

LGSS Internal Audit & Risk Management

East Cambridgeshire District Council

Internal Audit Progress Report

As at 17th November 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. At the end of November 2017, 128 productive days are projected to have been delivered which reflects the profiling for the year.
- 1.4 There are some suggested amendments to the plan which are detailed below. The team has made good progress in delivering the Plan and is on course for delivery by the end of the financial year.

2. Progress against the plan

Finalised Assignments

- 2.1 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	Planning Income	Substantial	Good	Minor
3	Cross-cutting	National Fraud Initiative	N/A – Review of data matches completed		
4	Cross-cutting	Risk Management Strategy	N/A – Revised Risk Management Strategy and Corporate Risk Register completed		
5	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 Since the previous report the team has finalised work from the 2017/18 plan and key points include:
- 2.4 Planning Income
- 2.5 Most new buildings or major changes to existing buildings or the local environment require planning permission and the Council is responsible for deciding whether a development should be permitted, for which a fee is payable by the applicant.
- 2.6 The control environment received Substantial assurance and Good compliance assurance. This review considered the effectiveness of key controls in place around the processing of planning applications, to ensure that they are assessed

appropriately and objectively and decisions are made in line with delegated officer responsibilities. There was an additional focus on the controls in place to mitigate the risk of fraud or conflicts of interest impacting the planning application process.

2.7 The processing of applications is operating satisfactorily. Testing identified one instance where the applicant had paid an amount greater than the required fee. This was a customer initiated error, on a major planning application, and a refund amounting to £345 has now been made. Each of the applications had been determined within the relevant timescale.

Draft / Interim Reports / Work in progress

2.8 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
4	Cross-cutting	Benefits Reductions & Overpayments
5	Cross-cutting	Council Tax
6	Cross-cutting	National Non Domestic Rates
7	Cross-cutting	Treasury Management

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

2.10 Contract Management - Waste

2.11 This review is timed so that we can provide embedded assurance for this significant project during its planning stage, helping to proactively identify and mitigate risks. The Council is still waiting for information to be provided by Veolia, to complete financial projections for insurance purposes. Once this data is provided, this should provide further assurance. Overall there is good project governance, with accountability, and regular reporting to stakeholders such as the Shareholder Committee.

2.12 Budgetary Control

2.13 Testing of the key controls has been completed and there is Satisfactory assurance that they are operating effectively. Overall the budget setting process ensures that statutory and regulatory requirements are met and the reporting of expenditure against budgets is regularly reported to both budget holders and relevant committees.

Plan changes

- 2.14 As highlighted above, it is good practice to keep internal 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 plan.
- 2.15 Based on the actual plan delivery at this point we have proposed the following changes, which will enable us to provide adequate coverage across the Council in 2017/18.

System	Original profile (days)	New profile (days)	Change	Comment
Contract Management – Waste	10	16	6	<p>This is a key project for the Council with the Waste service being brought into the Trading Company.</p> <p>In response to our original terms of reference the Council requested that we also consider the current processes for comparison to the new processes, and also focus on the governance and project management arrangements.</p> <p>This requires more resource than originally estimated, and will provide good assurance to the Council.</p>
Planning Obligations & Community Infrastructure Levy	5	15	10	<p>Our previous review of CIL in 2013 considered the setup of the scheme. The current review focusses on the transactions and the operation of the internal control systems, which is the first time we have completed this review.</p> <p>This work is taking longer than anticipated due to the complexity of data analysis, and having to use new reporting systems to extract and substantiate data.</p> <p>Both the CIL team and internal audit have learnt from this which will enable smarter assurance testing in the future.</p>
Budgetary Control	5	9	4	<p>The Council uses Agresso financial management system to record financial transactions. This was our first review of this part of the system. In addition we issued a questionnaire, to customers of the Finance Team, about Agresso, and how they use management reports.</p> <p>The data is taking longer than planned to analyse and interpret. However it will enable us to provide some valuable feedback to the Accountancy team, which can help to embed further good budget management practice at the Council.</p>
Making every penny count - Strategy	10	5	(5)	<p>We allocated a resource in the plan to help review and support tasks and projects which can improve the efficiency of systems and processes at the Council. We have assisted on a couple of areas to date and do not have any further work planned for the remainder of the year.</p>

System	Original profile (days)	New profile (days)	Change	Comment
Information Governance Group	5	0	(5)	At the beginning of the year we allocated some resource to attend an Information Governance Group. The group is not now expected to meet for the remainder of this financial year, freeing up resources within the plan.
Retention of Business Rates	10	0	(10)	<p>Business rates are charged on non-domestic properties. In early 2015 it was announced that Cambridgeshire Councils would be allowed to retain all additional business rate growth.</p> <p>When drafting the plan we included a provision of days to review how the Council is preparing for any further localisation of business rates. Since then, the Council has commissioned consultants to provide advice on the participation of a pilot scheme for localisation of business rates. Therefore we propose that any assurance work is postponed to the beginning of the next financial year, following the outcomes of the pilot review.</p> <p>There is also a review of National Non Domestic Rates included in the plan, as it is a key financial system which is reviewed annually. We will continue to provide an assurance opinion on the effectiveness of the key controls at the end of the year.</p>
Overall change to the plan			0	

2.16 A longer term two year internal audit plan is also prepared and continually reviewed as good practice. In 2018/19 we will include a further review of waste management, and the revised plan will be reported to the Committee at the meeting scheduled in March 2018.

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.

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.

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. Updates to the Corporate Register have been reported to Council, as per the constitution, and an updated register will be reported to the Resources and Finance Committee in January.

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 The final version of the Annual Governance Statement was signed, and approved, with the Statement of Accounts at the previous Resources & Finance committee meeting in September.

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	Open	Q3		15
Council Tax	Open	Q3		10
National Non Domestic Rates	Open	Q3		10
Making Every Penny Count Total				25
Invoices over £500	Closed	Q1	Q2	5
Retention of Business Rates	Not started	Q4		10
Making every penny count – Strategy	Not started	Q4		10
Anti-Fraud and Corruption Total				10
National Fraud Initiative	Closed	Q1-4	Q3	10
Key Financial Systems Total				35
Bank Reconciliation	Not started	Q3		6
Budgetary Control	Open – Draft	Q2		5
Creditors	Not started	Q3		7
Debtors	Not started	Q3		6
Payroll	Not started	Q3		7
Treasury Management	Open	Q3		4
Commissioning & Contracts Total				20
Contract Management – Waste	Open - Draft	Q1		10
Contract Management – Leisure	Not started	Q4		10
Risk –Based Audits Total				10
Local Authority Trading Company	Not started	Q4		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	Q4		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
<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>