



EAST CAMBRIDGESHIRE DISTRICT COUNCIL
INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE

JULY 2019



EAST CAMBRIDGESHIRE
DISTRICT COUNCIL

Date: 25th July 2019

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 2019/20 Annual Audit Plan.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Finance and Assets 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 2019/20 Audit Plan

At the time of reporting, fieldwork on seven assignments from the 2019/20 Audit Plan are either complete or underway, representing 37% of the planned work. As such, delivery is on schedule.

Progress on individual assignments is shown in Table 1.

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

To date, no survey responses have been received in relation to feedback on assignments.

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 2019/20 audit plan has been finalised. To date, this has not highlighted any issues or weaknesses which would impact upon the overall Internal Audit opinion. The key findings from the report were as follows:



Leisure Centre income

The Council awarded the contract for the operation of The Hive Leisure Centre for a period of 12 years with an optional extension of up to 5 years. The Leisure Centre opened in May 2018. The Council will receive a management fee from the operator in the financial year 2019/20 amounting to £355,227. In addition to the management fee, the Council is also entitled to a share of any surpluses generated by the operator and there are also penalties which the Council can apply for poor performance. The critical objective of the review was to ensure that the Council receives income due from the operator in accordance with contractual arrangements.

The audit has confirmed that there is sufficient reference within the contract regarding the payments terms, and the reporting of both financial and operational performance. The first annual payment of the management fee is not due to be paid until the end of the financial year 2019/20 and therefore no testing can be completed to ensure that the payment terms

included within the contract have been complied with. The first year of operation was a 'bedding in' period where no performance deduction payments were payable by the Contractor for failure to achieve the performance standards set out in the contract and therefore no testing can be completed to ensure that performance deductions have been correctly applied. The Council's named representative is the Senior Leisure Services Officer, with the role being clearly defined in the contract. This includes the right to undertake independent monitoring of the Contractor's performance against the Performance Standards contained in the contract. In addition the contract also permits access to records by the Council's auditor, whether internal or external. The Senior Leisure Services Officer is currently in discussion with GLL to agree on a monthly / quarterly suite of reports, including financial. The final format of these reports is yet to be agreed with the first drafts only being delivered by GLL at the end of May 2019. These reports will then enable the Senior Leisure Services Officer to independently check the accuracy of reported performance.

Based on the work performed during the audit, overall good assurance can be given that there are effective controls within the contract to enable the Council to monitor financial and operational performance and ensure that income due to the Council is maximised. However no opinion can be given over compliance against these controls as the first payment of the Management Fee is not payable until the end of the financial year 2019/20. Based on the outcome of the testing performed, the assurance opinions given by Internal Audit were as follows:

Assurance Opinion		
Control Environment	Good	
Compliance	Not applicable	
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 2019/20 financial year.

Since 1st April 2019, four agreed actions have been implemented by officers. An overview is provided in Table 3.

At the time of reporting, there are three actions which are overdue for implementation. Of these, one was assessed as 'High' or 'Medium' priority and has been overdue for more than three months. As such, further details are provided in Table 4.

Table 1 - Progress against 2019/20 Internal Audit Plan

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

					Assurance Opinion				
Assignment		Planned start	Status		Assurance sought	Control Environment	Compliance	Org impact	Comments
Absence management		Q1	Draft report						
Use of Government Procurement Cards (GPCs)		Q2	Planning						
Contract extensions		Q2	Planning						
Grants to voluntary organisations		Q3	Not started						
Risk based audits									
Homelessness Reduction Act		Q2	Planning						
Leisure centre income		Q1	Final report issued		To provide assurance that the Council receives income due from the operator in accordance with contractual arrangements.	Good ●	N/A	Minor ●	See section 2.3
Community Infrastructure Levy (CIL) income		Q1	Fieldwork complete						
Health and Safety		Q1	Fieldwork underway						
ICT and Information Governance									
Controls review of critical systems / Cyber Security		Q4	Not started						

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. There have been no survey responses received during the year to date.

Responses	Outstanding	Good	Satisfactory	Poor
Total	-	-	-	-

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 implemented since last Committee meeting	-	-	2	67%	2	67%	4	57%
Actions overdue by less than three months	-	-	1	33%	-	-	1	14%
Actions overdue by more than three months	1	100%	-	-	1	33%	2	29%
Totals	1	100%	3	100%	3	100%	7	100%

Table 4 – Actions overdue more than three months (high and medium priority)

Audit plan	Audit title	Agreed action	Priority	Responsible officer	Date for implementation	Officer update / revised date
Information Governance						
2016/17	Information Governance	Refresh and promote the information security policy.	High	ICT Manager	01/12/2017	May 2019: In Progress - The ICT Team are currently reviewing the Information Security Policy, which includes a number of individual policies.

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
Substantial	●	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.
Good	●	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.
Satisfactory	●	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.
Limited	●	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.
No	●	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
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.

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 Finance and Assets 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.