

LGSS Internal Audit & Risk Management

East Cambridgeshire District Council

Appendix 1 - Internal Audit Progress Report

As at 30th June 2017

1. Progress against the plan

Finalised Assignments

1.1 Since the previous report to Committee the following audit assignments have reached completion as set out below. The first four reports relate to reviews completed by West Suffolk Internal Audit under internal audit arrangements for the financial year 2016/17.

No.	Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational Impact
1	Cross-cutting	Council Tax 2016/17	Overall Substantial Assurance		
2	Cross-cutting	Housing Benefit 2016/17	Overall Substantial Assurance		
3	Cross-cutting	National Non Domestic Rates 2016/17	Overall Substantial Assurance		
4	Cross-cutting	Local Authority Trading Company Set Up 2016/17	Overall Substantial Assurance		
5	Cross-cutting	Safeguarding 2016/17	Good	Moderate	Moderate
6	Cross-cutting	Accounts Receivable 2016/17	Good	Substantial	Minor
7	Cross-cutting	Planning Income	Good	Good	Minor

1.2 At the conclusion of an audit assignment an assurance opinion of the system is reported. For the 2017/18 financial year we have reviewed our control and compliance assurance opinions and these are explained further in Appendix 3 – Audit Definitions.

1.3 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. In summary:

- There have been no significant changes to the processing of Council Tax and a consistently good standard was maintained.
- 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 Housing Benefit awards are correctly calculated.
- The National Non Domestic Rates (NNDR) review 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, timely updating of the Valuation Office amendments, and corrective actions have been recommended. The review also highlighted 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.

1.4 The Local Authority Trading Company review provided assurance that basic governance policies and procedures, including adequate segregation of duties, were in place. This covered company registration, operation and set up of bank accounts, invoicing, payments, payroll and ICT.

The Safeguarding review identified that there are areas of good practice in the Council regarding safeguarding which are driven by the Child and Vulnerable Adult Safeguarding Policy. However, the Policy needs to be updated as it covers the period 2013-2016 and needs to reflect the latest legislation, including the Council’s “Prevent Duty” under the Counter Terrorism & Security Act 2015 and the implications of the Care Act 2014. Once updated it needs to be embedded across the Council, and communicated to all staff and members, including training and awareness at staff inductions. In relation to the Accounts Receivable review, the control assurance was good. Testing undertaken confirmed that controls had operated effectively.

Draft / Interim Reports / Work in progress

1.5 At the time of producing this report, the following audit assignments are at draft report stage or work in progress:

No.	Directorate	Assignment
1	Cross cutting	Invoices over £500
2	Cross-cutting	Budgetary Control
3	Cross-cutting	Contract Management – Waste
4	Cross cutting	National Fraud Initiative
5	Cross cutting	Risk Management Strategy
6	Cross cutting	Annual Governance Statement / Code of Corporate Governance

1.6 Further information on work planned by LGSS, and in progress, may be found in the Audit Plan, attached as Appendix 2.

1.7 Testing has been completed on Invoices over £500. There are no significant areas of concern and, following closing of working papers, the report will be issued shortly.

Performance summary

1.8 Good progress has been made to deliver the audit plan during the first quarter of the financial year.

1.9 It is good practice to keep audit plans under review and update them to reflect topical 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. There have been no changes made to the annual audit plan during the first quarter.

2. *Fraud and corruption update*

Data matching

- 2.1 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.
- 2.2 The Council met its requirements to submit data sets for the current National Fraud Initiative exercise during 2016/17 with the results being available in late January 2017. From a total of 976 matches there are a total of 133 matches that meet the NFI's recommended filter as being of higher importance based on previous NFI exercises. Work has commenced on reviewing these matches and will continue throughout the year. Any matters arising in terms of fraud and error identified will be reported to this Committee.

Counter fraud awareness

- 2.3 The Council held an induction training event for new employees in June 2017. The Internal Audit Team attended the event and gave a presentation on general fraud awareness, which received positive feedback. The training helps to make employees aware of potential fraud risks, and how to report them.

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 3 – Audit Definitions
- 3.3 Essential actions are actively monitored to ensure they implemented promptly.
- 3.4 There are currently no outstanding essential actions, and this provides positive assurance of the Councils commitment to maintain the internal control environment.

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

- 4.1 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 3 – Audit Definitions.
- 4.2 Individual reviews, where there is only limited or no assurance opinion, will be reported to this Committee for awareness. No such audits have been issued this quarter.

5. Other audit activity

- 5.1 The team provides both proactive and responsive advice where it helps to improve the control environment. We have assisted the Council with several areas to date.
- 5.2 In addition to completing ongoing audit reviews, the Internal Audit team is conducting work in the following areas.

Corporate Risk Management

- 5.3 The team has reviewed the Corporate Risk Policy and Framework, to ensure it reflects the needs of the Council. This has now been approved by the Corporate Management Team and will be presented to the Resources and Finance Committee for awareness. In addition the Internal Audit team is leading on development of a revised Corporate Risk Register, which will record the most significant threats to the Council's priorities.

Annual Governance Statement

- 5.4 The Council procured an additional 10 days of resource from LGSS to produce the Annual Governance Statement, which is a key piece of work which accompanies the Statement of Accounts. The team worked with Service Leads to map sources of assurance, and to identify any potential governance risks.
- 5.5 In addition we reviewed and updated the Council's Code of Corporate Governance, reflecting the latest professional guidance from CIPFA and SOLACE.
- 5.6 Both these documents were reported to the Resources and Finance Committee, and approved, at the June meeting. The final version of the Annual Governance Statement will be signed, and approved, with the Statement of Accounts later in the year.

Information Governance

- 5.7 The Information Commissioner has confirmed that the United Kingdom will be adopting the EU General Data Protection Regulations which will apply from 25th May 2018, replacing the existing Data Protection Act. This was recognised in the Annual Governance Statement. The Council has recently formed an Information Governance group, who can review and provide advice. The Internal Audit team provided advice on a potential agenda and work programme for the group, to help manage these risks.

Development

- 5.8 The LGSS Internal Audit team follows good professional practice such as the Public Sector Internal Audit Standards, and the supporting Local Government Application Note. In addition the team is externally reviewed against the standards, and completes a continuous review of its processes as good practice.
- 5.9 The Internal Audit team has reviewed the audit definitions which are issued on conclusion of audit work. The methodology and approach continues to be relevant, and some minor revisions have been made to the terminology which should add clarity to the reporting process. The audit definitions are listed in Appendix 3.
- 5.10 The Internal Audit team has a Charter which is reviewed periodically. The Charter defines the purpose, authority and responsibility of internal audit. The Charter is being presented to the Committee as a related item on the agenda.

Appendix 2 – Internal audit plan

East Cambridgeshire 2017/18

Audit title	Status	Qtr opened	Qtr closed	Profiled days
Operational plan grand total				210
Anglia Revenues Partnership Total				35
Benefits Reductions & Overpayments	Not started	Q3		15
Council Tax	Not started	Q3		10
National Non Domestic Rates	Not started	Q3		10
Making Every Penny Count Total				25
Invoices over £500	Fieldwork complete	Q1		5
Retention of Business Rates	Not started	Q4		10
Transformation Strategy	Not started	Q2		10
Anti-Fraud and Corruption Total				10
National Fraud Initiative	In progress	Q1-4	N/A	10
Key Financial Systems Total				35
Bank Reconciliation	Not started	Q3		6
Budgetary Control	Not started	Q3		5
Creditors	Not started	Q3		7
Debtors	Not started	Q3		6
Payroll	Not started	Q3		7
Treasury Management	Not started	Q3		4
Commissioning & Contracts Total				20
Contract Management - Waste	Terms of Reference	Q1		10
Contract Management - Leisure	Not started	Q4		10
Risk –Based Audits Total				10
Local Authority Trading Company	Not started	Q2		10
Compliance Total				10
Planning Income	Complete	Q1	Q1	5

Audit title	Status	Qtr opened	Qtr closed	Profiled days
Planning Obligations and CIL	Not started	Q2		5
ICT and Information Governance Total				20
Controls Review of Critical Systems	Not started	Q3		15
Information Governance Group	In progress	Q1-4	N/A	5
Risk Management Total				12
Risk Management & Review Policy	In progress	Q1-4	N/A	12
Governance Total				10
Annual Governance Statement – Additional Work	Draft reported	Q1		10
Advice & Guidance Total				5
Follow-Ups of Agreed Actions	In progress	Q1-4	N/A	5
Reporting Total				18
Annual Report and Head of Internal Audit Opinion	Closed	Q1	Q1	5
Audit Plan	In progress	Q1-4	N/A	3
Committee and Management Reporting	In progress	Q1-4	N/A	10

Appendix 3 – Audit Definitions

There are three elements to consider when determining an assurance opinion as set out below.

Control Environment / System Assurance

The adequacy of the control environment / system is perhaps the most important as this establishes the key controls and frequently systems 'police/ enforce' good control operated by individuals.

Assessed Level	Definitions
Substantial	Substantial governance measures are in place that give confidence the control environment operates effectively.
Good	Governance measures are in place with only minor control weaknesses that present low risk to the control environment.
Satisfactory	Systems operate to a moderate level with 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

Strong systems of control should enforce compliance whilst ensuring 'ease of use'. Strong systems can be abused / bypassed and therefore testing ascertains the extent to which the controls are being complied with in practice. Operational reality within testing accepts a level of variation from agreed controls where circumstances require.

Assessed Level	Definitions
Substantial	Testing has proven that the control environment has operated as intended without exception.
Good	Testing has identified good compliance. Although some errors have been detected these were exceptional and acceptable.
Satisfactory	The control environment has mainly operated as intended although errors have been detected that should have been prevented / mitigated.
Limited	The control environment has not operated as intended. Significant errors have been detected and/or compliance levels unacceptable.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse. The system of control is essentially absent.

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 the Corporate Management Team 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 arising from the control weakness found, as set out in the Management Action Plan.

For ease of reference, we have used a system to prioritise our recommendations, as follows:

Essential	Important	Standard
<p>Failure to address the weakness 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.</p> <p>The improvement is critical to the system of internal control and action should be implemented as quickly as possible.</p>	<p>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.</p> <p>The improvement will have a significant effect on the system of internal control and action should be prioritised appropriately.</p>	<p>The finding is important to maintain good control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently.</p> <p>Management should implement promptly or formally agree to accept the risks.</p>