

**CAMBRIDGE CITY COUNCIL
CIVIC AFFAIRS COMMITTEE**

25 JULY 2018

ANNUAL REPORT OF INTERNAL AUDIT 2017 / 2018

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1 INTRODUCTION

- 1.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. On behalf of the Civic Affairs Committee, Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation by evaluating the effectiveness in achieving the organisation's objectives.
- 1.2 This report is the culmination of the work during the course of the year. It provides an opinion on the effectiveness of the internal control environment, governance and risk management arrangements, and reports the incidence of any significant control failings or weaknesses. The report also gives an overview of audit performance during the year. The overall reports will then contribute to the Annual Governance Statement.

2 BACKGROUND

- 2.1 The 2017 / 2018 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards and the requirements of the Accounts and Audit Regulations.
- 2.2 The Council continues to evolve and change. The drivers for change are both organisational (e.g. public sector reform and developing smarter ways of working) and financial (e.g. national austerity programme and consequent savings programs).
- 2.3 During a period of change it is important that any increased business risks are identified and managed in an effective manner. Our 2017 / 2018 audit plan reflected these changes by concentrating on those areas of highest risk.

3 ASSURANCE

- 3.1 The audit plan enables me to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). This opinion will inform the Annual Governance Statement.
- 3.2 Our work is carried out to assist in improving control. However management is responsible for developing and maintaining an internal control framework. This framework is designed to ensure that:
 - The Council's resources are utilised efficiently and effectively;
 - Risks to meeting service objectives are identified and properly managed; and
 - Corporate policies, rules and procedures are adequate, effective and are being complied with.
- 3.3 Assurance is received from a number of sources. These include the work of Internal Audit; assurance from the work of the External Auditor; the Annual Governance Statement together with the Local Code of Corporate Governance and the Risk Management process. This enables a broader coverage of risks and ensures that the totality of the audit, inspection and control functions deployed across the organisation are properly considered in arriving at the overall opinion.
- 3.4 From the audit reviews undertaken, no areas were identified where it was considered that, if the risks highlighted materialised, it would have a major impact on the organisation as a whole. In each instance where it has been identified that the control environment was not strong enough, or was not complied with sufficiently to prevent risks to the organisation, Internal Audit has issued recommendations to further improve

the system of control and compliance. Where these recommendations are considered to have significant impact on the system of internal control, the implementation of actions is followed-up by Internal Audit and is reported to Civic Affairs Committee.

- 3.5 It is the opinion of the Head of Shared Internal Audit that, taking into account all available evidence, reasonable assurance may be awarded over the adequacy and effectiveness of the Council's overall internal control environment during the financial year 2017/18, and this remains at a similar level to the previous year.

4 INDEPENDENCE AND OBJECTIVITY

- 4.1 It is important that the Internal Audit service is sufficiently independent to provide an objective annual opinion. We safeguard against any potential ethical threats by preparing an Internal Audit Code of Ethics, which is presented to the Committee annually.
- 4.2 I can confirm that during the year there has not been any impairment in independence or objectivity to the Head of Shared Internal Audit or the service itself.

5 ADDED VALUE SERVICES

- 5.1 Although our primary responsibility is to give an annual assurance opinion it is also important that the Internal Audit service adds value to the organisation.
- 5.2 There needs to be a firm focus on assisting the organisation to meet its aims and objectives and on working in an innovative and collaborative way with managers to help identify new ways of working that will bring about service improvements and deliver efficiencies. Examples of how we have done this during the year include providing advice / input to support a number of projects and key working groups.

6 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

- 6.1 We have completed a self-assessment against the Public Sector Internal Audit Standards and the Local Government Application Note. This was independently validated by CIPFA and concluded that the Internal Audit Team generally conforms with the requirements of the standards. This has been reported separately to the Committee.
- 6.2 There have been significant changes to the Internal Audit Team in 2017/18, as it has become a shared service with South Cambridgeshire District Council, and there have also been a number of staff changes. Consequently this has had an impact on the delivery of the audit plan and a number of lower priority activities were re-profiled into the 2018/19 internal audit plan. Management of resources was recognised as a short term risk in the original business case for the shared service. The team is recruiting to the vacant posts, and has been utilising agency workers in the interim period. I am satisfied that there were adequate resources available to deliver the audit activities in the year and provide an annual opinion.
- 6.3 The audit work that was completed for the year to 31 March 2018 is listed in ANNEX A, which summarises all the audits undertaken and their results in terms of the audit assurance levels provided and the number of actions agreed.
- 6.4 Our reporting protocols have remained constant throughout the year with the following assurance ratings used:
- Full
 - Significant

- Limited; and
- No

6.5 Similarly, the agreed actions are categorised in the following types, based on their severity, and these have remained the same during the year:

- Critical
- High
- Medium
- Low

6.6 In addition to the risk based audits, further audit work was carried out including consultancy work and other specific activities such as special investigations. These do not usually warrant an assurance rating, but there may be actions arising from the work undertaken to address the issues identified, and they help to inform the annual opinion.

6.7 The team has a continuous plan of work, which is updated at least annually. Consequently there are also a number of reviews in progress, as documented in the current risk based audit plan reported to the committee in February, and audit opinions relating to these will continue to be reported during 2018 / 2019.

6.8 The Shared Internal Audit Service Business Plan, and results of the Quality Assurance and Improvement Programme, will inform the development of the service over the longer term.

7 FRAUD AND ERROR

7.1 Both proactive and reactive fraud and error work is completed by the Internal Audit team throughout the year.

7.2 Going forwards we are exploring the use of data analytics tools to help improve our proactive error checking work.

7.3 This is reported, along with a summary of work completed by the Revenue and Benefits Services Fraud Prevention Team, to the Committee as a separate item on the agenda.

8 CONCLUSION

8.1 The work carried out by the Internal Audit Team conforms to the Public Sector Internal Audit Standards.

8.2 A continuous risk based audit plan is completed, providing assurance. The team also provides added value consulting activities such as providing advice and fraud and error activities.

8.3 The audit work completed in 2017/18 has provided sufficient coverage to enable Internal Audit to form an opinion on the internal control environment, governance and risk management arrangements. There is Reasonable assurance awarded during the financial year 2017/18, and this remains at a similar level to the previous year.

Jonathan Tully
Head of Shared Internal Audit
July 2018

ANNEX A – AUDIT PLAN COVERAGE

The following pages provide information on work completed throughout the 17/18 year.

1 **RISK BASED ASSURANCE**

- 1.1 The Council undertakes risk based reviews, to ensure that resources are allocated effectively across the Council. A summary of work completed is detailed below:

			Actions summary					Supporting information
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	
Homelessness	Limited	Significant	0	0	0	0	0	<p>This was a follow-up of a previous review which had provided no assurance.</p> <p>All eight of the high category actions and two medium category actions have now been implemented successfully.</p> <p>There have been improvements to record keeping, and invoice processing. Training has been delivered and risks are being managed. Consequently we were able to provide significant assurance on the control environment.</p>

			Actions summary					Supporting information
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	
Contaminated Land	N/A	Limited	0	6	1	0	7	<p>A review, undertaken during 16/17, was finalised at the beginning of 17/18 which highlighted the following issues:</p> <ul style="list-style-type: none"> different approaches towards monitoring the discharge of planning conditions between New Neighbourhoods and City Development teams, with no pro-active monitoring of outstanding planning conditions being undertaken by City Development; and concerns regarding the duplication of planning records within the City Development team, where new records are set up on Uniform in respect of requests to discharge planning conditions, and the impact on the accuracy of any reports from the system in respect of outstanding planning conditions. <p>Due to the timing this was noted in our 16/17 annual report. A subsequent review has been scheduled to follow up implementation of the actions as part of the programmed 2018/19 audit plan.</p>

			Actions summary					Supporting information
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	
Treasury management	Significant	Significant	0	0	0	1	0	<p>Our review found that the Treasury Management function is well managed and controlled in line with the CIPFA Code of Practice for Treasury Management. The Treasury Management Strategy (the Strategy) outlined a sound approach to risk management, including appropriate prioritisation of security, liquidity and yield factors. The Strategy and other reports were subject to member scrutiny and had been approved by the Council, and gave detail of prudential indicators.</p> <p>The Treasury Management Practices document covered all expected areas to ensure a comprehensive overview to the management of the Treasury Management function. However, the more detailed procedure document covering the use of the complex cash flow spreadsheet and the Councils banking application required updating.</p>

			Actions summary					Supporting information
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	
Environmental Health – Enforcement	N/A	Full	0	0	0	0	0	<p>A review provided assurance that:</p> <ul style="list-style-type: none"> • enforcement decisions are made in accordance with the Constitution delegated powers to authorise enforcement action; • staff have appropriate qualifications, competence and experience as authorised under the relevant legislation to carry out enforcement functions; • there is robustness of evidence to support decisions; and • risks listed in the Corporate Risk Register are mitigated. <p>There were no actions arising.</p>

			Actions summary					Supporting information
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	
VAT	Significant	Full	0	0	0	0	0	<p>A review provided assurance that:</p> <ul style="list-style-type: none"> • The VAT process was found to be robust, managed by experienced officers and is enhanced by the Council's lead VAT officer being Vice-Chair of the Local Authority National VAT Consultative Group and a member of the CIPFA VAT Committee. • The VAT team provide thorough advice to officers and members on City Net, or by training courses tailored to individual service areas. <p>There were no actions arising.</p>

			Actions summary					Supporting information
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	
Insurance	Significant	Significant	0	6	0	1	7	<p>The review concluded that insurance processes were well managed and maintained by an experienced team.</p> <p>An analytical review of IT equipment and insurance records identified some variances. Recommendations were made to review and update the asset list.</p> <p>The procurement of insurance covering the shared services complies with the Council's Contract Procedure Rules and is satisfactory.</p>

			Actions summary					Supporting information
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	
Management of Elections	N/A	Full	0	0	0	0	0	<p>This audit concluded that there was a robust planning process in place for the May 2016 election and that the election project steering group and project team was compiled of appropriate officers.</p> <p>Sound processes were in place throughout the election process in line with best practice and Electoral Commission guidance.</p> <p>There was appropriate regard within Electoral Services for data security and effective controls were in place to ensure both the confidentiality and accuracy of the count.</p> <p>There were no actions arising.</p>

			Actions summary					Supporting information
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	
Grant certification – Better Care Fund	Unqualified	Unqualified	0	0	0	0	0	<p>The Council receives funding from Central Government through the Better Care Fund, a programme spanning both the NHS and local government which seeks to join-up health and care services, so that people can manage their own health and wellbeing, and live independently in their communities for as long as possible.</p> <p>Typically the Council will use the money to support adaptations as part of the Disabled Facility Grant.</p> <p>A review of the grant scheme concluded that it was operating effectively, and in accordance with the grant conditions from Central Government.</p>
Quality assurance – carbon management data	N/A	Significant	0	0	0	0	0	<p>The Council reports statistical information on its carbon management data. This is a complex data set comprising source information from multiple sources. Internal Audit checked the data for accuracy and highlighted areas which required updating and correction before final publication.</p>

			Actions summary					Supporting information
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	
Housing Benefit Assurance Program – Modules 2 and 5	N/A	Full	0	0	0	0	0	<p>The team used the Public Sector Audit Appointment diagnostic templates to verify calculations, and review the system control environment in relation to the housing benefit grants.</p> <p>This provides assurance that the data parameters were correct and that the Benefits team is using the correct software as issued by the supplier.</p> <p>The diagnostic tools (Modules 2 and 5) were completed and submitted to the external auditors (Ernst & Young) to provide assurance as part of the year end accounts process.</p>
Sickness Absence	N/A	Significant	0	0	4	0	4	<p>The audit is currently at draft report stage, and we are agreeing the management action plan with the customer.</p> <p>Testing of the control environment, and compliance testing of data, has been completed. There are no major risks arising.</p> <p>Recommendations are already being actioned to improve policies and procedures.</p>

			Actions summary					Supporting information
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	
National Non Domestic Rates	N/A	Full	0	0	0	0	0	<p>The audit is currently at draft report stage, and we are agreeing the management action plan with the customer.</p> <p>Testing of the control environment, and compliance testing of data, has been completed. There are no major risks arising.</p>
Premises Security	N/A	Significant	0	0	3	3	6	<p>The audit is currently at draft report stage, and we are agreeing the management action plan with the customer.</p> <p>Testing of the control environment, and compliance testing of data, has been completed. There are no major risks arising.</p> <p>Recommendations are being made to improve policies and procedures.</p>
Council Tax	Significant	Significant	0	0	1	0	1	<p>The audit is currently at draft report stage, and we are agreeing the management action plan with the customer.</p> <p>Testing of the control environment, and compliance testing of data, has been completed. There are no major issues arising.</p>

2 ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK

2.1 Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section details audit work that specifically relates to the production of the Annual Governance Statement.

Area of review	Status	Narrative
Annual Audit Opinion	COMPLETED	The Annual Audit Opinion was submitted to the Civic Affairs Committee in June 2017, highlighting all Internal Audit activity for the previous 12 months together with any areas of concern.
Annual Governance Statement	COMPLETED.	The Annual Governance Statement was submitted to the Civic Affairs Committee in September 2017. Internal Audit has reviewed the methodology used to collect, collate and interpret the information and have identified no gaps. A revised Local Code of Corporate Governance was prepared, reflecting the latest standards in the Good Practice Governance Framework for Local Authorities.
Annual Audit Opinion	COMPLETED.	The Annual Audit Opinion was submitted to Civic Affairs Committee in June 2017, highlighting all Internal Audit activity for the previous 12 months together with any areas of concern.
Counter Fraud and Corruption	COMPLETED	The Annual report on fraud and whistleblowing was submitted to Civic Affairs Committee in June 2017. Furthermore, the Annual Fraud Survey was completed on behalf of the authority.
National Fraud Initiative	COMPLETED	The biannual fraud initiative. Data matches were received in February 2017 covering a series of datasets provided to an external body. Internal Audit has undertaken a routine sift and those requiring investigation have been allocated to a number of officers across the Council to investigate.
Internal Audit Effectiveness	COMPLETED	The Internal Audit team has completed a continuous review of working practices to ensure that it continues to be effective. A full 5 year assessment was planned, and prepared, for the 2018/19 year.

3 THIRD PARTY ASSURANCE / JOINT WORK

- 3.1 The Council participates in a number of shared services and partnership working. Where appropriate we work with our partners to either receive or provide assurance. This is taken into account when concluding the annual audit opinion.
- 3.2 An unplanned audit, was performed at the request of the Cambridge and Peterborough Waste Partnership. It follows concerns raised by the contractor, Amey LG, regarding the long term financial viability of the materials recycling facility contract at Waterbeach, and their subsequent requests to alter the payment mechanism. The audit was performed collaboratively, with the involvement of auditors from a number of the councils who are party to the contract. It was co-ordinated by Peterborough City Council. The review of the MRF contract was financially focused, concentrating on the data and source documentation on which Amey base their charges. A significant number of issues were found and detailed recommendations have been made. A consultant was engaged to investigate other operational issues and facilitate discussions between RECAP members and Amey; the aim being to review options and find a way forward that provides value for money for RECAP members and a financially viable solution for Amey. An overview of the internal audit findings has already fed into this. It is crucial that sufficient contract management resource is available going forward to ensure that appropriate checks and balances are in place. Not only to confirm that charging is accurate, but to ensure that councils meet their own environmental aims and to satisfy their obligations to report against national indicators on waste. Consequently the audit opinion is Limited Assurance and the actions will be followed up.

4 OTHER ACTIVITIES: PROJECT MANAGEMENT / GENERAL ADVICE

- 4.1 Various ad-hoc advice and support has been provided to management during the year across the organization, and these are detailed below:

Added value

Members of the Internal Audit team participate in the following working groups:

- Information Security Group
- Capital Programme Board

Other areas undertaken in the period include:

- Project support advising on the control environment (e.g. Clay Farm / Ditchburn Place, Building Access Control System)
- Project and controls support for the system implementation of the new Finance Management System
- Providing advice on effective document management and retention
- Providing advice on procurement and commissioning, and quality assurance validation of tender evaluations

Unplanned activity: Fraud and error

The Internal Audit team provides reactive support into potential fraud and error cases, such as allegations of breaches of officer code of conduct / whistleblowing referrals.

Internal Audit have undertaken seven separate special investigations within the Council during the year. Where appropriate internal controls have been reviewed and updated.

Risk Management

As part of our dynamic risk based audit plan our ongoing work includes the review and monitoring of the Councils risks and implementation of actions agreed to mitigate these. In addition we have provided administrative support and coaching on the use of the Risk Management system.