

Item

INTERNAL AUDIT UPDATE



To:

Civic Affairs Committee [22/09/2021]

Report by:

Jonathan Tully, Head of Shared Internal Audit Service

Tel: 01223 - 458180 Email: jonathan.tully@cambridge.gov.uk

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 July 2021 to September 2021, 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. Background

- 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) Net Zero Carbon, Climate Change and 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:

Jonathan Tully, Head of Shared Internal Audit Service,
tel: 01223 - 458180, email: jonathan.tully@cambridge.gov.uk.

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 2021.
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 July 2021 meeting the Committee approved our current audit plan.
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 three new reviews to add to the plan, which is providing assurance on the Covid-19 Income Grants to Local Government. This work was unplanned and was required 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.

Progress against the plan

Key Themes

9. 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.
10. Our reviews are categorised by themes to help us communicate the areas of focus. Our key themes for 2021 / 2022 include:

Theme	Details
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.
Counter fraud	The fraud risk profile has increased during the COVID-19 pandemic as fraudsters seek the opportunity to take advantage of reduced internal controls and the urgency of government led support. Our plan will consider these risks and the controls.
Transformation	The Council continually seeks continuous improvement and we will review any new key systems, once they are implemented, for benefits realisation and to provide assurance that key controls continue to operate effectively.
Governance	We will review key governance areas where there is a statutory requirement to undertake specific work, and this will feature in the Annual Governance Statement.

Assurance and opinion

11. 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.
12. 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. This remains at a similar level to the previous report, based on the outcomes of our work, however we recognise the risks and challenges that the Council has faced during the Covid-19 pandemic and the potential impact this has on the control environment. Consequently, our ongoing audit plan now features Resilience and Recovery as one of our key themes.

Finalised reviews

The following reviews have reached completion, since July 2021:

Audit	Assurance and actions		Summary of report and actions
Grant assurance - RHLG / SBGF / LADG 	Assurance: Current: Previous: Actions: Critical High Medium Low	Full New review 0 0 0 0	<p>We provided assurance to BEIS by sampling business grants issued to customers from the first three grant schemes: Small Business, Retail Hospitality and Leisure, plus the Local Authority Discretionary Grant funds.</p> <p>While it is not possible to completely eradicate the risk of fraud, this review concluded that reasonable pre and post assurance checks had been completed whilst maintaining prompt speed of payment to help support customers.</p>
Grant assurance – Cultural Recovery Fund 	Assurance: Current: Previous: Actions: Critical High Medium Low	Full New review 0 0 0 0	<p>The Council was awarded grants in excess of £650,000 from Arts Council England including £400,211 from the Department for Culture, Media and Sport's Cultural Recovery Fund. This funding was allocated across three service areas: Community, Corn Exchange and the Folk Festival.</p> <p>To enable release of the final 10% of approved funding the grant conditions required a qualified accountant within Internal Audit to confirm that the expenditure of funding in each service area had been in line with the intended purposes of each grant. Once we were made aware of this requirement, we promptly reviewed the grants and the associated expenditure, and this provided assurance that the grant expenditure was correct and eligible.</p>

Audit	Assurance and actions		Summary of report and actions
Payroll – Core controls 	Assurance: Current: Previous: Actions: Critical High Medium Low	Full Reasonable 0 0 0 2	<p>As a key financial system, we review the core controls of the Payroll System annually. We focused our testing on the following areas across the financial year:</p> <ul style="list-style-type: none"> • Payroll reconciliations • Gross to Net Pay reports • Third Party Payments to HMRC and the Pension Fund. <p>Our review confirmed payroll reconciliations were being undertaken regularly, and this provided assurance for the BACS, HMRC PAYE and Pension processes. The review identified a couple of opportunities to improve the reconciliation process. Due to the COVID-19 pandemic, the Payroll team have been working remotely and there are good arrangements in place to ensure that key controls have continued to operate whilst working remotely.</p>

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
Tackling poverty & inequality and helping people in the greatest need			
Estates & Facilities - Fire Safety	Compliance	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.	Review of Corporate framework for Fire Risk Management - recognising there was a policy change introduced in 2019/20.
HRA - Electrical Safety Compliance - Follow-up	Follow-up	This work is scheduled for later in the year.	Follow-up review to ensure that actions have been implemented successfully.
HRA - Gas Safety Compliance - Follow-up	Follow-up	This work is scheduled for later in the year.	Follow-up review to ensure that actions have been implemented successfully.
Leading Cambridge's response to the climate change emergency and biodiversity crisis			
Carbon management - Data Quality	Data quality	This review is currently in progress.	Council carbon emission data is collected to produce an annual Greenhouse Gas report. Data is quality assured by Internal Audit before being published.

Audit	Assurance type	Progress update	Scope and description
Delivering quality services within financial constraints while transforming the council			
Procure to Pay	Compliance	This work is scheduled for later in the year.	Desktop review of the procurement system and new processes. A sample of transactions will be reviewed to ensure they are promptly and appropriately authorised.
Payroll – system changes	Benefits realisation	This work is scheduled for later in the year.	We have allocated some resource to test the implementation of the new HR / Payroll system.
Fleet management - Fuel cards	Making Resources Count	This review is currently in progress.	This review considers processes and guidance for fuel cards, analytical review of expenditure and a compliance check to procedures.
Risk Management Strategy	Risk based	This review is currently in progress. The core part of our work is completed, and a separate report is being presented to the Civic Affairs Committee.	Review of the current Strategy & Framework for effectiveness, to best practice standards, to inform planned revision to the Strategy.
Information Governance - GDPR	Governance	This work is scheduled for later in the year.	Time allocated for a review of a selection of thematic areas.
VAT	Compliance	This review is currently in progress.	Review of any recent changes to VAT rules and application in the Financial Management System. Transactional testing to consider matches from the National Fraud Initiative exercise.

Audit	Assurance type	Progress update	Scope and description
Core Assurance Work			
Payroll – Core controls	Key Financial System	This work is scheduled for later in the year.	An annual key controls audit as part of cyclical review of core systems.
Grant assurance - Disabled Facility Grant	Grant assurance	This review is currently in progress.	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.
Financial Management Code	Policy and procedures	This work is scheduled for later in the year.	To provide assurance that the Council has effectively implemented a Financial Management Code.
Grant assurance – other Business Support Grants	Grant assurance	This work is scheduled for later in the year.	Sample testing of grant payments to provide Central Government with assurance that effective internal controls were in operation throughout the grant process. Target timeline to be defined by BEIS.
SIPS assurance	Grant assurance	This review is currently in progress.	Sample testing of transactions to provide Central Government with assurance on the benefits administration process.
Ethics, Culture and Governance	Governance	This work is scheduled for later in the year.	Each year we will allocate some resource to assess and make appropriate recommendations to improve the organisation's governance processes, including promoting appropriate ethics and values within the organisation.

Counter fraud and corruption update

National Fraud Initiative

13. 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.
14. We have completed the data submission 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. We successfully project managed this exercise to avoid the financial penalties from the Cabinet Office for poor quality or late data. We have now received the results (totalling 1889 records) from the data matching routine and will follow these up throughout 2021/2022.

Other audit and assurance activity

Business Grants

15. 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, our Local Discretionary Grant Scheme, National Lockdown, Restart and Additional Resources Grant schemes.
16. 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 12,169 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.

17. Nationally, as expected, there have been high volumes of attempted fraud over the past year. We have completed assurance reporting to Central Government and also worked with Counter Fraud agencies to share intelligence on areas of fraud risk. This has been important safeguard as it helps us to proactively adapt our controls in response to the latest intelligence.
18. The work helps the Council to have assurance that it has taken proportionate and effective controls to mitigate the risk of fraud and error.

Public Sector Internal Audit Standards

19. 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).
20. 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

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

Risk management

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

Conclusion

23. The work carried out by the Internal Audit Team conforms to the Public Sector Internal Audit Standards.
24. 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.
25. The audit work completed in 2021/2022 enables Internal Audit to form an opinion on the internal control environment, governance and risk management arrangements. There is Reasonable assurance awarded during the year, and this remains at a similar level to the previous report to the Committee.

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.