Item

INTERNAL AUDIT UPDATE

To:
Civic Affairs Committee   [09/10/2019]

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 April 2019 to September 2019, 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 – 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 2019.

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 – Glossary of terms.

Resources and team update

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 commenced from April 2019.

5.   Progress of the plan delivery is illustrated on the following pages for information.

6.   We have been implementing new hardware and software as part of the corporate Council Anywhere roll-out. This is enabling us to start leveraging new technology to support the way that we work, by being more agile, and also developing our use of data analytics to support our assurance work.

7.   We have started to use Teams software which enables us to hold virtual meetings and conference calling. The software enables us to co-author and display documents in real-time. This is particularly useful and is also helping us to reduce unnecessary travel between various sites.

Progress against the plan

<u>Finalised reviews</u>

The following reviews have reached completion, since April 2019:

Audit	Assurance and actions		Summary of report and actions
Carbon management - Data Quality	**Assurance:**		The Council collates annual energy consumptions and fuel usage data, and converts these into tonnes of CO_2 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). The Council has currently achieved a 24% improvement against a target of 15%.
	Current:	Reasonable	
	Previous:	Reasonable	
	Actions:		We completed a data quality check, which 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 provides assurance that the data was reliable.
	Critical	0	
	High	0	
	Medium	0	There were no actions arising.
	Low	0	

Audit	Assurance and actions		Summary of report and actions
HRA - Gas Safety Compliance	**Assurance:**		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, and have been issued with a Landlords Gas Safety Record (LGSR). Gas safety inspections, including gas servicing, are carried out by a contractor.
	Current:	Limited	
	Previous:	Limited	
	Actions:		Our review highlighted that there was a heavy reliance on the use of spreadsheets which is a potential risk. As part of the review, Management have agreed to implement actions, which will help improve their processes, and reconcile data, to provide assurance that all LGSR records are complete. This will be followed up in the current audit plan.
	Critical	0	
	High	8	
	Medium	5	
	Low	0	
Planning Obligations - S106 / Community Infrastructure Levy (BF)	**Assurance:**		The Council maintains a complex fund of allocated and unallocated S106 contributions in excess of £6 million utilising an in-house developed Access database, spreadsheet extracts, and separate supporting documentation in both Word and PDF formats. 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.
	Current:	Reasonable	
	Previous:	Reasonable	
	Actions:		Discussions are already taking place across Corporate Strategy, the shared Planning Service and 3CICT to safeguard the integrity of data during the transition to Council Anywhere. Managers in the shared Planning Service are conscious of the need to review S106 data management systems in 2019/20.
	Critical	0	
	High	0	
	Medium	0	
	Low	2	

Audit	Assurance and actions		Summary of report and actions
Procurement cards	**Assurance:**		Procurement cards should be used for low value payments which need to be made quickly and are a preferable alternative to petty cash and cheques (which generally have a higher transaction cost). There were 1727 transactions between April 2018 and March 2019, totaling £143,303.
	Current:	Full	
	Previous:	New review	
	Actions:		A compliance review of the procurement card process was undertaken for managing procurement cards, to confirm that cards are used in accordance with policies; that expenditure is monitored and approved appropriately; that best value is achieved; and that the risk of fraud is minimised.
	Critical	0	
	High	0	
	Medium	0	Controls were found to be operating effectively in practice and several areas of good practice were identified during the review. Our review also included sample testing of 20 procurement card transactions, which were processed through the new Financial Management System. All of the sample of transactions were authorised by a manager, receipts were retained, and saved on the Financial Management System.
	Low	0	

Audit	Assurance and actions		Summary of report and actions
Safeguarding - 3rd Party Providers & Contractors	**Assurance:**		The Council needs to be satisfied that third parties and contractors are discharging their safeguarding duties appropriately, which is achieved through vetting and monitoring. We reviewed a sample of contracts awarded since July 2016 to ensure that all necessary checks have been undertaken, that contract monitoring takes place, and that safer recruitment guidance has been complied with.
	Current:	Limited	
	Previous:	Reasonable	
	Actions:		Our review established that controls were operating effectively. A safeguarding training matrix has recently been established for officers with direct involvement with children and vulnerable adults, and work is underway to improve contract terms relating to safeguarding. Opportunities to further enhance this work were identified during the review, including:
	Critical	0	
	High	4	
	Medium	1	
	Low	0	
			• development of guidance notes on the importance of Safeguarding, and how it should form part of the procurement and contract management processes;
			• agree minimum requirements and standard processes for evaluation of bidders safeguarding submissions; and
			• extension of the safeguarding training matrix to include officers with procurement and/or contract management responsibilities for contracts with safeguarding needs.
			We regularly review the arrangements for safeguarding best practice and legislation, as it is a key Corporate Risk, focusing on different elements for each review. The previous reviews provided Reasonable Assurance, and management have agreed to implement the actions identified in this review as a priority. We will complete a follow-up review to test the effectiveness of this.

Audit	Assurance and actions		Summary of report and actions
BACS	**Assurance:**		We completed a follow-up review of BACS processes and controls, which originally concluded there was limited assurance on the overall adequacy and effectiveness of the internal controls in mitigating the risks.
	Current:	Reasonable	
	Previous:	Limited	Additional mitigating controls have been highlighted, and consequently the assurance level has improved from Limited assurance to a Reasonable level.
	Actions:		
	Critical	0	
	High	0	
	Medium	0	
	Low	0	
Brexit - preparation and response	**Assurance:**		We completed a review to assess if the Council has taken reasonable steps to prepare for Brexit.
	Current:	Reasonable	
	Previous:	New review	The Council has compiled a specific Brexit Risk Register with the input of Senior Managers. Examples of risks themes include: Workforce, Supply chain, Data, Community Impact, Regulatory, Transport and Income. Two of the risks were rated amber: food supplies, and unregulated food entering the supply chain.
	Actions:		
	Critical	0	
	High	0	To help provide assurance, and identify further insight on potential risks, we also reviewed the plans and programmes from the UK Government, strategic partnership plans with other Local Authorities and the Council's own internal programmes which seek to mitigate risk and strengthen operational controls.
	Medium	3	
	Low	0	
			Due to the quick changing pace of Brexit, the risk register is regularly reviewed by management. This provides assurance that management are taking reasonable steps to manage risks associated with Brexit.

Audit	Assurance and actions		Summary of report and actions
Trading operations - Vehicle Engineering Centre	**Assurance:**		The Vehicle Engineering Services operates from a dedicated unit based at Waterbeach. The team helps to generate income and supports the Council's objective of protecting the environment and tackling climate change by ensuring vehicles are compliant with DoT/MOT requirements.
	Current:	Reasonable	
	Previous:	New review	
	Actions:		The review looked at the main control elements needed to maintain a successfully operational maintenance garage. We considered the Council's own policies procedures and guidelines, and the standards and practices as required by the regulatory authorities including the Driver and Vehicle Standards Authority (DVSA), Department of Transport (DoT), Driver and License Authority (DVLA), Health and Safety Executive (HSE).
	Critical	0	
	High	0	
	Medium	6	
	Low	0	
			Management have demonstrated their commitment to meeting the standards required to maintain the operator's license, assessment of drivers' hours and their submission to DVSA. Health and Safety assessments have been undertaken internally by the Council.
			Management have demonstrated their commitment to maintaining a service which is compliant with the Council's internal policies and guidelines. There are some areas for improvement, in particular resource planning, the control of obsolete stock, and management reporting. We have agreed with management to return to look at other areas at a future date.

Audit	Assurance and actions		Summary of report and actions
Flood Assessment	**Assurance:**		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. Cambridgeshire, as one of the lowest and flattest counties of England, is very susceptible to flooding.
	Current:	Reasonable	
	Previous:	New review	
	Actions:		Our review concluded that Cambridge City Council is a committed and valued member of the Cambridgeshire Flood Risk Management Partnership, led by the County Council. The review identified opportunities to improve online support and advice offered to residents and businesses in Cambridge.
	Critical	0	
	High	0	
	Medium	3	
	Low	7	

Audit	Assurance and actions		Summary of report and actions
Procurement Governance	**Assurance:**		We have reviewed the framework for procurement, considering the:
	Current:	Reasonable	• flexibility of the framework to help the Council achieve value for money;
	Previous:	Limited	• alignment of Contract Procedure Rules (CPR) to partner organisations;
	Actions:		• benchmarking of procurement limits;
	Critical	0	• clarity of guidance documentation for officers;
	High	3	• the appropriateness of supplier information; and
	Medium	1	• the appointment of consultants to undertake procurement on behalf of the Authority.
	Low	0	In addition, we have also followed up progress with the management agreed actions in Internal Audit report 2015/16 - 11 on Tender Evaluation, which was given limited assurance. All actions had been implemented.
			Our review established that whilst there is evidence of good practice within the procurement team, there are areas where processes can be further enhanced to improve officer's ability to 'self-serve' and this will enable procurement officers to focus on larger procurements and generating additional income through external clients.

Works in Progress

The following reviews are currently in progress. We have provided an update with their status below :

Audit	Assurance and actions		Summary of report and actions
Payroll	**Assurance:**		The objectives of the Payroll system are to ensure the Council pays the right people, the right amount at the right time. Payroll is one of the Council's core financial systems and processed approximately £20m in salary payments in 2018/19.
	Current:	Reasonable	
	Previous:	Reasonable	There have been no significant changes to the control environment since our previous review, and controls are operating effectively.
	Actions:		We have identified opportunities to improve internal controls, and streamline some of the current processes, by introducing a workflow so that new starters and leavers can all be set up within the system. This would eliminate the need to have hard copy forms transferring from HR to Payroll. The 'workflow' feature is currently being explored as part of the project plan for the procurement of the new system. We are currently finalising the report.
	Critical		
	High		
	Medium		
	Low		

Audit	Assurance and actions		Summary of report and actions
Project - Streets & Open Spaces	**Assurance:** Current: Previous: **Actions:** Critical High Medium Low	Reasonable None	We completed a follow-up review, which previously concluded there was no assurance that the internal controls effectively mitigated the potential risks. This review considered the processes and controls on a sample of three projects to establish whether the 16 management agreed actions from the original report had been implemented. Since the original audit undertaken in 2016, there has been significant development in how the Council approaches project delivery. Streets and Open Spaces are engaging with this change with the introduction of standardised templates and new project governance arrangements. All of the actions have been implemented and the level of assurance has improved to Reasonable. We are currently finalising the report
Trading operations - Car parks	**Assurance:** Current: Previous: **Actions:** Critical High Medium Low	Reasonable New review	The Council provides a total of 1540 spaces across 5 multi-storey car parks and 4 street level car parks. This includes 124 Blue Badge Disabled bays and 62 Parent and Child bays. Some parking facilities have additional spaces for bicycles, motorcycles, car club sharing and charge points for electric cars. Our review focused on how the Council manages its car parking facilities, optimises the income collected, and minimises potential losses through fraud, corruption and misuse. Our testing has concluded, and the report is currently being finalised.

Audit	Assurance and actions		Summary of report and actions
Licenses - Alcohol, Premises, Events	**Assurance:** Current: Previous: **Actions:** Critical High Medium Low	Reasonable New review	The audit is currently at draft report stage, and we are agreeing the management action plan. Testing of the control environment, and compliance testing of data, has been completed. There are no major risks arising.
Contract management - Leisure	**Assurance:** Current: Previous: **Actions:** Critical High Medium Low	Reasonable New review	The audit is currently at draft report stage, and we are agreeing the management action plan. Testing of the control environment, and compliance testing of data, has been completed. There are no major risks arising. The Council enjoys a strong partnership with Greenwich Leisure Limited and operational issues are managed without recourse to contractually agreed conditions.

Audit	Assurance and actions		Summary of report and actions
Licenses - Taxis	**Assurance:** Current: Previous: **Actions:** Critical High Medium Low	Reasonable	The audit is currently at draft report stage, and we are agreeing the management action plan. Testing of the control environment, and compliance testing of data, has been completed. There are no major risks arising. The Council is consulting with the trade and public on proposed changes to the Cambridge taxi licensing policy.
Key Performance Indicators / Balanced Scorecard	**Assurance:** Current: Previous: **Actions:** Critical High Medium Low	New review	The audit is currently at draft report stage, and we are agreeing the management action plan. Testing of the control environment, and compliance testing of data, has been completed. There are no major risks arising.

<u>Other assurance and consultancy work</u>

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:	Significant Actions
Annual Internal Audit Opinion	July 2019	Completed	None
Public Sector Internal Audit Standards	July 2019	Completed	None
National Fraud Initiative	July 2019	Ongoing	None

Counter fraud and corruption update

8. 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 will be reported, and there are no matters arising at this time.

9. The Council regularly reviews its counter fraud framework, and this is reported to the Civic Affairs Committee. The most recent review identified an opportunity to improve our communications and we have refreshed our internal web-pages. This is helping us to proactively promote counter fraud awareness, and develop a library of topical risks, so that we can educate colleagues and help mitigate fraud risks.

Other audit and assurance activity

10. 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. In 2018 CIPFA independently verified that we "**Generally Conform**" with the Public Sector Internal Audit Standards (PSIAS) and the accompanying Local Government Application Note (LGAN). We completed an annual internal review which provides assurance that we continue to meet the standards.

11. We have provided advice and consultancy and completed some special investigations. A contingency resource is included within our plan to manage a reasonable amount of unplanned work.

12. 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 the final version will accompany the Statement of Accounts.

Appendix B – Glossary of terms

Assurance ratings

Internal Audit provides management and Members with a statement of assurance on each area audited. This is also used by the Head of Shared Internal Audit to form an overall opinion on the control environment operating across the Council, including risk management, control and governance, and this informs the Annual Governance Statement (AGS).

Term	Description
Full Assurance	Controls are in place to ensure the achievement of service objectives and good corporate governance, and to protect the Authority against significant foreseeable risks.
Reasonable Assurance	Controls exist to enable the achievement of service objectives and good corporate governance and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with control process were identified and/or opportunities still exist to mitigate further against potential risks.
Limited Assurance	Controls are in place and to varying degrees are complied with, however, there are gaps in the process which leave the service exposed to risks. Therefore, there is a need to introduce additional controls and/or improve compliance with existing ones, to reduce the risk exposure for the Authority.
No Assurance	Controls are considered to be insufficient, with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Authority exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.

Organisational impact

The overall impact may be reported to help provide some context to the level of residual risk. For example, if no controls have been implemented in a system it would have no assurance, but this may be immaterial to the organisation. Equally a system may be operating effectively and have full assurance, but if a risk materialised it may have a major impact to the organisation.

Term	Description
Major	The risks associated with the system are significant. If the risk materialises it would have a major impact upon the organisation.
Moderate	The risks associated with the system are medium. If the risk materialises it would have a moderate impact upon the organisation.
Minor	The risks associated with the system are low. If the risks materialises it would have a minor impact on the organisation.