Item

INTERNAL AUDIT UPDATE

To:
Civic Affairs Committee   [25/11/2020]

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 2020 to October 2020, developments within the team, and the forward plan of work.

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 2020.

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.

5. At the June 2020 meeting the Committee approved our current audit plan. We recognised that due to the Covid-19 pandemic, a six-month plan was the most appropriate approach, and that we would use the November meeting to provide a further update. This gave us the flexibility to respond to pandemic and deliver audit plan that added value to the Council.

6. As anticipated, we have been providing the Council with support on Business Grant stimulus packages. The amount of resource required for this activity has impacted our normal assurance work. However, we are pleased to have still completed audit reviews in the period as this will enable us to provide an opinion at the end of the year.

7. Our plan is risk based, and in most cases any delayed reviews will commence at the next suitable opportunity. We have identified one new review to add to the plan, which is providing assurance on the Covid-19 Income Grants to Local Government. This work will need to be timed to support the statutory returns to Central Government.

8. Progress of the plan delivery, plus our forward plan, is illustrated on the following pages for information.

9. We have successfully appointed a Principal Internal Auditor to the team, which was recommended by our PSIAS inspection to support our long-term development of the team.

10. We started to use Teams and SharePoint software last year. This software enables us to hold virtual meetings and conference calling, plus co-author and display documents in real-time. We were keen to adopt this to reduce unnecessary travel between various sites. A further benefit is that we were relatively well prepared to adapt to homeworking during the pandemic, and can provide the Committee with assurance that we have been working effectively during this period.

Progress against the plan

<u>Key Themes</u>

11. As in previous years, Internal Audit will continue to support the governance, risk and control environment within the Council. There will continue to be liaison with key stakeholders, such as the external auditors so that resources are used effectively. Our key themes for audit plan include:

Theme	Details
Core Assurance	We maintain a number of audits reviews which aim to provide assurance that corporate systems and processes are robust and protect the Council. These will typically involve work around key financial systems and management controls.
Corporate Plan Objectives	Our audit plan is risk based and coverage will be prioritised towards the corporate priorities and risks to the Council, to help ensure that desired outcomes are delivered efficiently. The plan is grouped to the key objectives of the Council.
Resilience and recovery	The plan will need to reflect the continuous changing risk and control environment from COVID-19 crisis which is driving rapid change across the Council. We will add value to the Council by providing real-time assurance on new and developing processes and controls.

Finalised reviews

The following reviews have reached completion, since April 2020:

Audit	Assurance and actions		Summary of report and actions
Benefits - parameter testing	**Assurance:**		We completed pre-assurance work for the Housing Benefit (Subsidy) Assurance Process (HBAP), focusing on Module 2 to support the reporting accountants report to the DWP.
	Current:	Reasonable	
	Previous:	Full	This provided assurance that the Council's system is using the correct benefit parameters to calculate benefit entitlement and to claim subsidy.
	Actions:		
	Critical	0	There was one minor error (£0.02) from the entire checklist, which would lead to an underpayment of entitlement in a specific category. In most instances, it would not lead to an adjustment at all, due to a 65% taper applied to the Housing Benefit in that category.
	High	0	
	Medium	1	
	Low	0	Consequently, we could only provide a Reasonable level of assurance. The Council immediately ran analysis of any accounts which may be affected, and this confirmed that there were no errors and no accounts required correction. All of the other parameters were operating correctly.

Audit	Assurance and actions		Summary of report and actions
HRA – Gas Compliance	**Assurance:**		We completed a follow-up of our review from April 2019, which had limited assurance due to a reliance on the use of spreadsheets.
	Current:	Reasonable	4 High and 3 Medium actions have been implemented, providing assurance that the team is making progress at delivering their actions. We have raised 2 new actions to help improve the quality of the data currently held on the LGSR spreadsheet.
	Previous:	Limited	
	Actions:		The Service has continued to use manual spreadsheets whilst preparing to migrate onto the new Orchard Asset system. The introduction of quality checks will help to manage the risks of errors and inaccuracies.
	Critical	0	
	High	3	Accurate LGSR dates need to be recorded on the LGSR spreadsheet as this data will be migrated onto the new Orchard system and used for forecasting and monitoring future gas servicing dates.
	Medium	5	
	Low	0	Once the new Compliance modules have been implemented as part of the new system, this should eradicate the use of manual spreadsheets, and achieve efficiencies as well as accurate reporting through use of data analytics.
			Overall the team has made good progress and we have revised the assurance status from Limited to Reasonable. We are planning a subsequent follow-up to monitor the status of the remaining actions.

Audit	Assurance and actions		Summary of report and actions
BACS	**Assurance:** Current: Previous: **Actions:** Critical High Medium Low	Reasonable Limited 0 0 0 0	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. Additional mitigating controls have been highlighted, and consequently the assurance level has improved from Limited assurance to a Reasonable level.
Licenses – Environmental	**Assurance:** Current: Previous: **Actions:** Critical High Medium Low	Reasonable New Review 0 0 2 1	We reviewed the systems and processes in place for managing licensing. Our review focused on: House in Multiple Occupation (HMO); Animal Licensing; and Tattooists & skin piercing Our sample testing confirmed all relevant supporting information was received prior to the license being issued. Reconciling HMO license applications as per the M3 system to the total revenue collected on the T1 system will provide increased assurance that revenue has been collected and accounted for correctly. The team could consider using external intelligence tools and data analytics to assist in identifying non-licensed premises. Our review has provided assurance that the Council effectively manages its licensing responsibilities.

Our work in progress and forward plan

Below is a table of our forward plan for the next six months. Some reviews are in progress, and we have also provided an update on their status:

Audit	Assurance type	Progress update	Scope and description
Helping people in Cambridge who have the greatest need			
Grant assurance – Disabled Facility Grant	Grant Assurance	We have completed our testing and issued the draft report to the team for review. This has provided Reasonable Assurance that controls are operating effectively.	Certification of the annual grant payment from the Better Care Fund allocated to District Councils via the County Council. Review of a sample of payments made in respect of disabled facilities.
HRA - Electrical Safety Compliance - Follow-up	Follow-up	This review is currently in progress	Follow-up review to ensure that actions have been implemented successfully.
Planning for growth and ensuring our new communities are successful			
Planning Fee Income	Risk based	This was approved in our original plan. It is now scheduled for the second half of 2020/2021.	Review of system for managing planning fee income. Ensuring that policies are in place for both discretionary and nationally set charging, and that income opportunities are maximised, debts collected, and balances reconciled to main accounting systems.

Audit	Assurance type	Progress update	Scope and description
Protecting our environment and tackling climate change			
Carbon management - Data Quality	Data quality	We expect to start this work in November once the data is available for review.	Council carbon emission data is collected to produce an annual Greenhouse Gas report. Data is quality assured by Internal Audit before being published.
Delivering quality services within financial constraints			
Procure to Pay	Compliance	This was approved in our original plan. It is now scheduled for the second half of 2020/2021.	Desktop review of the procurement system and new processes. A sample of transactions will be reviewed to ensure they are promptly and appropriately authorised.
Corporate Complaints and Feedback	Compliance	This was approved in our original plan. It is now scheduled for the second half of 2020/2021.	Review of the complaints process to provide assurance that it is effective in helping the Council to continuously improve its services
Insurance	Making resources count	This was approved in our original plan. It is now scheduled for the second half of 2020/2021.	Review of the insurance management system
Fleet management - Fuel cards	Compliance	This work has commenced.	This review considers processes and guidance for fuel cards, analytical review of expenditure and a compliance check to procedures.
Developing effective partnerships and an innovative and dynamic organisation			
Risk Management Strategy	Risk based	This work has commenced.	Review of the current Strategy & Framework for effectiveness, to best practice standards, to inform planned revision to the Strategy.

Audit	Assurance type	Progress update	Scope and description
Information Governance - GDPR	Compliance	This work has commenced. We are also supporting the development of information Governance risk management.	Follow-up review of the Councils implementation action plan for the General Data Protection Regulations and identifying whether any further work needs to be completed. Compliance check on a selection of thematic areas.
Core Assurance Work			
National Non-Domestic Rates	Risk based	We have been reviewing the NNDR system through the delivery of the business grants system.	Key controls audit as part of cyclical review of core systems. Includes: billing, collection, discounts and exemptions, write-off and refunds. Assurance may be taken from Grants assurance work which is being managed via the NNDR system.
Payroll	Key Financial System	This was approved in our original plan. It is now scheduled for the second six months of 2020/21.	An annual key controls audit as part of cyclical review of core systems.
Statutory reporting	Project assurance	This work has commenced.	Resources allocated to provide assurance on process to prepare the draft statement of accounts, and AGS, recognising increase in external factors and legislative changes.
Covid19 - Central Govt Income Relief Grants	Grant assurance	This is a new review which has been added to the plan.	To provide assurance that grant allocation from Central Government has been calculated correctly, to minimise grant claw back.

Audit	Assurance type	Progress update	Scope and description
VAT	Compliance	This was approved in our original plan. It is now scheduled for the second six months of 2020/21.	Key controls audit as part of cyclical review of core systems.

Counter fraud and corruption update

<u>National Fraud Initiative</u>

12. 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.

13. We have started preparing for the 2020/2021 exercise. This includes extracting, checking and processing data from Council systems; plus reviewing compliance with data protection regulations. Relevant datasets include: Trade Creditors; Council Tax and reductions; Payroll; Licenses – Taxi drivers; Housing; Electoral Register; and Business Grant recipients. At this stage we have already processed 13,357 records.

Other audit and assurance activity

<u>Business Grants</u>

14. The team has been assisting the Council with delivery of Central Government funded Business Grant schemes. This work has included undertaking fraud and error risk assessments, so that we can proactively advise on the design of low friction controls. The schemes include funding to Retail Hospitality and Leisure, Small Business Grants and also our Local Discretionary Grant Scheme.

15. To help safeguard the public purse and ensure that funds are provided to legitimate applicants, we have developed a post-assurance plan, which sets out checks and tests. This involves various tests across the 1,727 grant payments made to date. We are utilising government recommended tools to check applicants for compliance with scheme eligibility. In addition, we have also designed our own local assurance tools, and this has helped us to proactively prevent some applications that were non-compliant with the regulations.

16. The work helps the Council to have assurance that it has taken proportionate and effective controls to mitigate the risk of fraud and error.

17. We are expecting to undertake similar work for the next round of grants from Central Government, for the National Lockdown scheme.

Public Sector Internal Audit Standards

18. 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).

19. We completed our annual internal review which provides assurance that we continue to meet the standards. In addition, we have been responding to guidance issued by our professional bodies, and undertaking pandemic related risk assessments to help maintain compliance with the standards.

Governance

20. We facilitated the review of the Annual Governance Statement, and the Local Code of Governance, which accompanies the Statement of Accounts.

Risk management

21. We have continued to provide support on the identification of risks and controls and have commenced a review of the Risk Management Framework.

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.