

**CAMBRIDGE CITY COUNCIL  
CIVIC AFFAIRS COMMITTEE  
8 JULY 2020  
ANNUAL REPORT OF INTERNAL AUDIT**



**GREATER CAMBRIDGE**  
SHARED AUDIT

**Our Vision:**

**To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.**

Report Author:	Jonathan Tully
Position:	Head of Shared Internal Audit (for Cambridge City / South Cambridgeshire Councils)
Contact:	01223 458180

# Report

## **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 which accompanies the Statement of Accounts.

## **2 Background**

- 2.1 The 2019 / 2020 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 internal (e.g. public sector reform and developing smarter ways of working) and external (e.g. national reductions in funding 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. Management maintains responsibility 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 2019/20, 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 2019/20 we have delivered joint reviews which has enabled us to work smartly and provide insight to both Councils, across existing shared services and where there are common risks.
- 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 2020 is listed in Appendix 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, and these are explained in our Glossary Of Terms.
- 6.7 In addition to the risk-based audit and assurance work, we delivered 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.
- 6.8 The team has a continuous plan, 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 2020 / 2021.
- 6.9 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 Counter 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 We have been developing our skills and knowledge by 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 2019/20 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 2019/20, and this remains at a similar level to the previous year.

Jonathan Tully  
Head of Shared Internal Audit  
July 2020

## Appendix A – Assurance and Consultancy 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. We also provide interim reports to keep the Committee apprised of our progress. A summary of work completed is detailed below:

Audit	Assurance and actions		Summary of report and actions
Accounts Receivable	<b>Assurance:</b> Current: Previous: <b>Actions:</b> Critical High Medium Low	Full Reasonable  0 0 1 0	<p>The Council raises income by charging for a number of services such as Planning (S106, building regulations, licenses), market rents, waste (trade &amp; green bins), car parking &amp; parking permits, bereavements, rents for commercial properties and lifeline.</p> <p>Invoices are raised by the Income team and they are responsible for the collection and monitoring of these debts, raising refunds and credit notes and writing off any sundry debts.</p> <p>Our review concluded that there are robust arrangements in place for raising sundry invoices, raising credit notes, writing off debts and monitoring and managing debts.</p>

Audit	Assurance and actions		Summary of report and actions
Brexit - preparation and response	<p><b>Assurance:</b></p> <p>Current:</p> <p>Previous:</p> <p><b>Actions:</b></p> <p>Critical</p> <p>High</p> <p>Medium</p> <p>Low</p>	<p>Reasonable</p> <p>New review</p> <p>0</p> <p>0</p> <p>3</p> <p>0</p>	<p>We completed a review to assess if the Council has taken reasonable steps to prepare for Brexit.</p> <p>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.</p> <p>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.</p> <p>Due to the quick changing pace of Brexit, the risk register was regularly reviewed by management. This provides assurance that management have taken reasonable steps to manage risks associated with Brexit.</p>
Carbon management - Data Quality	<p><b>Assurance:</b></p> <p>Current:</p> <p>Previous:</p> <p><b>Actions:</b></p> <p>Critical</p> <p>High</p> <p>Medium</p> <p>Low</p>	<p>Reasonable</p> <p>Reasonable</p> <p>0</p> <p>0</p> <p>0</p> <p>0</p>	<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). The Council has currently achieved a 24% improvement against a target of 15%.</p> <p>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.</p> <p>There were no actions arising.</p>

Audit	Assurance and actions		Summary of report and actions
Grant assurance - Disabled Facility Grant	<b>Assurance:</b> Current: Previous: <b>Actions:</b> Critical High Medium Low	Reasonable Reasonable  0 0 0 3	<p>Central Government funding is allocated to the County Councils as part of the Better Care Fund. A proportion of this is allocated to District Councils to enable them to carry out improvements to housing stock, and for disabled adaptations.</p> <p>We evaluated the grants application system for effectiveness and tested a sample of grant awards for compliance. This enabled us to conclude that funds had been spent in accordance with the grant conditions set by the MHCLG.</p>
HRA - Gas Safety Compliance	<b>Assurance:</b> Current: Previous: <b>Actions:</b> Critical High Medium Low	Limited New review  0 8 5 0	<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, and have been issued with a Landlords Gas Safety Record (LGSR). Gas safety inspections, including gas servicing, are carried out by a contractor.</p> <p>Our review highlighted a 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 20/21 audit plan.</p>

Audit	Assurance and actions		Summary of report and actions
Key Performance Indicators / Balanced Scorecard	<b>Assurance:</b> Current: Previous: <b>Actions:</b> Critical High Medium Low	Limited New review  0 5 2 0	<p>The Councils Senior Management Team review Corporate Indicators and a Balanced Scorecard each quarter. Performance in respect of corporate objectives is reported in the Annual Report on the Corporate Plan.</p> <p>There is good management buy in to the reporting system for Performance Management, with data sets submitted by all services each quarter. Our testing highlighted some minor discrepancies which could be improved through data validation and developing consistent guidance for RAG rating, and we have already seen improvement in this area. With the rollout of Council Anywhere, providing enhanced IT functionality through Office 365, there is also opportunity to help drive efficiency and reduce the risk of error which could lead to reputational risk.</p>
Licenses - Taxis	<b>Assurance:</b> Current: Previous: <b>Actions:</b> Critical High Medium Low	Reasonable New review  0 0 1 0	<p>The Council is responsible for licensing hackney carriage, private hire and dual driver vehicles in Cambridge, and their proprietors and operators. The Council has a 'Hackney Carriage and Private Hire Licensing policy to ensure that both the trade and the public can understand the licensing procedures.</p> <p>We sample tested licenses and supporting information. This provided assurance that adequate checks had been undertaken for vehicles and drivers. We identified an opportunity to improve reconciliation of data to the new Finance Management System.</p>

Audit	Assurance and actions		Summary of report and actions
Payroll	<p><b>Assurance:</b></p> <p>Current:</p> <p>Previous:</p> <p><b>Actions:</b></p> <p>Critical</p> <p>High</p> <p>Medium</p> <p>Low</p>	<p>Reasonable</p> <p>Reasonable</p> <p>0</p> <p>0</p> <p>5</p> <p>4</p>	<p>Cambridge City Council leads a shared Payroll arrangement with South Cambridge District Council, and it is one of the Council's core financial systems.</p> <p>We conducted a risk-based review of the Payroll system at both sites simultaneously to assess the effectiveness of the controls. Our sample testing of transactions and reconciliations provided assurance that controls are operating effectively.</p> <p>Recognising that the Council could be procuring a new system, we identified opportunities to improve internal controls and streamline processes as part of this review. There is an opportunity to include these into the specification of the new system.</p>

Audit	Assurance and actions		Summary of report and actions
Procurement Governance	<p><b>Assurance:</b></p> <p>Current:</p> <p>Previous:</p> <p><b>Actions:</b></p> <p>Critical</p> <p>High</p> <p>Medium</p> <p>Low</p>	<p>Reasonable</p> <p>Limited</p> <p>0</p> <p>3</p> <p>1</p> <p>0</p>	<p>We reviewed the framework for procurement, considering the:</p> <ul style="list-style-type: none"> <li>• flexibility of the framework to help the Council achieve value for money;</li> <li>• alignment of Contract Procedure Rules (CPR) to partner organisations;</li> <li>• benchmarking of procurement limits;</li> <li>• clarity of guidance documentation for officers;</li> <li>• the appropriateness of supplier information; and</li> <li>• the appointment of consultants to undertake procurement on behalf of the Authority.</li> </ul> <p>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.</p> <p>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.</p>

Audit	Assurance and actions		Summary of report and actions
Project - Streets & Open Spaces	<b>Assurance:</b> Current: Previous: <b>Actions:</b> Critical High Medium Low	Reasonable None 0 0 0 0	<p>We completed a follow-up review, which originally concluded there was no assurance on the overall adequacy and effectiveness of the internal controls to mitigate the potential risks.</p> <p>There has been significant development in how the Council approaches project delivery, lead by the Council's Business Transformation Team. Streets and Open Spaces have engaged with this change with the introduction of standardised templates and new project governance arrangements.</p> <p>We reviewed the processes and controls on a sample of three projects which established that all of the 16 management agreed actions from the original report had been implemented. Consequently, the level of assurance has improved to Reasonable.</p>

Audit	Assurance and actions		Summary of report and actions
Safeguarding - 3rd Party Providers & Contractors	<p><b>Assurance:</b></p> <p>Current:</p> <p>Previous:</p> <p><b>Actions:</b></p> <p>Critical</p> <p>High</p> <p>Medium</p> <p>Low</p>	<p>Limited</p> <p>Reasonable</p> <p>0</p> <p>4</p> <p>1</p> <p>0</p>	<p>The Council needs to be satisfied that external third parties and contractors are discharging their safeguarding duties appropriately, which is achieved through vetting and monitoring. We reviewed a sample of major contracts for compliance.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• development of guidance notes on the importance of Safeguarding, and how it should form part of the procurement and contract management processes;</li> <li>• agree minimum requirements and standard processes for evaluation of bidders safeguarding submissions; and</li> <li>• extension of the safeguarding training matrix to include officers with procurement and/or contract management responsibilities for contracts with safeguarding needs.</li> </ul> <p>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. Management have actively engaged with us since the review and 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 new controls.</p>

Audit	Assurance and actions		Summary of report and actions
Trading operations - Commercial Property	<b>Assurance:</b> Current: Previous: <b>Actions:</b> Critical High Medium Low	Reasonable New review  0 0 4 1	<p>Cambridge City Council owns and manages property in the City and nearby areas with the objectives of: generating rental income; encouraging local employment; safeguarding and managing development of land and buildings through ownership; and setting an example as a responsible landlord and fair treatments of tenants and energy efficient buildings.</p> <p>Our review has concluded that the Council is a proactive landlord and property owner and has an experienced team committed to protecting the City's assets and continues to generate appropriate yields on these investments.</p> <p>The current property management system requires updating to a supported system which can operate on the new Windows 10 platform and "Council Anywhere" environment. This will help to mitigate business continuity risks and has potential for efficiency improvements through integrating data with the new Financial Management System.</p>
Trading Operations - Markets	<b>Assurance:</b> Current: Previous: <b>Actions:</b> Critical High Medium Low	Reasonable New review  0 0 2 1	<p>The Market Operations team is responsible for two markets, at the Market Square and All Saints Garden, and street trading. The review has identified the following good practice:</p> <ul style="list-style-type: none"> <li>• the policies and procedures are adequate;</li> <li>• there are effective systems to promote the market; and</li> <li>• appropriate fees are invoiced, and current debt is collected.</li> <li>• there is adequate corporate governance and leadership;</li> <li>• the "Making Space for People" Supplementary Planning Document project includes the production of a market's strategy;</li> </ul>

## 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 July 2019, 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 2019. 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 2019.
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.
- 3.2 The Council operates a Shared Waste Service, in partnership with South Cambridgeshire District Council, which includes a trade waste function. Consequently, the service aims to maintain compliance with industry standards ISO14001 and ISO9001, which is externally accredited twice per year. As Internal Audit we have delivered an embedded program assurance for the four assessments. There were no significant non-conformities arising and we can provide reasonable that controls are operating effectively.

### **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
- 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

#### **Counter 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 and insight

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. We have provided insight to management through the identification of project risks related to Brexit and Covid19.

In addition, we have provided administrative support and coaching on the use of the Risk Management system.

In 2019 Internal Audit took on responsibility for facilitating risk management in the Council. Management are still responsible for identifying and managing their own risks. We ensured that our approach is consistent with best practice guidance set by CIPFA and the IIA, and this is recognized in our Internal Audit Charter, and a further review of this is planned in 2020/21.

## 5 Glossary Of Terms

### **Assurance ratings**

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.
Moderate	The risks associated with the system are medium. If the risk materialises it would have a moderate impact.
Minor	The risks associated with the system are low. If the risks materialises it would have a minor impact.

### ***Action ratings***

As part of the review we identify opportunities for improvement, which are shared with Management. These are developed into actions to improve the effectiveness of the governance, risk management arrangements, and the internal control environment.

Management are responsible for implementing their actions and providing assurance when they are completed. Timescales for implementing actions should be proportionate and achievable to the available resources. To help prioritise the actions we have produced guidance below:

<b>Priority</b>	<b>Description</b>	<b>Timescale for action</b>	<b>Monitoring</b>
<b>Critical</b>	Extreme control weakness that jeopardises the complete operation of the service.	To be implemented immediately.	Within 1 month
<b>High</b>	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.	To be implemented as a matter of priority.	Within 6 months
<b>Medium</b>	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.	Within 12 months
<b>Low</b>	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust.	To be implemented as soon as reasonably practical.	Within 24 months

The Council has a Risk Management system, which is used for tracking their progress. This will be updated upon distribution of this report and we will follow up the actions where appropriate. It is the responsibility of Risk Owners and Action Owners to regularly review and update the risk register with details of action taken to mitigate the risks.