Appendix 1

LGSS Internal Audit & Risk Management

East Cambridgeshire District Council

Internal Audit Progress Report

As at 31st August 2017

1. *Resources*

1.1 As outlined to Resources & Finance Committee at the beginning of the financial year, it is good practice to keep audit plans under review and update them to reflect emerging risks, revisions to corporate priorities, and resourcing factors which may affect the delivery of the audit plan.

1.2 Additional work is considered where it will help to improve the internal control environment and governance arrangements at the Council. Consequently it is appropriate to review the internal audit plan and re-profile accordingly.

1.3 The original plan, approved by this Committee, was 200 days plus an additional 10 days for the completion of the Annual Governance Statement. Changes to the plan, where required, are discussed and agreed with the Corporate Management Team. There have been no further changes to the plan for 2017/18. At the end of August 2017, 83 productive days are projected to have been delivered which reflects the profiling for the year. The team has made good progress in delivering the plan and is on course for delivery by the end of the financial year.

1.4 A review of the Council's Transformation Strategy was scheduled during the quarter ending 30th September 2017, but this has been rescheduled to the quarter ending 31st March 2018 reflecting the latest schedule for the Council review of its transformation programme. Other work in the audit plan is brought forward, where possible.

2. *Progress against the plan*

Finalised Assignments

2.1 Since the previous report to Committee the following audit assignments have reached completion as set out below.

No.	Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational Impact
1	Cross-cutting	Invoices over £500	Good	Good	Minor
2	Cross-cutting	National Fraud Initiative	N/A – Review of data matches completed		
3	Cross-cutting	Risk Management Strategy	N/A – Revised Risk Management Strategy and Corporate Risk Register completed		
4	Cross-cutting	Annual Governance Statement/Code of Corporate Governance	N/A – Production of Council' Annual Governance Statement for 2016/17 and revised Code of Corporate Governance		

2.2 At the conclusion of an audit assignment an assurance opinion of the system is reported and these are explained further in Appendix B – Audit Definitions.

2.3 A sample of invoices over £500 was reviewed to establish compliance with the current contract procedure rules, and based on the findings an opinion of good assurance has been given for both the control environment and also compliance. Where appropriate, quotations and tenders were completed in line with contract procedure rules to obtain value for money, and the payments were published on the

Council's website as required by the Code of Recommended Practice for Local Authorities on Data Transparency.

2.4 In this quarter we have also undertaken reviews of National Fraud Initiative, Risk Management and the Annual Governance Statement, which are detailed below.

Draft / Interim Reports / Work in progress

2.5 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	Budgetary Control
2	Cross-cutting	Contract Management – Waste
3	Cross-cutting	Planning Obligations S106 and CIL

2.6 The majority of fieldwork is completed for Budgetary Control and a report will be issued shortly.

2.7 The review of Contract Management – Waste is timed so that we can provide embedded assurance for this significant project during its planning stage, helping to proactively identify and mitigate risks.

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

3. *Fraud and corruption update*

Data matching

3.1 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. This 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 assurance that internal controls continue to operate effectively.

3.2 The Council has carried out the current exercise to the deadlines set by the Cabinet Office. Data sets were submitted, and the data matching results were released in January 2017. From a total of 976 matches there were a total of 133 matches that meet the NFI's recommended filter as being of higher importance based on previous NFI exercises. Work has been completed on the payroll and creditor matches and there are no matters arising in terms of fraud and error in these areas. The Anglia Revenues Partnership will continue to review the matches in their areas of responsibility throughout the year and any matters identified will be reported to this Committee.

3.3 The Cabinet Office sets which mandatory datasets that Councils should submit for data matching. As part of the current exercise they have requested new datasets, including the housing waiting list. This produced a total of 102 recommended cases for investigation over 8 different reports. Two of these reports identify possible cases

of fraud where an individual appears to have registered on the housing waiting list using a different address to the one on housing benefit systems. This suggests possible undisclosed changes in circumstance, or that false information has been provided both within the Council (57 matches) and between Councils (32 matches). As a new dataset the Council needs to consider the best way to resource and progress these cases.

4. *Implementation of management actions*

4.1 Where reviews identify opportunities for improvement, these are agreed with management as part of an action plan.

4.2 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 B – Audit Definitions

4.3 Essential actions are actively monitored to ensure they implemented promptly.

4.4 There are currently no outstanding essential actions, and this provides positive assurance of the Council's commitment to maintain the internal control environment.

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

5.1 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 B – Audit Definitions.

5.2 Individual reviews which highlight there is only limited or no assurance, in the final report, are communicated to this Committee for awareness. No such audits have been issued this quarter.

6. *Other audit activity*

6.1 In addition to completing ongoing audit reviews, the Internal Audit team is conducting work in the following areas.

Corporate Risk Register

6.2 The team has facilitated an update of the Corporate Risk Policy and Framework, which was approved by the Resources and Finance Committee at its July meeting.

6.3 Subsequently a Risk Management Group has been established to develop the Corporate Risk Register and promote good practice throughout the Council. Useful information will be published on the Intranet for employees, and updates to the Corporate Register will be reported to Council.

Annual Governance Statement

6.4 We produced 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 and in addition reviewed and updated the Council's Code of Corporate Governance, reflecting the latest professional guidance from CIPFA and SOLACE.

6.5 Both these documents were reported to this 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 at this meeting.

Appendix *A – 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	Closed	Q1	Q2	5
Retention of Business Rates	Not started	Q4		10
Transformation Strategy	Not started	Q4		10
Anti-Fraud and Corruption Total				10
National Fraud Initiative	Closed	Q1-4	N/A	10
Key Financial Systems Total				35
Bank Reconciliation	Not started	Q3		6
Budgetary Control	Open	Q2		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	Open	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	Closed	Q1	Q2	5

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

Appendix B – Audit Definitions

There are three elements to each internal audit review, and an assurance opinion is provided against each element at the conclusion of the audit. The following definitions are used by Internal Audit in assessing the level of assurance which may be provided against each key element, and in assessing the impact of individual findings:

1. *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.

2. *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.

3. *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.

4. *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
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.	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.	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.
The improvement is critical to the system of internal control and action should be implemented as quickly as possible.	The improvement will have a significant effect on the system of internal control and action should be prioritised appropriately.	Management should implement promptly or formally agree to accept the risks.