

# INTERNAL AUDIT SERVICE

## INTERNAL AUDIT ANNUAL REPORT 2016/17

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19<sup>th</sup> June 2017

**LGSS Internal Audit & Risk Management  
Annual Report 2016/17**

***East Cambridgeshire District Council***

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## **1. INTRODUCTION**

### **1.1 The Annual Reporting Process**

- 1.1.1 The Public Sector Internal Audit Standards (Performance Standard 2450) state that the Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. East Cambridgeshire District Council's Chief Audit Executive is the LGSS Chief Internal Auditor.
- 1.1.2 The annual report is required to incorporate the opinion; a summary of the work that supports the opinion; and a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement plan.
- 1.1.3 LGSS Internal Audit & Risk Management became responsible for providing an Internal Audit service for East Cambridgeshire District Council from 1<sup>st</sup> October 2016. This annual report includes a summary of the work completed under the former Internal Audit arrangements with the results feeding into the overall opinion.

## 2. CHIEF INTERNAL AUDITOR OPINION 2016/17

### 2.1 Chief Internal Auditor Opinion

- 2.1.1 The Public Sector Internal Audit Standards (Performance Standard 2450) state that *'the Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.'* This must be based on an objective assessment of the framework of governance, risk management and control and include an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.
- 2.1.2 My opinion is derived from an assessment of the range of individual opinions arising from assignments contained within the risk-based Internal Audit Plan. This assessment has taken account of the relative materiality of these areas, and management's progress in addressing control weaknesses.
- 2.1.3 In 2016/17, the Internal Audit service has operated with an adequate level of resource to deliver an annual audit opinion. Internal Audit operates independent of the organisation, as per the Internal Audit Strategy and Charter, and there have been no compromises of Internal Audit's independence in its operation this year.

*On the basis of the audit work undertaken during the 2016/17 financial year, an opinion of **good** assurance is awarded. The internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. In addition, there are no outstanding significant issues arising from the work undertaken by Internal Audit.*

*However, no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.*

*The level of assurance therefore remains at a similar level from 2015/16.*

### **3. REVIEW OF INTERNAL CONTROL**

#### **3.1 How Internal Control is reviewed**

- 3.1.1 In order to support the annual Internal Audit opinion on the internal control environment, each year Internal Audit develops a risk-based Audit Plan. This includes a comprehensive range of work to confirm that all assurances provided as part of the system of internal audit can be relied upon by stakeholders.
- 3.1.2 The changing public sector environment and emergence of new risks increasingly necessitates a flexible approach and re-evaluation of the Audit Plan throughout the year. Some minor revisions, to reflect the changing risk profile of the organisation, were approved on an ongoing basis throughout the year.
- 3.1.3 Each Internal Audit review undertaken by LGSS Internal Audit & Risk Management has three key elements. Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables Internal Audit to give an assurance on the control environment.
- 3.1.4 However, controls are not always complied with, which will in itself 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 enables Internal Audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.
- 3.1.5 Finally, where there are significant control environment weaknesses or where key controls are not being complied with, further substantive testing is undertaken to ascertain the impact these control weaknesses are likely to have on the organisation's control environment as a whole.

3.1.6 Three assurance opinions are therefore given at the conclusion of each audit: control environment assurance, compliance assurance, and organisational impact. To ensure consistency in reporting, the following definitions of audit assurance are used:

<b>Control Environment Assurance</b>	
<b>Level</b>	<b>Definitions</b>
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

<b>Compliance Assurance</b>	
<b>Level</b>	<b>Definitions</b>
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.

3.1.7 Organisational impact will be reported as major, moderate or minor (as defined below). All reports with major organisation impacts are reported to Corporate Management Team, along with the 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.

### 3.2 *The Basis of Assurance*

3.2.1 The findings and assurance levels provided by the reviews undertaken throughout 2016/17 by Internal Audit form the basis of the annual opinion on the adequacy and effectiveness of the control environment.

3.2.2 In 2016/17, particularly for the second half of the year, the Audit Plan has been based on assurance blocks that each give an opinion on the key control environment elements, targeted towards in-year risks, rather than a more traditional cyclical approach that looks at each system over a number of years. The Audit Plan reflects the environment in which the public sector audit operates, recognising that this has changed considerably over the past few years with more focus on, for example, better assurance, transformation and making every penny count.

#### 4. INTERNAL AUDIT IN 2016/17

##### 4.1 Overview and Key Findings

4.1.1 This section provides information on the audit reviews carried out in 2016-17, by assurance block.

4.1.2 For the reviews undertaken during 2016/17, no areas were identified where it was considered that, if the risks highlighted materialised, it would have a major impact on the organisation as a whole.

4.1.3 Where reviews identify opportunities for improvement, these are agreed with management as part of an action plan. The actions are prioritised according to the significance of the control weakness, and urgency of implementing the improved control. Actions are given a rating of high, medium or low priority.

4.1.4 High priority actions are actively monitored by Internal Audit to ensure they are implemented promptly, and progress is reported to the Corporate Governance & Finance Committee during the year. An overview of the implementation of actions in 2016/17 is summarised in Table 1 below:

**Table 1: Implementation of Audit Recommendations 2016-17**

Audit title	High Priority Recommendations Made	Complete	Incomplete
Procurement	4		4
NNDR	1	1	
Open Data	3		3
Rent Deposit Scheme	3	3	

4.1.5 The outstanding actions relating to procurement are in the process of being implemented with revised Contract Procedure Rules being recommended for approval by Full Council in July 2017. The recommendations contained in the Open Data report have dependencies on the current wider work being undertaken to deliver the Council’s Transformation Programme and therefore have implementation dates that are not in the immediate future. For both reviews the implementation of the recommendations will continue to be monitored and reported.



## **4.2 Financial and Other Key Systems**

- 4.2.1 This is the 2016/17 suite of annual core systems reviews, undertaken to provide assurance to management and External Audit that expected controls are in place for key financial systems; that these controls are adequately designed and are routinely complied with in practice. The work is focused on the systems that have the highest financial risk; these are agreed in advance with External Audit and assist in providing assurance to External Audit that systems recording transactions within the 2016/17 financial year are free from material misstatement. These reviews also give an opinion as to the effectiveness of financial management procedures and the arrangements to ensure the integrity of accounts.
- 4.2.2 Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that these controls continue to work well in practice although there are some minor areas where improvements have been recommended. The level of assurance provided for all key financial systems reviews was substantial overall.
- 4.2.3 Table 2 below details the assurance levels of all key systems audits undertaken in 2016/17, compared to the assurance levels in 2015/16. It should be noted that the overall opinions given for the 2015/16 reviews were those derived from the former in-house internal audit arrangement.

**Table 2 – Key Financial Systems Audit Opinions**

Key Financial Systems:	Audit Opinion 2016-17		Audit Opinion 2015-16	Direction of travel
	Environment	Compliance		
Council Tax	Overall Substantial Assurance		Overall Substantial Assurance	No change
Housing Benefit	Overall Substantial Assurance		Overall Substantial Assurance	No change
National Non Domestic Rates	Overall Substantial Assurance		Overall Substantial Assurance	No change
Accounts Payable	Substantial	Substantial	Overall Significant Assurance	Improvement
Accounts Receivable	Good	Substantial	Overall Significant Assurance	No change
Bank Reconciliation	Substantial	Substantial	Overall Significant Assurance	Improvement
Payroll	Substantial	Substantial	Overall Full Assurance	No change
Treasury Management	Substantial	Substantial	Overall Significant Assurance	Improvement

4.2.4 Reviews of Council Tax, Housing Benefit and national Non Domestic Rates provided overall substantial assurance. The reviews were undertaken by West Suffolk Internal Audit on behalf of three of the councils in the Anglia Revenue Partnership, and quality assured by LGSS:

- There have been no significant changes to the processing of Council Tax and a consistently good standard was maintained.
- The audit review confirmed that the Housing Benefits Team is working to a good standard, and processes are working well. Any errors which were identified during testing were rectified to ensure that Housing Benefit awards are correctly calculated.
- National Non Domestic Rates included the collection of revenue debts for both NNDR and Council Tax by ARP Enforcement (ARPE). There were weaknesses identified in the administration of Reliefs, Discounts and Exemptions, the Reminder and Debt Recovery Process and timely updating of the Valuation Office amendments, and corrective actions have been recommended. The review also highlighted that there is a need to encourage improved communications from the Revenues Teams to ARPE to ensure that correct debtors details, and changes which may affect the debt collection, are maintained.

4.2.5 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.

- 4.2.6 In relation to the Accounts Receivable review, the control assurance was good. Testing undertaken confirmed that in general controls had operated effectively.
- 4.2.7 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.
- 4.2.8 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.
- 4.2.9 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 performance during the year. Testing of a sample of investment transactions confirmed that agreed policies and procedures had been adhered to.

### **4.3 Compliance**

- 4.3.1 Compliance work is fundamental, as it provides assurance across all Directorates and therefore underpins the Chief Internal Auditor opinion on the control environment. The audit coverage for compliance is underpinned by an assessment of the Council's framework of controls (often directed by policies and procedures) and includes a focus on those core areas where a high level of compliance is necessary for the organisation to carry out its functions properly. The work involves compliance checks across the organisation to provide assurance on whether key policies and procedures are being complied with in practice. As a part of this work, the existing controls are challenged to ensure that they are modern, effective and proportionate.
- 4.3.2 The Plan for 2016/17 included coverage of compliance in the following areas:
- Use of Government Procurement Cards
  - Compliance with the Council's Contract Procedure Rules;

- Compliance with the Council's Child and Vulnerable Adult Safeguarding Policy.

4.3.3 The sample testing undertaken throughout the year has not identified any significant non-compliance issues. Where weaknesses have been identified, recommendations have been made to improve procedures and controls; all recommendations which are considered to be of significant impact on the control environment are followed up by Internal Audit to ensure they have been implemented.

#### **4.4 Risk-Based Reviews**

4.4.1 Risk-based reviews have been a key element of the assurance on the entire control environment of the authority in 2016/17. Reviews have been targeted towards areas of high risk, as identified through consultation with senior management, review of risk registers, and the Internal Audit risk assessment of the organisation.

4.4.2 The outcomes of all risk-based reviews issued in 2016/17 can be seen at section 6.

#### **4.5 Anti-Fraud and Corruption**

4.5.1 This is a high-risk area across the public sector. LGSS Internal Audit undertakes work on anti-fraud and corruption, which includes both reactive and pro-active elements, along with a number of initiatives to raise awareness of the council's anti-fraud and corruption culture and to report on the arrangements in place, and pro-active fraud strategy work.

4.5.2 The Council participates in a national data matching exercise known as the National Fraud Initiative (NFI) which is run by the Cabinet Office to prevent and detect fraud. Data-matching, between public and private sector bodies, flags up inconsistencies in data that may indicate fraud and error and helps Councils to complete proactive investigations. Examples include matching: benefits and council tax reductions to license holders and insurance claimants to detect fraudulent claims and errors; matching payroll records across organisations to detect employment fraud and undeclared interests; and matching supplier and transaction records to detect potential duplicated payments. Internal Audit is responsible for the collection and submission of the required datasets for the Council which was completed within the timescales set by the Cabinet Office. The results of the exercise were received by the Council in February 2017. From a total of 976 matches now released, there are a total of 133 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.

#### **4.6 Other Work/Information Assurance**

- 4.6.1 Internal Audit continues to provide advice and guidance to officers on a wide range of issues, including the interpretation of Council policies and procedures, risks and controls within systems or processes, and ad-hoc guidance on queries relating to projects or transformation. Internal Audit aims to provide clear advice and risk-based recommendations with a view to reducing bureaucracy whilst maintaining a robust control environment. Where appropriate, we also refer queries or concerns on to specialist services such as Information Governance or IT Security.
- 4.6.2 Following an Internal Audit review of Open Data undertaken in 2015/16, LGSS Internal Audit was requested to undertake an additional piece of work, the purpose being to complete a high level review of the information governance framework, focussing on the fundamental controls, to help the Council identify what can be done to improve information governance. The review recommended that a collaborative group be created to deliver the actions highlighted in the report and this includes representation from Internal Audit.
- 4.6.3 Internal Audit also leads on maintaining the Council's overall assurance framework and facilitates risk management work across the organisation.

#### **4.7 Summary of Completed Reviews**

- 4.7.1 A summary of all audit reports issued in 2016/17 follows in Section 6.

**5. INTERNAL AUDIT PERFORMANCE AND QUALITY ASSURANCE**

**5.1 Delivery of the 2016/17 Internal Audit Plan**

5.1.1 The original East Cambridgeshire District Council Internal Audit Plan was agreed in March 2016, at which point it was agreed that 290 days would be delivered on areas identified for audit activity.

5.1.2 Under the revised Internal Audit arrangements that came into place from 1<sup>st</sup> October 2016, LGSS Internal Audit & Risk Management was responsible for the delivery of 103 days of the plan, with the remaining 187 days being delivered by the former in-house arrangements.

5.1.3 The Council also procured an additional 5 days from LGSS to undertake a full review of the strategic audit plan. In addition, following an internal audit review of Open Data completed in 2015/16 which received a limited assurance opinion, a further 5 days was also procured to complete a high level review to identify where improvements to information governance could be made.

5.1.4 The days spent in each area of the Audit Plan, analysed by the major categories of our work, is set out in Table 5, below:

**Table 3 – Internal Audit Resource Input**

<b>Audit Area</b>	<b>LGSS Days</b>	<b>Other Days</b>	<b>Total days</b>
Key Financial Systems	32	40	72
Compliance	13	5	18
Risk-Based Reviews	-	35	35
Transformation Programme	5	-	5
Making Every Penny Count	6	-	6
Anti-Fraud and Corruption	12	22	34
Information Governance	5	-	5
Policies and Procedures	6	5	11
Risk Management	10	5	15
Follow-Up of Actions and Advice & Guidance	24	16	40
Governance and Other Chargeable Activity	-	48	48
<b>Total Audit Days Delivered</b>	<b>113</b>	<b>176</b>	<b>289</b>

5.1.4 There was a shortfall of 11 days delivered by the former in-house arrangements due to a period of unplanned absence due to sickness. The entire LGSS plan was delivered.

## **5.2 Service Development**

- 5.2.1 The LGSS internal audit team continues to grow, and Milton Keynes has joined as a full partner. In addition East Cambridgeshire District Council and the Welland partnership have both recently transferred their Internal Audit service to LGSS. This provides increased depth and breadth, of skills and resources, to deliver Internal Audit services to the Council. For example the team has auditors with specific skills, such as IT audit, who can be deployed to support specific pieces of work, to maximise the benefits to East Cambridgeshire. This helps to develop knowledge of the East Cambridgeshire internal control environment, within the team, which improves future resilience of the service.
- 5.2.2 Further service developments for East Cambridgeshire are planned in the coming financial year. We will issue customer feedback questionnaires to appropriate officers, at the conclusion of audit reviews, to give them the opportunity to feedback on the Internal Audit work to drive further improvement.

## **5.3 Compliance with Public Sector Internal Audit Standards**

- 5.3.1 The Internal Audit service has operated in compliance with Public Sector Internal Audit Standards throughout the year.
- 5.3.2 An external assessment of Internal Audit's compliance with Public Sector Internal Audit Standards (PSIAS) was undertaken in 2016/17, and a number of recommendations were agreed to further improve the work of the service, including the introduction of a new Terms of Reference format, and the inclusion of some specific areas within the Annual Report. A follow up visit scheduled for May 2017, confirmed the implementation of these actions and has confirmed compliance with the latest set of standards issued in April 2017.

## 6. SUMMARY OF AUDIT REVIEWS COMPLETED

### East Cambridgeshire Internal Audit

The table below summarises the Internal Audit reviews that were completed during the financial year.

Audit Title	Directorate	Compliance assurance	Systems assurance	Impact
<b>KEY FINANCIAL SYSTEMS</b>				
Council Tax	Cross-Cutting	Overall Substantial Assurance		
Housing Benefit	Cross-Cutting	Overall Substantial Assurance		
National Non Domestic Rates	Cross-Cutting	Overall Substantial Assurance		
Accounts Payable	Cross-Cutting	Substantial	Substantial	Minor
Accounts Receivable	Cross-Cutting	Good	Substantial	Minor
Bank Reconciliations	Resources	Substantial	Substantial	Minor
Payroll	Cross-Cutting	Substantial	Substantial	Minor
Treasury Management	Resources	Substantial	Substantial	Minor
<b>COMPLIANCE</b>				
Government Procurement Cards	Cross-Cutting	Overall Significant Assurance		
Procurement Compliance	Cross-Cutting	Good	Limited	Minor
Safeguarding	Cross-Cutting	Good	Moderate	Moderate
<b>RISK BASED REVIEWS</b>				
Disabled Facilities & Minor Works Grants	Operations	Overall Significant Assurance		
Local Authority Trading Company Set Up	Cross-Cutting	Overall Significant Assurance		
<b>ANTI-FRAUD AND CORRUPTION</b>				
National Fraud Initiative - Data Upload	Cross-Cutting	Overall compliance with data requirements and timetable for submission to Cabinet Office		
<b>INFORMATION GOVERNANCE</b>				
Information Governance	Cross-Cutting	Good	Good	Moderate
<b>FOLLOW UP OF ACTIONS AND ADVICE &amp; GUIDANCE</b>				
Rent Deposit Scheme Follow Up	Operations	Overall Significant Assurance		