

Item

INTERNAL AUDIT UPDATE



To:

Civic Affairs Committee [10/10/2018]

Report by:

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Wards affected:

All

1. Introduction / Executive Summary

- 1.1 The purpose of this report is to inform the committee of the work of Internal Audit, completed between March 2018 to September 2018, and the developments within the team.
- 1.2 The role of Internal Audit is to provide the Civic Affairs committee, and Management, with independent assurance on the effectiveness of the internal control environment.

2. Recommendations

- 2.1 It is recommended that the Committee note the contents of the report.

3. BackgroundPage: 1

- 3.1 The Accounts and Audit Regulations 2015 require that the Council “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes; taking into account public sector internal auditing standards or guidance.”

- 3.2 Internal Audit assists the Council, and the Civic Affairs Committee, to discharge its governance responsibilities. Our work supports the Council's corporate objectives, and the corporate governance framework.
- 3.3 Internal audit coverage is planned so that the focus is upon those areas and risks which will most impact upon the council's ability to achieve its objectives.
- 3.4 Internal Audit work should help add value to the Council by helping to improve systems, mitigate risks, and subsequently inform the Annual Governance Statement.

4. Implications

(a) Financial Implications

None.

(b) Staffing Implications

The audit plan reflects current available resources, and factors in current vacancies in the team, plus time for successful recruitment.

(c) Equality and Poverty Implications

There are no implications.

(d) Environmental Implications

None.

(e) Procurement Implications

None.

(f) Community Safety Implications

None.

5. Consultation and communication considerations

None

6. Background papers

Background papers used in the preparation of this report:

- Risk-Based Internal Auditing – Working Standards and Procedures

- Public Sector Internal Audit Standards
- CIPFA Local Government Application Note
- Cambridge City Council Risk Registers
- Corporate Plan

7. Appendices

- a) Internal Audit Progress report
- b) Audit definitions

8. Inspection of papers

To inspect the background papers or if you have a query on the report please contact:

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Appendix A – Internal Audit Progress report



Cambridge City Council

Introduction

1. Management is responsible for the system of internal control and establishes 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 by providing an independent and objective opinion on the control environment.
2. The purpose of this report is to provide an update on the recent work completed by internal audit. The information included in the progress report will feed into and inform our overall opinion in the annual Head of Internal Audit (HoIA) report issued at the year end. This opinion will in turn be used to inform the Annual Governance Statement which accompanies the Statement of Accounts. We previously provided an update, to the committee, in July 2018.
3. Where appropriate reports are given an overall opinion based on four levels of assurance. This is based on the evaluation of the control and environment, and the type of recommendations we make in each report. If a review has either “Limited” or “No” assurance, the system is followed up to review if the actions are implemented promptly and effectively. Further information is available in Appendix B - Audit definitions.

Resources

4. An audit plan is presented at least annually to the Civic Affairs Committee. It is good practice to continually review the plan, to reflect emerging risks, revisions to corporate priorities, and changes to resourcing factors. The latest internal audit plan, commencing April 2018, was presented to the Civic Affairs Committee on the 14th February 2018.
5. Since the previous report, to the Committee, there have been changes to the team. A business case and proposal for establishing a shared internal audit team was approved by South Cambridgeshire District Council and Cambridge City Council in 2017. Establishing a centralised team, operating from both sites, will enable economies of scale, more resilience, and smarter ways of working. We have successfully recruited into one of the vacant Senior Auditor posts, and have planned further advertising for the remaining vacant posts which are currently resourced through agency workers.
6. Progress of the plan delivery is illustrated on the following pages for information.

Progress against the plan

Finalised reviews

The following audit assignments have reached completion, since the previous report to the committee:

Assurance			Actions				Commentary
System reviewed	Prior review:	New Assurance:	Critical:	High:	Medium:	Low:	
Council Tax	Significant <i>Sept 2013</i>	Significant	0	0	1	0	<p>There are strong controls in place to ensure both accurate billing and good collection management. The controls are operating effectively and a number of areas of good practice were identified during the review, including:</p> <ul style="list-style-type: none"> • regular reconciliation to the Valuation Office Agency; • exemptions are automatically removed; • regular and comprehensive single person discount verification is undertaken; • refunds are created correctly, properly evidenced, and • collection rates are regularly reviewed and reported. <p>The Council is working on a revised write off policy / procedure document. This will help to streamline the write off process and reflect the revised write off authorisation thresholds.</p>
National Non Domestic Rates	N/A – New risk based review	Full	0	0	0	0	<p>Our review of the NNDR system concluded that the system is well managed, and the key controls are operating effectively. A number of areas of good practice were identified during the review, including:</p> <ul style="list-style-type: none"> • regular reconciliation to the Valuation Office Agency; • the NDR1 estimated return is completed annually and independently checked prior to submission; • the daily receipts are allocated to NDR accounts correctly;

Assurance			Actions				Commentary
System reviewed	Prior review:	New Assurance:	Critical:	High:	Medium:	Low:	
							<ul style="list-style-type: none"> • bills are raised promptly, arrears are chased, debts are written-off where recovery is not possible; and • all system parameter amendments are reviewed and approved by the Head of Revenues and Benefits. <p>There were no actions arising from this review.</p>
Building Control Fees	N/A – New review	Limited	0	4	4	1	<p>We completed a review of the shared service, as the lead authority. The service had a challenging start, relying upon interim management and temporary staff to cover vacant posts. A permanent Strategic Lead was appointed in June 2017. The service is now benefiting from increased stability in leadership and permanent staffing, enabling the Strategic Lead to focus on service delivery and identifying areas where opportunities to increase income can be developed.</p> <p>The review identified that the governance arrangements for the approval of the fees structure needed to be reviewed, with delegations established within each of the partner authorities to ensure that the Joint Director of Planning and Economic Development (or his nominee) has the appropriate authority to set fee structures for the shared service. The Strategic Lead is working to ensure that these delegations are established.</p> <p>The review identified opportunities to improve financial procedures, in particular the reconciliation of income due on the Uniform system to the income received within the new Financial Management System, and the procedures for monitoring/chasing outstanding invoices.</p> <p>During the audit it was noted that changes were introduced to streamline income procedures, and work is on-going to introduce</p>

Assurance			Actions				Commentary
System reviewed	Prior review:	New Assurance:	Critical:	High:	Medium:	Low:	
							<p>on-line payments, which should generate further efficiencies within the service.</p> <p>Management have agreed actions to improve the internal controls and these will be followed up by the Internal Audit team.</p>
Housing Benefit Assurance Program – Parameter Testing	Full <i>July 2017</i>	Full	0	0	0	0	<p>The team completed a review of two modules of the Housing Benefit Count, using the diagnostic templates and criteria set by the Public Sector Audit Appointments. This work provided assurance to the external auditors, that the system parameters were set and calculated correctly, and was timed to support the review of the Statement of Accounts.</p> <p>We adapted our approach to completing the work, enabling us to reduce the amount of time needed to complete the testing. This was a positive achievement, given the reduced timescale for completing the Statement of Accounts.</p> <p>There were no actions arising.</p>
Sickness Absence	N/A - New review	Significant	0	0	4	0	<p>This audit reviewed the procedures in place for managing sickness absence, and the guidance available to managers. A sample of cases, from high risk areas, was reviewed for compliance.</p> <p>The Council has sickness absence policies and procedures in place for managing both short-term and long-term sickness absence. During the review a new Sickness Absence Management Policy has been implemented, combining the intermittent and long-term sickness absences process. This will help to strengthen the existing procedures to help managers reduce and manage sickness absence.</p>

Assurance			Actions				Commentary
System reviewed	Prior review:	New Assurance:	Critical:	High:	Medium:	Low:	
Carbon Management Data Quality	Significant <i>September 2017</i>	Significant	0	3	0	0	<p>The Council collates annual energy consumptions and fuel usage data, and converts these into tonnes of CO2 emissions, to demonstrate how it is reducing carbon emissions. This information is then reported to members in the Annual Greenhouse Gas report and used to complete the Authority's annual carbon emissions data submission to the Department for Business, Energy and Industrial Strategy (BEIS).</p> <p>We were requested to complete a data quality check, as an additional piece of unplanned work. This included reviewing the accuracy of data input, and that all calculations and formulae were correct. Data was also verified back to available source data. Feedback was provided where data was incorrect, the appropriate corrections were completed, and the revised data sets were subsequently rechecked. This provided assurance that the data was reliable. We also identified opportunities to improve the data collection and calculation process, and will help support their implementation for the next year's calculation.</p>
Annual Governance Statement	<i>July 2017</i>	N/A	NA	NA	NA	NA	We prepared the draft Annual Governance Statement and the Local Code of Governance, which was reviewed and approved by the Civic Affairs Committee.

Works in Progress

The following reviews are currently in progress:

System reviewed	Prior review:	Commentary and update
Grant assurance - Disabled Facility Grant	Unqualified opinion <i>September 2017</i>	We have commenced our review of grant funding, which is part of the Better Care Fund, to ensure that funds have been spent according to grant conditions set by the Ministry of Housing Communities and Local Government. Two grant payments totaling £704k were allocated to the Council in 2017/18; we have certified one grant and are now reviewing the second. The review includes further sampling of Disabled Facility Grants, allocated to the public, to ensure that they have been processed effectively and efficiently.
Agency Contract	N/A - New review	We have concluded our testing of this system, and are currently completing our working papers.
Premises Security	N/A - New review	Testing of the control environment, and compliance testing of data, has been completed, and we are currently completing our working papers. Recommendations are being made to improve policies and procedures.
Scheme of delegation - Compliance	N/A - New review	We have concluded our testing of this system, and are currently completing our working papers.
Serious Organised Crime	N/A - New review	We have commenced our review of the Council's framework for proactively managing and responding risks associated with Serious Organised Crime.
Project - Streets & Open Spaces	No assurance <i>July 2016</i>	We have started preparing our follow-up review of this system, to test the effectiveness of the actions from the previous audit.

System reviewed	Prior review:	Commentary and update
Safeguarding - 3rd Party Providers & Contractors	Significant <i>September 2015</i>	We have commenced our testing of this system.
Performance Management	Significant <i>January 2013</i>	We have commenced our testing of this system.

Work completed to date

Below is a summary of other work completed to date, from the current year and internal audit plan. These have already been reported to the Civic Affairs Committee, will be used to inform the annual opinion, and further information can be read in the previous committee reports.

Assurance			Actions			
System reviewed	Date reported:	Assurance / Status:	Critical:	High:	Medium:	Low:
Annual Internal Audit Opinion	July 2018	Completed	0	0	0	0
Public Sector Internal Audit Standards review	July 2018	Completed	0	0	0	0
National Fraud Initiative	July 2018	Ongoing	0	0	0	0

Counter fraud and corruption update

7. The Council participates in a national data matching service known as the National Fraud Initiative (NFI), which is run by the Cabinet Office. Data is extracted from Council systems for processing and matching. It flags up inconsistencies in data that may indicate fraud and error, helping councils to complete proactive investigation. Nationally it is estimated that this work has identified £1.69 billion of local authority fraud, errors and overpayments since 1996. Historically this process has not identified significant fraud and error at Cambridge City Council, and this provides assurance that internal controls continue to operate effectively. Work has commenced on reviewing the current matches, and will continue throughout the year. Any significant matters arising in terms of fraud and error identified will be reported, and there are no matters arising at this time. The Cabinet Office has issued a briefing paper¹ on the current exercise, and the next data extract is currently being planned.

Other audit and assurance activity

8. The Public Sector Internal Audit Standards (PSIAS) require that Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the Internal Audit activity. External assessments must be conducted at least once every five years by a qualified, independent assessor. The internal audit team completed a self-assessment, to the Public Sector Internal Audit Standards, and the supplementary Local Government Application Note, and this was independently verified by CIPFA. This provided assurance that we “**Generally Conform**” with the Public Sector Internal Audit Standards (PSIAS) and the accompanying Local Government Application Note (LGAN). This is a positive achievement for the team and was reported to the Civic Affairs committee at the previous meeting.
9. We have provided advice and consultancy on a number of activities, and also completed some special investigations to date. A contingency resource is included within our plan to manage a reasonable amount of unplanned work.

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/737146/National-Fraud-Initiative-Report-2018.pdf

10. We contributed to the review of the Annual Governance Statement, and the Local Code of Governance, which accompanies the Statement of Accounts. The draft version was reported to the Civic Affairs committee at the previous meeting, and approved with the Statement of Accounts.

Appendix B - Audit definitions

An assurance opinion is provided at the conclusion of the audit. The following definitions are used by Internal Audit to assess the level of assurance which may be provided, and to assess the impact of individual findings. We categorise our opinions according to our assessment of the controls in place and the level of compliance with them

Assurance	Description
FULL	The system is designed to meet objectives / controls are consistently applied that protect the Authority from foreseeable risks
SIGNIFICANT	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks
LIMITED	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority
NO	Controls are weak and / or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives

We categorise our **recommendations** according to their level of risk and priority for implementation:

Priority	Description	Timescale
CRITICAL	Extreme control weakness that jeopardises the complete operation of the service.	To be implemented immediately
HIGH	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.	To be implemented as a matter of priority
MEDIUM	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority.	To be implemented at the first opportunity
LOW	Control weakness which, if corrected, will enhance control procedures that are already relatively robust.	To be implemented as soon as reasonably practical