

**CAMBRIDGE CITY COUNCIL  
CIVIC AFFAIRS COMMITTEE  
24 JULY 2019  
ANNUAL REPORT OF INTERNAL AUDIT**

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## Contents

Contents .....	2
1 INTRODUCTION .....	3
2 BACKGROUND .....	3
3 ASSURANCE .....	3
4 INDEPENDENCE AND OBJECTIVITY .....	4
5 ADDED VALUE SERVICES .....	4
6 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME .....	4
7 FRAUD AND ERROR .....	5
8 CONCLUSION .....	6
ANNEX A – AUDIT PLAN COVERAGE .....	7
1 RISK BASED ASSURANCE .....	7
2 ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK .....	19
3 THIRD PARTY ASSURANCE / JOINT WORK .....	20
4 OTHER ACTIVITIES: PROJECT MANAGEMENT / GENERAL ADVICE .....	20

## **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 with then contribute to the Annual Governance Statement.

## **2 BACKGROUND**

- 2.1 The 2018 / 2019 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 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 If the audit reviews undertaken 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, governance and risk management arrangements, during the financial year 2018/19, 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 The Internal Audit team was independently assessed by CIPFA in 2018, using the Public Sector Internal Audit Standards and the Local Government Application Note. This concluded that the Internal Audit Team "generally conforms" with the requirements of the standards. This was the top-level accreditation and was reported separately to the Committee. This process is completed once every five years.
- 6.2 The Internal Audit team is committed to continuous improvement and also completes an annual self-assessment to the standards. This enables us to conclude that we still continue to conform with the professional standards.
- 6.3 The Internal Audit Team is a shared service, with South Cambridgeshire District Council. During 2018/19 we have been reviewing our working processes and consolidating our procedures to achieve efficiencies.
- 6.4 A Business Plan and Annual report is prepared as part of our Shared Service governance arrangements, and is reported to the Strategy and Resources Scrutiny Committee. Management of resources is recognised as a risk in the Business Plan for the Shared Service. The team utilises agency workers to cover vacant posts, when needed. I am satisfied that there were adequate resources available to deliver the audit activities in the year and provide an annual opinion.
- 6.5 The audit work that was completed for the year to 31 March 2019 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.

- 6.6 Our reporting protocols have remained constant throughout the year with the following assurance ratings used:
- Full
  - Significant
  - Limited; and
  - No
- 6.7 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
- 6.8 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.
- 6.9 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, and audit opinions relating to these will continue to be reported during 2019 / 2020.
- 6.10 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 2018/19 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 2018/19, and this remains at a similar level to the previous year.

Jonathan Tully  
Head of Shared Internal Audit  
July 2019

## ANNEX A – AUDIT PLAN COVERAGE

The following pages provide information on work completed throughout the 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:

Review	Prior Review	Assurance	Actions summary					Supporting information
			Critical	High	Medium	Low	Total	
Building control fees	Not applicable – new review	Limited	0	4	4	1	9	The Building Control function is a shared service. Overall the system is performing well. However as it was going through a transitional period, to establish the shared service, we agreed some high level actions that would improve the new arrangements by updating delegations, reviewing debt management processes and updating risk management processes.

			Actions summary					
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	Supporting information
Serious Organised Crime	Not applicable – new review	Significant	0	0	0	14	0	Internal Audit facilitated a review of the organisations proactive and responsive controls, using guidance issued from Central Government.  The control environment is effective, and we have reported this through the annual Counter Fraud report.
Contract Management – Ditchburn Place	Not applicable – new review	Significant	0	0	0	1	1	We undertook a review of the team’s risk register, to provide assurance that risks were being managed effectively. We agreed two new risks to be added to the register.

			Actions summary					Supporting information
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	
HRA – Electrical Safety Compliance	Not applicable – new review	Limited	0	3	13	0	16	<p>Under the Landlords and Tenants Act 1985, the Council have a legal duty to ensure that the electrical installation in a rented property is safe when a tenancy begins; and also throughout the tenancy. We reviewed controls and sample tested the electrical certificates for a selection of properties.</p> <p>There are areas of good practice within the team, and the Service has taken proactive measures to review the stock condition of all its HRA properties. In the past 12 months, two temporary members of staff have been employed to review all those properties where there are no records of previous inspections.</p> <p>Our review has also highlighted that although proactive work has been undertaken, there is still further work required to ensure properties comply with the electrical standards and that data held within asset management system is accurate. The main themes for improvement were around data cleansing prior to migration to a new system; improving contract management; reconciling certificates for void properties and improving compliance reporting for management. This will be followed up in the current audit plan.</p>

Review	Prior Review	Assurance	Actions summary					Supporting information
			Critical	High	Medium	Low	Total	
HRA – Gas Safety Compliance	Not applicable – new review	Limited	0	8	5	0	13	<p>Under the 'Gas Safety (Installation and Use) (Amendment) Regulations 2018', the Council have a legal duty to ensure all Council owned gas appliances in the properties are checked at intervals of no more than 12 calendar months with a Landlords Gas Safety Record (LGSR) generated and issued to the tenant and the Council by a competent qualified engineer who is registered on the Gas Safe Register. Gas safety inspections, including gas servicing, are carried out by a contractor.</p> <p>Our review has highlighted that although some progress has been made to update the LGSR records, there was risk of errors in the record keeping due to various systems being used.</p> <p>The review identified a total of 9 new build properties without a certificate, and these were promptly rectified by the team. There was a significant reliance on the use of spreadsheets being used as a source document for updating the current LGSR record.</p> <p>As part of the review Management have agreed to implement processes which will help improve processes, and reconcile data, to provide assurance that LGSR records are complete. This will be followed up in the current audit plan.</p>

Review	Prior Review	Assurance	Actions summary					Supporting information
			Critical	High	Medium	Low	Total	
HRA - Service Charges - Leaseholder	Not applicable – new review	Significant	0	0	0	4	4	<p>The review concluded that: record keeping is consistent; Debt management is maintained at very low and sustainable levels (approximately 2% of total revenue) and is in the lower quartile range of debt to revenue percentage as measured by the recent HQN inspection (measured between 0 and 12%); Uptake of payment by direct debit is good (75% and growing); and General Data Protection Regulations / Data Protection Act and PCIDSS (Payment Card Industry Data Security Standards) compliance is adhered to.</p> <p>The extensive transfer of information from Finance to Orchard (Housing IT system), which is undertaken by the Leaseholder Service Team, is a labour intensive process. With the forthcoming system upgrade, consideration should be given as part of the programme scope to identify opportunities to reduce this where possible.</p>

			Actions summary					
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	Supporting information
Information Governance – GDPR	Not applicable – new review	Significant	0	0	0	0	0	<p>We reviewed the Councils preparation for the implementation of the General Data Protection Regulations and the revised Data Protection Act. There were no significant areas of concern, and the Council had a robust approach to identifying areas for improvement.</p> <p>This review is also included in the audit plan for 19/20 to monitor the improvement plan.</p>

Review	Prior Review	Assurance	Actions summary					Supporting information
			Critical	High	Medium	Low	Total	
Planning Obligations - S106 / Community Infrastructure Levy	Not applicable – new review	Significant	0	0	0	2	2	<p>The system for monitoring S106 funding was reviewed. Record keeping was accurate, although we identified potential risks.</p> <p>Maintaining a fund of allocated and unallocated S106 contributions in excess of £6 million utilising in-house developed Access database, spreadsheet extracts, separate supporting documentation in both Word and PDF format is exposed to both IT and end user risks. Whilst in its current state it is being managed adequately, due mainly to the effort and diligence of the Section 106 team, Management could benefit from utilising a holistic single system to manage the funds and to act as a document repository for the supporting evidence files.</p> <p>Discussions are already taking place across Corporate Strategy, the shared Planning Service and 3C ICT to safeguard the integrity of data during the transition to Council Anywhere.</p> <p>Managers in the shared Planning Service are conscious of the need to review S106 data management systems in 2019/20.</p>

			Actions summary					
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	Supporting information
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.</p> <p>Internal Audit checked the data for accuracy and highlighted areas which required updating and correction before final publication.</p>

			Actions summary					
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	Supporting information
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 &amp; Young) to provide assurance as part of the year end accounts process.</p>
BACS	Limited	Significant	0	0	0	0	0	<p>We completed a follow-up review of the BACS process. The system contained inherent risks which could enable fraud. Although the likelihood was low the impact would be high, and the original review received Limited assurance.</p> <p>The teams that use the BACS system have implemented compensating controls to mitigate the risk, and the system has improved to Reasonable assurance.</p>

			Actions summary					
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	Supporting information
Contract Management – Leisure	Not applicable – new review	Significant	0	0	2	2	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>
Flood Assessment	Not applicable – new review	Significant	0	0	3	7	10	<p>Flooding causes significant damage to local infrastructure ruining historical landmarks, disrupting local transport and provision of critical public services and amenities. There is also a costly impact to businesses and households.</p> <p>The audit has focussed on how the Council works to achieve the five objectives agreed jointly within the Cambridgeshire Flood Risk Management Partnership.</p> <p>The audit is currently at draft report stage, and we are agreeing the management action plan with the customer. Testing of the control environment, and compliance testing of data, has been completed. There are no major risks arising.</p>

			Actions summary					
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	Supporting information
Licences - Alcohol, Premises, Events	Not applicable – new review	Significant	0	0	6	9	15	<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>
Procurement cards	Not applicable – new review	Full assurance	0	0	0	0	0	<p>The Council issues procurement cards to employees. Cards should be used for low value payments which need to be made quickly and should be a preferable alternative to petty cash and cheque (which are generally considered to be more expensive cost to the Council to use).</p> <p>We reviewed the controls and sample tested transactions for completeness, reasonableness and accuracy. There were no errors and this provides full assurance that controls are operating effectively.</p>

			Actions summary					
Review	Prior Review	Assurance	Critical	High	Medium	Low	Total	Supporting information
Procurement Governance	Limited	Reasonable	0	4	1	0	5	<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 which will help support the Council with its procurement.</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 2018, 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 July 2018. 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.
Counter Fraud and Corruption	COMPLETED	The Annual report on fraud and whistleblowing was submitted to Civic Affairs Committee in July 2018.
National Fraud Initiative	COMPLETED	The biannual fraud initiative. Data matches were received in February 2019 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 completed in the 2018/19 year which provided assurance that the team conforms with the professional standards.

### **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.

### **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 organisation, 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 / Quality Assurance Group

Other areas undertaken in the period include:

- Project support advising on the control environment
- 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.

The outcomes of this work is included in the annual Counter Fraud report to Civic Affairs Committee. 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.