Item

INTERNAL AUDIT UPDATE

To:
Civic Affairs Committee   [21/09/2022]

Report by:
Jonathan Tully, Head of Shared Internal Audit Service
Tel: 01223 - 458180 Email: jonathan.tully@cambridge.gov.uk

Wards affected:
All

Introduction / Executive Summary

The purpose of this report is to inform the committee of the work of Internal Audit, completed between May 2022 to September 2022, developments within the team, and the forward plan of work.

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.

Recommendations

It is recommended that the Committee note the contents of the report.

Background

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."

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.

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.

Internal Audit work should help add value to the Council by helping to improve systems, mitigate risks, and subsequently inform the Annual Governance Statement.

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.

Consultation and communication considerations

None

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

Appendices

a) Internal Audit Progress report

b) Audit definitions

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 May 2022.

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 May 2022 meeting the Committee approved our current audit plan.

6. As anticipated, we have continued to support the Council with key projects that support our Corporate Objectives, such as the Business Grant stimulus packages, Ukraine and the Cost of Living. We have also supported the Council by contributing the Transformation Program project. The amount of resource required for these activities continues to impact our normal assurance work, and we undertake them where we consider it adds value and proactively supports the governance risk and control environment.

7. We are pleased to have still completed audit reviews in the period, as this enables us to provide an opinion on the control environment.

8. Our plan is risk based, and in most cases any delayed reviews will commence at the next suitable opportunity.

9. We have identified 4 new reviews to add to the plan, as priority work. These are mandatory grant certification activities where central government requires assurance that funds have been spent appropriately.

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

Progress against the plan

Key Themes

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.

12. Our reviews are categorised to help us communicate the areas of focus. Our top key themes include:

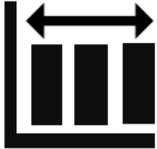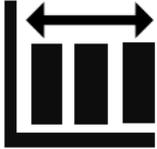| Theme	Details
Transformation	The Council continually seeks continuous improvement. We will proactively support this process as new opportunities are identified. We will also review new systems, after implementation, for benefits realisation and to provide assurance that key controls continue to operate effectively.
Resilience and recovery	Our plan reflects changes to the risk and control environment as events continue to drive rapid change across the Council. We will add value to the Council by providing real-time assurance on new and developing processes and controls.
Governance	We review governance areas where it helps add value to the Council, stakeholders, or if there is a statutory requirement. We also contribute to the Annual Governance Statement.
Counter fraud	Events, such as the pandemic and Cost-of-Living crisis, increase the fraud risk profile. Fraudsters can take advantage of reduced internal controls and the urgency of government led support. We continue to be alert to these risks and review the internal controls.

Assurance and opinion

13. 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.

14. 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 May 2022:

Audit	Assurance and actions		Summary of report and actions
Grant assurance – Protect & Vaccinate New	**Assurance:** Current: Previous: **Actions:** Critical High Medium Low	Full New review 0 0 0 0	We completed a grant certification for the Department for Levelling Up, Housing and Communities. This was a new addition to the plan. The Council was allocated funding to safeguard the rough sleeping population from the spread of the Covid-19 Omicron variant. This included providing emergency accommodation and activities to encourage vaccination uptake. Our review provided assurance that the Council followed the grant conditions.
Financial Management Code New	**Assurance:** Current: Previous: **Actions:** Critical High Medium Low	Full New review 0 0 0 2	The CIPFA Financial Management Code supports good practice in financial management and sustainability. The code comes into full effect for the financial year 2021/2022. Local authorities are expected to be fully compliant. The Finance Team completed their own self-review to identify opportunities for continuous improvement. Our assessment provides assurance that the Council: • is compliant with all seven sub-sections of the Code; • has a robust set of reports and guidelines; and • has an action plan for continuous improvement.

Audit	Assurance and actions		Summary of report and actions
Counter fraud Whistleblowing	**Assurance:**		We completed a review of our framework for reporting concerns by referencing guidance and tools from the whistleblowing charity Protect.
	Current:	Full	Our framework continues to be compliant. The review helped us to produce a revised Policy, and this was approved by the Civic Affairs Committee at the previous meeting.
	Previous:	Full	
	Actions:		We are now producing communications material to help promote the Policy throughout the Council.
	Critical	0	
	High	0	
	Medium	1	
	Low	0	
Legal Services – Follow-up	**Assurance:**		We reviewed the implementation status of the four High level actions from our previous review.
	Current:	Full	All of the actions were implemented. This included implementing improvements to accounting procedures, commissioning of work and reporting.
	Previous:	Limited	
	Actions:		Consequently, the assurance has improved from Limited to Full assurance.
	Critical	0	
	High	0	
	Medium	0	
	Low	0	

Audit	Assurance and actions		Summary of report and actions
Corporate Complaints and feedback	**Assurance:**		We undertook a review of the complaints process following a recent update of the framework.
	Current:	Reasonable	Our review provided assurance that processes for recording, resolving and monitoring complaints continue to be compliant with best practice.
	Previous:	Reasonable	
	Actions:		The Policy has recently been reviewed and system is accessible and secure.
	Critical	0	
	High	0	Processes are effective in helping the Council continuously improve its services.
	Medium	1	
	Low	1	

Our work in progress and forward plan

Below is a table of our indicative 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
Corporate Plan Objectives			
Carbon management - Data Quality	Data quality and analytics	This is scheduled for later in the year.	Resource allocated to quality assure carbon data management and delivery of key environmental projects. We may also undertake a further Strategy review.
Fire Safety Governance	Compliance	We have commenced this review.	Review of Corporate framework for Fire Risk Management - recognising there was a policy change introduced in 2019/20. Assurance around compliance on key Health and safety areas
Fleet management - Fuel cards	Making resources count	We have commenced this review.	This is follow-up of our previous review to assess progress with the agreed management actions.
Procurement - Governance	Making resources count	This work is scheduled for later in the year.	This is follow-up of our previous review to assess progress with the agreed management actions.
Procurement – Contract Management	Policy and procedures	This work is scheduled for later in the year.	Review of policies and procedures for effective contract management

Audit	Assurance type	Progress update	Scope and description
Information Governance – GDPR	Governance	We have commenced this review.	Compliance check on a selection of thematic areas.
Core Assurance Work			
Payroll – Core controls	Key Financial System	This work is scheduled for later in the year.	An annual key control review as this is a significant system. We may also undertake a further review of key system changes to ensure they continue to operate effectively.
Ethics, Culture & Governance	Governance	We have commenced this review	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.
Grant assurance - Disabled Facility Grant	Grant assurance	We have commenced this review.	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.
Grant assurance - Energy Rebate Schemes	Grant assurance	We have commenced this review.	Sample testing of payments to provide assurance that effective internal controls are in operation throughout the payment allocation process.
Grant assurance - Homes for Ukraine	Grant assurance	We have commenced this review.	Sample testing of payments to provide assurance that effective internal controls are in operation throughout the payment allocation process.

Audit	Assurance type	Progress update	Scope and description
Grant assurance – Additional Resources Grant	Grant assurance	We have commenced this review. This is a new addition to the plan.	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. This was a local discretionary scheme.
Grant assurance – Local Restriction Grant	Grant assurance	This is scheduled for later in the year. This is a new addition to the plan.	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. This is a national scheme.
Grant assurance - COMF	Grant assurance	We have commenced this review. This is a new addition to the plan.	Grant certification to DLUC determination requirements, and sample check of payments to third parties, in respect of funding to support test and trace program.

Counter fraud and corruption update

National Fraud Initiative

15. 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.

16. We have started preparing the data submission for the 2022/2023 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 are project managing this exercise to reduce the risk of financial penalties from the Cabinet Office for poor quality or late data.

Other audit and assurance activity

Support schemes

17. The team has been assisting the Council with delivery of Energy Rebates and Homes for Ukraine schemes. Our work has included undertaking fraud and error risk assessments, so that we can proactively advise on the design of low friction controls.

18. To help safeguard the public purse and ensure that funds are provided to legitimate applicants, we have been processing data through the governments Spotlight tool. This provides assurance that payments are being made to legitimate bank accounts.

19. We continue to work with Counter Fraud agencies and partners to share intelligence on areas of fraud risk. Risk evaluations indicate that fraud risk is lower than previous Business Grant schemes.

20. 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

21. 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).

22. 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 ongoing risk assessments to help maintain compliance with the standards. CIPFA have recently issued new guidance on [Internal Audit in the public sector](#) and our team attended a national workshop.

Governance

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

Risk management

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

25. We are currently preparing a project to upgrade the Risk Management system. This will introduce improvements to querying and data reporting.

Conclusion

26. The work carried out by the Internal Audit Team conforms to the Public Sector Internal Audit Standards.

27. 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.

28. The audit work completed enables us 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).

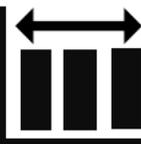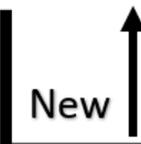| Term	Description
Full Assurance	Controls are in place to ensure the achievement of service objectives and good corporate governance, and to protect the Authority against significant foreseeable risks.
Reasonable Assurance	Controls exist to enable the achievement of service objectives and good corporate 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.

Assurance – Direction of Travel

The symbols below indicate the direction of travel when we have concluded a review:

Control status	Symbol	Details and factors
Improvement		Actions have been implemented New controls have been established Risk factors have reduced
Consistent		Controls continue to operate at the same level The risk environment has stayed consistent
Decrease		Controls have reduced, or not been complied with Risks factors have increased, or new risks have emerged
New		This is a new review and we do not have a comparable benchmark.