



EAST CAMBRIDGESHIRE DISTRICT COUNCIL  
INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE

JULY 2018



EAST CAMBRIDGESHIRE  
DISTRICT COUNCIL

Date: 26<sup>th</sup> July 2018

## ***Introduction***

- 1.1 LGSS provides the Internal Audit service for East Cambridgeshire District Council and has been commissioned to provide 210 days to deliver the 2018/19 Annual Audit Plan.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Resources and Finance Committee to satisfy itself that it is receiving appropriate assurance about the controls put in place by management to address identified risks to the council. This report aims to provide the committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last committee meeting and an overview of the performance of the audit team.

## ***Performance***

### **2.1 Delivery of the 2018/19 Audit Plan**

At the time of reporting, three assignments from the 2018/19 Audit Plan have been completed to at least draft report stage and good progress is being made on quarter 1 and quarter 2 assignments. Fieldwork was either complete or underway on 42% of the assignments in the Audit Plan at the end of Q1.

Progress on individual assignments is shown in Table 1.

### **2.2 Are clients satisfied with the quality of the Internal Audit assignments?**

To date, one survey response has been received in relation to feedback on assignments with a rating of 'Excellent'. A summary of responses is provided in Table 2.

### **2.3 Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?**

Since the start of the new financial year, one audit report from the 2018/19 audit plan has been finalised. This has not highlighted any issues or weaknesses which would impact upon the overall Internal Audit opinion. The key findings were as follows:

#### **Taxi Licensing**

Effective Taxi (Hackney Carriage) and Private Hire Vehicles (PHV) licensing is vital to protect members of the general public from unsafe vehicles driven by unsuitable persons. In order to accomplish this the Council issues driver licences, vehicle licences, and private hire operator licences.

The aim of the audit was to provide assurance that the Council is fulfilling its safeguarding duties in ensuring that appropriate checks are conducted before the issuing of hackney and private hire driver licences, to ensure licence holders are 'fit and proper' and that vehicles are roadworthy.

Overall, the processing of both driver and vehicle licence applications was found to be operating satisfactorily. Testing undertaken on a sample ten individual applications, covering both new

and renewal applications confirmed that appropriate checks are being conducted by the Council before licences are issued. The Council is committed to safeguarding and promoting the welfare of children, young people and adults at risk and is in the process of putting in place the requirement for licence holders to attend safeguarding training. Failure to comply will be grounds for the suspension of the licence until such time as the licence holder completes the training.

Based on the outcome of the testing performed, the assurance opinions given by Internal Audit were as follows:

Assurance Opinion		
Control Environment	Good	●
Compliance	Substantial	●
Organisational Impact	Minor	●

In addition, the final audit report from the 2017/18 audit plan – **Bank Reconciliations** – has been finalised since the last Committee meeting. The audit opinions given reflect that the key controls had not been operating effectively and consistently during the 2017/18 financial year. This is not considered to represent a significant impact on the control framework at the time of reporting based upon additional testing undertaken on the year end reconciliation which demonstrated compliance with expected controls and accuracy – as such the organisational impact has been assessed as Minor. The key findings of the audit were as follows:

Since the 2016/17 internal audit review, there have been a number of staffing changes within the finance team and during this time of change it is acknowledged that processes were not consistently applied.

It is recognised by management that the bank reconciliation process was not operating effectively throughout the 2017/18 financial year and that work commissioned to identify discrepancies identified in 2017 has not succeeded in clearing all remaining differences. A decision has been taken by management to write the remaining difference into the accounts – an unidentified income balance – in order to establish a clear starting point from April 2018.

The appointment of new finance staff has enabled the development of a revised bank reconciliation process for the 2018/19 financial year. Further audit testing focused upon the year end reconciliation for which all figures could be traced back to source documentation and the record had been signed and independently reviewed.

Based on the audit testing, the assurance opinions over the controls for 2017/18 were as follows (further testing in 2018 will provide assurance over the improved controls):

Assurance Opinion		
Control Environment	Limited	●
Compliance	Limited	●
Organisational Impact	Minor	●

#### 2.4 **Implementation of audit recommendations by officers**

Where an Internal Audit review identifies any areas of weakness or non-compliance with the control environment, recommendations are made and an action plan agreed with management, with timeframes for implementation. In order to provide the Committee with assurances that these actions are being implemented in a timely and effective manner, a more robust follow up process has been implemented for the 2018/19 financial year.

Updates are currently being sought in relation to all agreed actions and these will be subject to review by the Council's Corporate Management Team to encourage and monitor prompt implementation and responses. This will be updated ahead of each Internal Audit progress report.

An example of the format proposed for reporting upon these actions is provided in Table 3 and this will be populated with updates from the next meeting onwards. Should there be any audit actions which are classed as 'Essential' or 'Important' and overdue by more than three months, full details will be provided to the Committee, along with a reason for the delay and a revised timescale for implementation.

**Table 1 - Progress against 2018/19 Internal Audit Plan**

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
<b>Governance &amp; Counter Fraud</b>							
Counter Fraud Procedures	Q2	Planning					
National Fraud Initiative	Q3	Planning		Consultancy			
Risk Management support	Q1 – Q4	In progress		Consultancy			
Annual Governance Statement	Q1	<b>Complete</b>	<i>Not applicable</i>	Consultancy			
<b>Key Financial Systems</b>							
Bank Reconciliation	Q3	Not started					
Creditors	Q4	Not started					
Debtors	Q4	Not started					
Payroll	Q4	Not started					
Treasury Management	Q3	Not started					
Budgetary Control	Q3	Not started					

					Assurance Opinion				
Assignment		Planned start	Status		Assurance sought	Control Environment	Compliance	Org impact	Comments
<b>Making every penny count</b>									
Invoices over £500		Q2	Fieldwork underway						
<b>Key policy compliance</b>									
Agency Staff Compliance – IR35		Q1	Draft report issued						
Scheme of Delegation compliance		Q1	Fieldwork underway						
<b>Risk based audits</b>									
Local Authority Trading Company		Q3	Not started						
Business Continuity Management		Q1	Fieldwork underway						
Waste Management		Q3	Not started						
Taxi Licensing checks		Q1	Final report issued		<i>To provide assurance that the Council is fulfilling its safeguarding duties in ensuring suitable checks are conducted before issuing of Hackney and private hire licences, to ensure holders are 'fit and proper' and that vehicles are roadworthy.</i>	Good ●	Substantial ●	Minor ●	See para 2.3

					<i>Assurance Opinion</i>				
<i>Assignment</i>		<i>Planned start</i>	<i>Status</i>		<i>Assurance sought</i>	<i>Control Environment</i>	<i>Compliance</i>	<i>Org impact</i>	<i>Comments</i>
<b>ICT and Information Governance</b>									
Controls review of critical systems / Cyber Security		Q2	Planning						
Information Governance and GDPR		Q2	Fieldwork underway						

**Table 2: Customer Satisfaction**

At the completion of each assignment, the Auditor issues a Customer Satisfaction Questionnaire (CSQ) to each client with whom there was a significant engagement during the assignment. The responses received in the year to date are set out below.

Responses	Excellent	Good	Satisfactory	Poor
Total	1	-	-	-



**Table 3 - Implementation of Audit Recommendations**

	'High' priority recommendations		'Medium' priority recommendations		'Low' priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and <b>implemented</b> since last Committee meeting	-	-	-	%	-	%	-	%
Actions <b>overdue by less than three months</b>	-	-	-	%	-	%	-	%
Actions <b>overdue by more than three months</b>	-	-	-	%	-	%	-	%
<b>Totals</b>	-	100%	-	100%	-	100%	-	100%

**Notes**

At the completion of each assignment the Auditor will report on the level of assurance that can be taken from the work undertaken and the findings of that work. The table below provides an explanation of the various assurance statements that Members might expect to receive.

Compliance Assurances			
Level		Control environment assurance	Compliance assurance
<b>Substantial</b>	●	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.
<b>Good</b>	●	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.
<b>Satisfactory</b>	●	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.
<b>Limited</b>	●	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.
<b>No</b>	●	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.

Organisational Impact		
Level		Definition
<b>Major</b>	●	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.
<b>Moderate</b>	●	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.
<b>Minor</b>	●	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.

## ***Limitations and Responsibilities***

### ***Limitations inherent to the internal auditor's work***

LGSS Internal Audit is undertaking a programme of work agreed by the Council's senior managers and approved by the Resources and Finance Committee subject to the limitations outlined below.

#### ***Opinion***

Each audit assignment undertaken addresses the control objectives agreed with the relevant, responsible managers.

There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work; were excluded from the scope of individual internal assignments; or were not brought to Internal Audit's attention.

#### ***Internal Control***

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and unforeseeable circumstances.

#### ***Future Periods***

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

#### ***Responsibilities of management and internal auditors***

It is management's responsibility to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.