monitoring and decision making in line with the investment strategy.



- c) Investments are carried out in accordance with agreed policies and procedures.
- d) There is adequate segregation of duties in place.
- e) Investments are regularly reconciled to the main accounting system, independently reviewed and monitored.

### **Executive Summary**

The key finding from the review was that the Council's own Treasury Management Strategy had not been complied with on two occasions and as a consequence requires the Financial Services Manager as S151 Officer to report on the non-compliance, specifically:-

- the group investment limit for the National Westminster Bank was breached on one occasion due to an investment being paid back to the Council in error a day early, and
- a rolled over investment to the Nationwide Building Society for £4 million was made for a period of twelve months which was in breach of the six month period recommended by Capita Asset Services and applied to the Treasury Management Strategy.

Both the above breaches have been fully investigated. In the case of the investment with the Nationwide Building Society attempts have been made to reduce the term of the loan back to six months but this has been unsuccessful.

### **Progress Implementing Recommendations**

Internal audit are aware that many of the recommendations contained in the report have already been implemented. A follow up internal audit review has already been scheduled in to review progress against all the recommendations made.