



EAST CAMBRIDGESHIRE DISTRICT COUNCIL
INTERNAL AUDIT ANNUAL REPORT
2017/18



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 2017/18

- 2.1 This report provides a summary of the work carried out by the Internal Audit service during the financial year 2017/18 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:

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 payroll, budgetary control and treasury management which were reviewed during the year were generally concluded to provide a level of at least Good Assurance. The audits of the Creditors and Debtors systems focused upon key controls where it is acknowledged that procedures require formalising and a number of improvements are being embedded within the systems. Action plans have been developed to address all areas for improvement.

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 2017/18:

Area	Substantial	Good	Satisfactory	Limited	No
Financial Systems	4	1	2	3	-
Service Delivery	1	7	1	1	-
Total	5	8	3	4	0
Summary	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 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.

3.2 Audit reports issued in 2017/18, other than those relating to consultancy support, resulted in the provision of one of the above assurance opinions. 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 2017/18 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 2017/18:

Audit Area	Design of Control Environment	Compliance	Organisational Impact	Committee Date
Anglia Revenues Partnership				
Overpayments	Satisfactory (Adequate/Reasonable)			June 2018
Review of NNDR	Satisfactory (Adequate/Reasonable)			June 2018
Housing Benefit	Satisfactory (Adequate/Reasonable)			June 2018
Council Tax	Satisfactory (Adequate/Reasonable)			June 2018
Financial				
Creditors	Limited	Limited	Moderate	June 2018
Debtors	Satisfactory	Limited	Moderate	June 2018
Treasury Management	Substantial	Substantial	Minor	March 2018
Budgetary Control	Good	Satisfactory	Minor	March 2018
Payroll	Substantial	Substantial	Minor	March 2018
Service Delivery				
Invoices over £500	Good	Good	Minor	September 2017

Audit Area	Design of Control Environment	Compliance	Organisational Impact	Committee Date
Contract Management - Waste	Good	Good	Minor	June 2018
Contract Management - Leisure	Good	Good	Minor	June 2018
Planning Income Review	Substantial	Good	Minor	July 2017
Community Infrastructure Levy	Limited	Satisfactory	Moderate	March 2018

3.5 In addition to the audit assignments above, Internal Audit has also drafted the Annual Governance Statement for the Council for 2017/18 and overseen the collation of assurances to support this.

3.6 An audit of Bank Reconciliations has also been conducted. This was deferred to May 2018 at the request of management pending ongoing internal work in this area. The audit report has not been finalised at the time of reporting and, as such, is not included in Table 3. The outcome will be reported in the next Internal Audit progress report. In the meantime, assurances have been provided by the s151 officer that this area has been subject to extensive review and improvement.

3.7 A review of governance of the Local Authority Trading Company has also been completed. The Audit Plan for 2018/19 includes a further 12 days in this area which will enable more detailed fieldwork to be undertaken and, as such, it has been agreed with management that a formal audit report and opinion will be issued upon the conclusion of this further work. There have been no significant issues highlighted in the initial review of governance and it was intended that this initial review would better inform further in-depth fieldwork in 2018/19.

Other sources of assurance

3.8 In addition to the Internal Audit work, assurances from other sources are also taken into consideration in informing the annual Internal Audit opinion.

3.9 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 2017/18 Audit Plan.
- 4.3 The team delivered a total of 214 days to East Cambridgeshire District Council during 2017/18. 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 2017/18 Audit Plan.

Internal Audit Contribution in Wider Areas

- 4.5 Key additional areas of Internal Audit contribution to the Council in 2017/18 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 2017/18, 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.
Delivery of risk management training to service leads.	To support the embedding of the new risk management framework and a 'golden thread' from the service leads and plans to the corporate risk register.
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 2017/18 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. Only one action was arising from the assessment and this was subject to oversight by the LGSS management team and has since been implemented.