

**EAST CAMBRIDGESHIRE DISTRICT COUNCIL**

**INTERNAL AUDIT ANNUAL REPORT FOR THE FINANCIAL YEAR 2015/16**

**INTRODUCTION**

The Public Sector Internal Audit Standards (PSIAS) require the 'Chief Audit Executive' (in the case of East Cambridgeshire District Council the Principal Auditor) to provide an annual report to support the Annual Governance Statement. The report should:-

- i. include an opinion on the overall of internal control environment,
- ii. present a summary of the audit work on which the opinion is based,
- iii. draw attention to any issues that may impact on the level of assurance provided,
- iv. provide a summary of the performance of the service, and;
- v. comment on compliance with PSIAS.

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'.

The internal control environment comprises the Council's policies, procedures and operations designed to:-

- i. establish and monitor the achievement of the Council's objectives'
- ii. facilitate policy and decision making'
- iii. ensure the economic, effective and efficient use of resources'
- iv. ensure compliance with established strategies, policies, procedures, laws and regulations: and
- v. safeguard the Council's assets and interests from losses of all kinds, including those arising from fraud or corruption.

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.

**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 2015/16, I can give significant assurance that the system of internal control within the areas examined operated effectively with some areas identified for improvement.**

**Trevor Bowd  
Principal Auditor  
June 2016**

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

## **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 2015/16 was approved by Corporate Governance & Finance Committee in March 2015 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 353 days were completed during the financial year, 3 days in excess of the original plan. The split between productive and unproductive days was as follows:-

	<b>Planned Days</b>	<b>%</b>	<b>Actual Days</b>	<b>%</b>
Productive Time	284	81%	280	79%
Unproductive Time	66	19%	73	21%

### **Individual Audit Reviews**

Each internal audit review 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

2015/16 a total of 15 audit reports were issued although a number are still in draft format awaiting final agreement by management at the time of producing this report.

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:-

OPINION	EVALUATION OPINION	TESTING OPINION
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 undertaken during 2015/16, including draft reports, is as follows:-

Level of Assurance	Number of Reports
FULL ASSURANCE	1
SIGNIFICANT ASSURANCE	13
LIMITED ASSURANCE	1
NO ASSURANCE	0

Appendix A provides in summary format details of the reports issued, the level of assurance given and the number of recommendations made. Where a Limited Assurance opinion has been given a summary of the matters arising from the review is included in Appendix B.

### **Other Work**

**Corporate & Governance** –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. For the financial year 2015/16 this included the annual review of the Local Code of Corporate Governance, production of the Annual Governance Statement and a review of the Anti-Fraud & Corruption Strategy.

**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, supplemented by further “one-off” data matching exercises. 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 April and November 2015. These sessions were also opened up to Members. A Fraud Activity report was presented to this Committee in November 2015 summarising fraud related work and outcomes.

Internal Audit has also been 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 assist in delivering additional savings in fraud and error of up to £10m across Cambridgeshire over the next five years. Although up to date figures are not available at this time, for the first six months of the financial year total fraud and error identified across the district authorities in Cambridgeshire amounted to £1.5m.

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.

## **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.

It was reported to Corporate Governance & Finance Committee in December 2015 that a total of eleven high priority recommendations. Appendix C provides details of the up to date status of each of these recommendations plus high priority recommendations made since.

The follow up of the audit recommendations has confirmed that good progress has been made to implement the agreed actions, however the implementation of some actions has been delayed by changes arising from internal restructuring and other changes in service provision, in particular actions in relation to the procurement review.

## **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.

## **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. The overall conclusion is that the service has operated in compliance with the Standards where they apply.

## **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  
June 2016

## **APPENDIX A**

### **REPORTS ISSUED, ASSURANCE GIVEN AND RECOMMENDATIONS MADE 2015/16**

Area of Work	Status of Report	Assurance Rating	Recommendations Made		
			High	Medium	Low
Stray Dogs Out of Hours Service	Final	Significant	0	5	0
Member & Officer Interests	Final	Significant	0	3	2
Treasury Management Follow Up	Final	Significant	0	0	0
Rent Deposit Scheme	Final	Significant	3	10	0
Assessment of Fraud Risks	Final	Significant	0	3	0
Non Domestic Rates*	Final	Significant	1	22	8
Housing Benefit*	Final	Significant	0	13	9
Council Tax*	Final	Significant	0	15	4
Managing the Risk of Fraud & Corruption	Final	Significant	2	1	0
Payroll	Final	Full	0	0	0
Debtors	Final	Significant	0	1	0
Creditors	Draft	Significant	0	1	0
Bank Reconciliations	Draft	Significant	0	2	0
Treasury Management	Draft	Significant	0	0	0
Open Data	Draft	Limited	3	4	2
<b>Totals</b>			<b>9</b>	<b>80</b>	<b>25</b>

\* The total number of recommendations across four partners, not all will be relevant to ECDC

## **APPENDIX B**

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

Report	Open Data		
Level of Assurance	Limited		
Recommendations Made	High	Medium	Low
	3	4	2

#### **Introduction**

The Local Government Transparency Code 2015 was issued by the Department for Communities and Local Government in February 2015 to meet the Governments desire to place more power into citizen's hands to increase democratic accountability. The three guiding principles of the Code are that data should be:-

- Demand led – expectations that new technologies and publication of data should support transparency and accountability,
- Open – public data should become integral to local authority engagement with local people; and,
- Timely – data should be made public as soon as possible after production.

#### **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) The Council is publishing non-sensitive information in an open, transparent and reusable format required by the Code.
- b) There are robust arrangements in place relating to data quality standards, including a Data Quality Strategy.
- c) Good practice data quality principles are embedded throughout the Council.
- d) Responsibility for information governance has been clearly defined and employees are aware of their individual responsibilities; and,
- e) A proactive approach is taken to publishing data.

#### **Executive Summary**

The matters arising from the review were as follows:-

- The Council's published Data Quality Strategy document has not been updated since 2009. The document requires updating to clearly outline individual officer requirements and responsibilities in terms of the open data agenda but additionally in respect of performance data reported through Service Delivery Plans.

- Data is not always being published in accordance with the requirements of the Code and data quality checking processes are not consistently practised/applied.
- Data is poorly presented on the Council website; and,
- Published data could not always be agreed to source data.

### **Progress Implementing Recommendations**

None to date. The recommendations contained in this report are currently in the process of being agreed with management. It is however hoped that the Council's Transformation Programme will address the majority of the recommendations, specifically web content and responsibility for information management.

## APPENDIX C

### STATUS OF HIGH PRIORITY RECOMMENDATIONS AS AT 30<sup>th</sup> JUNE 2016

Audit Review	Recommendation	Responsibility	Agreed Implementation Date	Status
<b>Procurement 2014/15</b>	Review and update Contract Procedure Rules to take into account consideration for the use of e-procurement for procurement exercises under the EU threshold; this complies with the EU Treaty principles and provides a robust process with an audit trail, and secondly the options for pre-market engagement, prior information notices, clarifications, supplier selection, the five award procedures, debriefing and negotiations.	Project Group	March 2015  Revised to September 2016	<b>In progress</b>
<b>Progress</b> – New arrangements have been put in place to provide procurement support which came into effect from 1 <sup>st</sup> October 2015. This area has been specifically identified as a piece of work required through the Service Level Agreement. The recommendation has been implemented but not yet properly documented to reflect procurement procedures. The implementation date has been revised to 30 <sup>th</sup> September 2016.				
<b>Procurement 2014/15</b>	Contract Procedure Rules should be revised particularly in respect of the financial limits at which quotations must be obtained, guidance for exemptions of a lesser value (£5,000 or any revised limits) and include sanctions for non compliance.	Project Group	March 2015  Revised to September 2016	<b>In progress</b>
<b>Progress</b> – New arrangements have been put in place to provide procurement support which came into effect from 1 <sup>st</sup> October 2015. This area has been specifically identified as a piece of work required through the Service Level Agreement. The recommendation has been implemented but not yet properly documented to reflect procurement procedures. The implementation date has been revised to 30 <sup>th</sup> September 2016.				
<b>Procurement 2014/15</b>	Procurement training should be provided to all officers involved in all aspects of	Project Group	March 2015	<b>In progress</b>

<b>Audit Review</b>	<b>Recommendation</b>	<b>Responsibility</b>	<b>Agreed Implementation Date</b>	<b>Status</b>
	purchasing and procurement to ensure that the Council's requirements are met at all times. This training should be provided prior to access being granted to Agresso and this requirement should be included within Contract Procedure Rules.		Revised to September 2016	
<b>Progress</b> – New arrangements have been put in place to provide procurement support which came into effect from 1 <sup>st</sup> October 2015. This area has been specifically identified as a piece of work required through the Service Level Agreement. The recommendation has been implemented but not yet properly documented to reflect procurement procedures. The implementation date has been revised to 30 <sup>th</sup> September 2016.				
<b>Procurement 2014/15</b>	Contract Procedure Rules should be complied with at all times to ensure that fair and open procurement is being applied and to ensure good practice is being followed.	Project Group	March 2015  Revised to September 2016	<b>In progress</b>
<b>Progress</b> – New arrangements have been put in place to provide procurement support which came into effect from 1 <sup>st</sup> October 2015. This area has been specifically identified as a piece of work required through the Service Level Agreement. The recommendation has been implemented but not yet properly documented to reflect procurement procedures. The implementation date has been revised to 30 <sup>th</sup> September 2016.				
<b>NNDR 2014/15</b>	Re-introduction of sample checking of NNDR transactions and processes to ensure that account actions are appropriate and subject to individual review.	Strategic Support Manager (ARP)	March 2016	<b>Implemented</b>
<b>Progress</b> - Follow up review undertaken by Internal Audit as part of the 2015/16 audit confirmed that this recommendation had been implemented.				
<b>Housing Benefit 2014/15</b>	The longstanding overpayment identified should be reviewed.	Recovery Manager (ARP)	September 2015	<b>Implemented</b>
<b>Progress</b> – Follow up review undertaken by Internal Audit as part of the 2015/16 audit confirmed that this recommendation has been implemented.				

<b>Audit Review</b>	<b>Recommendation</b>	<b>Responsibility</b>	<b>Agreed Implementation Date</b>	<b>Status</b>
<b>Debtors 2014/15</b>	The Council's debt recovery procedures should be followed.	Principal Solicitor	No date agreed	<b>Implemented</b>
<b>Progress</b> – A change in personnel responsible for debt recovery has occurred. Testing undertaken by Internal Audit as part of the 2015/16 audit has confirmed that debt recovery procedures are being followed.				
<b>Debtors 2014/15</b>	A council-wide Debt Recovery Policy should be put in place.	Finance Manager	No date agreed	<b>Deleted – re-classified</b>
<b>Progress</b> – This recommendation was not implemented due to staff changes that have occurred during the financial year 2015/16. The recommendation has been included in the debtors audit report for 2015/16 but has been re-classified a medium priority recommendation to be implemented by September 2016.				
<b>Rent Deposit Scheme 2015/16</b>	Guidance notes should be created to ensure that a structured approach is followed when assessing and reviewing applications for loans, and an appropriate recovery procedure is in place to reduce the risk of financial loss to the authority.	Income Recovery Officer	January 2016	<b>Follow up review in progress</b>
<b>Progress</b> – A verbal assurance that this recommendation has been implemented was received from the Housing Options Manager in February 2016. Internal Audit are presently undertaking a follow up review to confirm that appropriate action has been taken.				
<b>Rent Deposit Scheme 2015/16</b>	A robust recovery procedure needs to be introduced, with as much automation as possible to reduce the resources needed to manage this with monthly management oversight of the outstanding debts.	Housing Options Manager & Income Recovery Officer	April 2016	<b>Follow up review in progress</b>
<b>Progress</b> – A verbal assurance that this recommendation has been implemented was received from the Housing Options Manager in February 2016. Internal Audit are presently undertaking a follow up review to confirm that appropriate action has been taken.				
<b>Rent Deposit Scheme 2015/16</b>	Information available to the public via the internet should be expanded to include	Housing Options Manager	Actioned as a direct response to	<b>Follow up review in</b>

<b>Audit Review</b>	<b>Recommendation</b>	<b>Responsibility</b>	<b>Agreed Implementation Date</b>	<b>Status</b>
	details of the Rent Deposit Scheme.		discussions at the draft report stage.	<b>progress</b>
<b>Progress</b> – A verbal assurance that this recommendation has been implemented was received from the Housing Options Manager in February 2016. Internal Audit are presently undertaking a follow up review to confirm that appropriate action has been taken.				
<b>NNDR 2015/16</b>	Empty property visits procedure should be strengthened to confirm the property status and correct rewarding of relief.	Fraud & Visits Manager (ARP)	April 2016	<b>Outstanding. Not yet followed up.</b>
<b>Progress</b> – The final version of the report was issued in March 2016. The implementation of this recommendation is yet to be followed up.				
<b>Managing the Risk of Fraud &amp; Corruption 2015/16</b>	The Anti-Fraud & Corruption Strategy should be updated and contained within the Council's Constitution.	Principal Auditor	June 2016	<b>Implemented</b>
<b>Progress</b> – A revised Anti-Fraud & Corruption Strategy was presented to Corporate & Governance Committee in March 2016 and approved by Full Council in May 2016.				
<b>Managing the Risk of Fraud &amp; Corruption 2015/16</b>	A full review of the Fraud Response Plan should be considered to include the introduction of the Single Fraud Investigation Service, arrangements with partners, current associated legislation and sanctions.	Principal Auditor	June 2016	<b>In progress</b>
<b>Progress</b> – A revised Fraud Response Plan has been drafted. This will be circulated to relevant officers for review/amendment prior to approval by Management Team and communication across the council.				