



EAST CAMBRIDGESHIRE
DISTRICT COUNCIL

Internal Audit Progress and Performance Update

July 2024

Introduction

- 1.1 The Internal Audit service for East Cambridgeshire District Council provides 210 days to deliver the 2024/25 Annual Audit Plan.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Audit Committee to satisfy itself that it is receiving appropriate assurance about the controls put in place by management to address identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting and an overview of the performance of the audit team.

Performance

2.1 Delivery of the 2024/25 Audit Plan

At the time of reporting, 33% of audit work is underway. Progress on individual assignments is shown in Table 1.

2.2 Are clients satisfied with the quality of the Internal Audit assignments?

To date, no survey responses have been received in relation to feedback on completed assignments for the 2024/25 audit plan.

2.3 Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?

Since the last Audit Committee meeting, the Internal Audit team has finalised three audit reports. The key findings were as follows:

Creditors (accounts payable)

The audit of the creditors system forms part of the 2023/24 suite of annually performed key financial system reviews and is undertaken in order to inform the Chief Internal Auditor's overall opinion on the financial control environment, which supports the Annual Governance Statement. All creditor payments are processed through the Unit4 Business World system (Unit4) and administered by the Finance Team. The objective of the audit was to review the design of, and compliance with, key controls within the creditor payments system, and to provide assurance over the controls to prevent and detect fraud and error. The scope of testing for the 2023/24 review has been in relation to raising requisitions, authorisation of purchase orders and invoices, processing of payments to suppliers including BACS controls, policies and procedures and reconciliations to the main accounting system.




Documented operating procedure notes are in place for key accounts payable processes ensuring a systematic and standardised approach is taken by the finance team and documented guidance on raising purchase order requisitions is routinely provided to all new employees.

Audit testing confirmed that supplier payments through cheque and BACs are consistently processed in a timely manner, accompanied by thorough documentation

and necessary approvals. Monthly control account reconciliations are conducted promptly and accurately, ensuring the accuracy of the financial accounts. The Council maintains a low number of open, overdue accounts payable items, and proactive measures have been identified to clear these outstanding items.

Appropriate segregation of duties exists between order requisition, order approval, goods receipting and approval of invoices for payment. Sample testing of 25 creditor invoices confirmed controls are generally operating as intended, however the review identified some instances where the purchase order was generated subsequent to the receipt of the invoice. Furthermore, testing identified that the finance system had been configured to bypass budget manager approval for purchases below £1,000 for account code 4532 (planning adverts), and therefore was not compliant with the Council's Financial Procedure Rules.

Based on the work performed during the audit, assurance opinions were given as follows:

Assurance Opinion		
Control Environment	Substantial	
Compliance	Good	
Organisational Impact	Low	

Governance of trading companies – East Cambs Trading Company

The East Cambs Trading Company (ECTC) is the company owned by East Cambridgeshire District Council incorporated in March 2016. The property division was set up to deliver high-quality and design-led housing of all tenures, generating future dividends for the Council. The commercial services division was set up to manage and operate the Ely Markets on behalf of the Council and provide grounds maintenance services. The Finance and Assets Committee acts as the 'shareholder committee' for ECTC. This audit has sought to provide assurances over the Council's management of this trading company arrangement in relation to robust governance, risk management, performance management and financial reporting. This has included assessment against some key elements of the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on Local Authority Owned Companies: A Good Practice Guide (2022).




An assessment against the CIPFA guidance has generally provided assurance that key requirements have been addressed within the Articles of Association, Shareholder Agreement and Operational Management Contracts but this also highlighted some recommended elements which are not currently or clearly addressed within the existing governance documentation. It is recommended that training be provided for company directors to ensure their roles and responsibilities are clear and are exercised effectively.

Risk management in relation to this trading company arrangement is delivered at different levels - both within the Council assessing risks around the company delivering against its objectives, and for the company to identify and report on the risks faced by

the company and to provide the Council with insight into these. With potential scope to also reflect on other types of risks where a tolerance can be set for escalation/reporting to the Council.

It is acknowledged that the nature of services delivered by ECTC vary and the property development side may require different approaches to performance management than standard, statutory services. Assurance was provided by audit testing that performance management arrangements for the grounds maintenance and Ely Markets elements of the Company are operating effectively. For the property division, it is recommended that performance against the trading company business plan is reflected upon as part of annual assurance work.

Based on the work performed during the audit, assurance opinions were given as follows:

Assurance Opinion		
Control Environment	Moderate	
Compliance	Good	
Organisational Impact	Medium	

Private sector housing enforcement

There are an estimated 4.4 million privately rented households in England and whilst most tenants have a good experience of renting, those who do not may find it contributes to serious illness, financial issues or homelessness. The Department for Levelling Up, Housing & Communities aims to ensure the rented sector is fair for tenants, and to protect them from such harms. While the Department sets the overall policy and regulatory framework, local authorities are responsible for regulating the sector and ensuring landlords comply with legal obligations. The aim of the audit was to provide assurance that the Council is enforcing compliance with local housing regulations and standards through regular inspections and monitoring.

There is a clear management structure and delegation arrangement for private sector housing enforcement, ensuring accountability and effective oversight. Officers responsible for enforcement demonstrate suitable training, experience and qualifications. Procedural and legislative changes are effectively communicated to staff enabling them to remain informed and compliant with regulatory requirements. Senior oversight and monitoring mechanisms ensure performance is regularly assessed and managed.




Appropriate systems are in place for recording, prioritising and handling private sector housing complaints facilitating timely and appropriate responses to concerns. Clear enforcement methods are publicised, enhancing transparency and promoting compliance with housing regulations. Furthermore, sample testing confirmed there is sufficient evidence to support any enforcement action taken.

Audit testing has highlighted the absence of a specific private sector housing strategy and strategic plan to address the findings outlined in the commissioned housing stock survey conducted by the Building Research Establishment (BRE) in 2021. This can

hinder the Council's ability to effectively prioritise and address housing challenges within the community.

Additionally, standard operating procedures need to be documented to govern certain aspects of private sector enforcement, particularly concerning Minimum Energy Efficiency standard (MEES), Electrical Insulation Condition Reports (EICR) and management of empty homes. There is also scope for the Council to enhance proactive interventions and collaboration with both internal and external partners to tackle housing sector issues effectively.

Based on the work performed during the audit, assurance opinions were given as follows:

Assurance Opinion		
Control Environment	Moderate	
Compliance	Good	
Organisational Impact	Low	

2.4 **Implementation of audit recommendations by officers**

Where an Internal Audit review identifies any areas of weakness or non-compliance with the control environment, recommendations are made and an action plan agreed with management, with timeframes for implementation.

Since the last Audit Committee meeting, 15 agreed actions have been implemented by officers. An overview is provided in Table 2.

At the time of reporting, there is one action which remains overdue for implementation. This action was categorised as 'Medium' priority and is more than three months overdue. Further details are provided in Table 3.

2.5 **Real time risk assurances**

Risk management and compliance with the Risk Management Strategy is the responsibility of the Council's management but Internal Audit is seeking to provide assurance over the effectiveness of the risk management process via these rolling risk assurance reviews.

Internal Audit select risk entries listed within the register on a rolling basis and conduct targeted reviews to confirm that the controls listed on the register are (a) in place and (b) evidenced in practice. Given that there is a reliance upon these controls to manage the key risks and achieve the residual risk scores, the validity and effectiveness of the controls listed will be verified and reported back to the Audit Committee in regular progress reporting.

The content of the risk entry is also reviewed with the lead officer to seek assurance that the current scoring and details reflect the risk environment at this time. Any potential changes in risk scoring or content are fed back to the Risk Management

Group for discussion/amendment. Internal Audit do not input into risk scoring or content, maintaining independence from this.

The latest of the rolling risk assurance reviews has been completed and the risk selected was **B3: Inability to balance the Council's Medium-Term Financial Strategy (MTFS)**

At the time of reporting, the current inherent risk scoring for this entry is 15 (3 for likelihood and 5 for impact) and the residual risk is 12 (3 for likelihood and 4 for impact). As such, the listed controls are claimed to reduce the impact of the risk. Assurance has been sought over the existence of those controls.

The findings for each control are detailed in Table 4. The risk scoring was not amended as a result of this review.

A RAG (red, amber, green) rating – as defined below Table 4 – has been assigned to each control. The review did not result in any amendments to the risk register entry.

Table 1 - Progress against 2024/25 Internal Audit Plan

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Key financial systems							
Bank reconciliations	Q4	Not started					
Accounts payable	Q4	Not started					
Payroll	Q3	Not started					
Accounts receivable	Q4	Not started					
Treasury management	Q4	Not started					
Medium term financial strategy	Q3	Not started					
Key policy compliance							
Decision making and delegations	Q1	Fieldwork complete					
UK Shared Prosperity Fund (UKSPF)	TBC	Not started					
Procurement compliance	Q4	Not started					
Risk based audits							
Major project – Bereavement Centre	Q1	Fieldwork underway					

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Supporting vulnerable people	Q1	Fieldwork underway					
Housing allocations and homeless	Q2	Not started					
Planning service review	Q4	Not started					
Grant claims	All year	Fieldwork underway					
Governance and Counter Fraud							
Counter Fraud support / promotion / policies	TBC	As required	Not applicable – consultancy work.	Daily monitoring of Report Fraud mailbox			
National Fraud Initiative	TBC	As required	Not applicable – consultancy work.				
Risk management support and real time assurances	Q1 – Q4	Ongoing	Ongoing assurances over the controls listed in the Risk Register and supporting embedding of risk management.	Assurances provided on risk entries throughout the year.			
Annual Governance Statement support	Q1	Complete		N/A			

Table 2 - Implementation of agreed management actions


	'High' priority recommendations		'Medium' priority recommendations		'Low' priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and implemented since last Committee meeting	-	-	14	93%	1	100%	15	94%
Actions overdue by less than three months	-	-	-	-	-	-	-	-
Actions overdue by more than three months	-	-	1	7%	-	-	1	6%
Totals	-	-	15	100%	1	100%	16	100%


Table 3 – Actions overdue (High or Medium priority)

Audit plan	Audit title	Agreed action and context	Priority	Responsible officer	Date for implementation	Officer update / revised date
2022/23	Asset management	Portley Hill depot – Check to be carried out weekly for water temperature. Fire door assessment to be completed following refurbishment. PAT testing to be carried out. It is noted that the fire door assessment may need to be delayed until completion of the improvement works on site.	Medium	Asset Manager	31/01/2024	<p>Identification of which doors need to be fire doors now completed, awaiting quotes for costs, then the Council can instruct contractor.</p> <p>Water temperature checks and PAT testing evidence now in place.</p>

Table 4: Risk register entries – rolling review of controls

Risk entry			
B3: Inability to balance the Council’s Medium-Term Financial Strategy (MTFS)			
Assurance and Findings			
Key Control Reference	Key Control	RAG Rating (Red, Amber, Green)	Auditor Comment & Opinion
B3.1	Agree Medium Term Financial Strategy (MTFS) each February as part of budget setting process.	Green ●	<p>Findings: The MTFS is agreed every February. Assurance was provided via the Council’s website with the Council Decision List confirming approval of the MTFS at Full Council for the last four years:</p> <ul style="list-style-type: none"> • 2025/26 to 2027/28 – Approved by Full Council 20 February 2024 - link. • 2024/25 to 2026/27 – Approved by Full Council 21 February 2023 - link. • 2023/24 to 2025/26 – Approved at Full Council 23 February 2022 – link. • 2022/23 to 2024/25 – Approved at Full Council 31 February 2021 - link.
B3.2	The 2023/24 Budget (and MTFS) was approved by Full Council in February 2023 with 2023/24 and 2024/25 balanced.	Green ●	<p>Findings: Full Council papers from 21 February 2023, published on the Council’s website evidence the approval of the balanced 2023/24 Budget (£10,399,934) and MTFS – link.</p> <p>Full Council papers from 20 February 2024, published on the Council’s website evidence the approval of the balanced 2024/25 Draft Budget (£15,710,734) and MTFS – link.</p>
B3.3	Partnership working and on-going consideration of potential opportunities	Green ●	<p>Findings: Grant claims have been submitted to the Combined Authority for joint projects, these include:</p> <ul style="list-style-type: none"> • Cycle Route Feasibility Studies – value of claim £75,968 • Explore East Cambs – value of claim £6,200




Risk entry			
B3: Inability to balance the Council's Medium-Term Financial Strategy (MTFS)			
Assurance and Findings			
Key Control Reference	Key Control	RAG Rating (Red, Amber, Green)	Auditor Comment & Opinion
	linked to key ambitions.		<p>External funding has been sourced to assist with swimming pool costs – value of the award £134,710.</p> <p>ECDC is part of partnership working with neighbouring District Councils and Cambridgeshire County Council on a Council Tax Counter Fraud Project. The project is funded by Cambridgeshire County Council and seeks to reduce Council tax fraud in the area.</p>
B3.4	Strong leadership from Members and officers to identify savings / income generating opportunities in advance of need.	Green 	<p>Findings: As part of Annual Service Delivery Plan Reporting, Officers look to identify efficiencies and savings opportunities within their respective services and review the output/outcomes from the previous year.</p> <p>2023/24 End of Year Reports and 2024/25 Service Delivery Plans were presented to the relevant Policy Committee (Operational Services Committee or Finance and Assets Committee) in March 2024. The Economic Development End of Year Report provides an example whereby cost savings have been identified and achieved – link (page 13). These include:</p> <ul style="list-style-type: none"> • Facilitated 2 High Street Support Schemes (£75,000+ funding); • Shared Prosperity Fund and Rural England Prosperity Fund and Market town applications for funding have been prepared and submitted/approved. • Installation of solar PV panels at E-space North have led to savings of 40% in power usage over a comparative 12-month period.

Risk entry			
B3: Inability to balance the Council's Medium-Term Financial Strategy (MTFS)			
Assurance and Findings			
Key Control Reference	Key Control	RAG Rating (Red, Amber, Green)	Auditor Comment & Opinion
			An income generation opportunity was identified and implemented by way of an increase in the car parking charges at the Council's Angel Drove and The Dock car parks from £3 to £4 per day, with similar increases applied to multi-day tickets. This increase still means that these car parks are significantly cheaper than the nearby Network Rail car park, however, has created additional income for the Council – Link (page 6) .
B3.5	Use of one-off funding from the Surplus Savings Reserve to balance future years.	Green 	<p>Findings: The Revenue Budget, Capital Strategy and Council Tax 2024/25 Report approved by Full Council on 20 February 2024 stated that <i>'due to the actions taken by management to reduce the Council's cost base prior to and during 2022/23 and the prudent forecast of Business Rates receipts, the Council underspent in 2022/23 by £1,645,109. This was transferred into the Surplus Savings Reserve.</i></p> <p><i>Management has continued to look for opportunities to reduce the Council's cost base during the current financial year. This work has led to further one-off and ongoing savings being made, which both contribute to the projected outturn for this financial year and also provide savings throughout the term of the MTFS. Although in year, these have been matched to some degree by inflationary increases in excess of those expected when the budget was built, the current year-end forecast for 2023/24, as presented to Finance and Assets Committee on the 25th January 2024, is an underspend of £852,000. This too will be transferred to the Surplus Savings Reserve at year-end and has been reflected in the figures in this report.'</i></p>

Actions from the Strategic Risk Register

Action	Auditor findings
Budget / MTFS report to be presented to Finance & Assets Committee before approval by Full Council.	<p>On 25th January 2024 the Council's Finance and Assets Committee recommended that Full Council approve the draft revenue budget for 2024/25 and MTFS for 2025/26 to 2027/28. Meeting papers and minutes – link.</p> <p>On 20th February 2024 Full Council approved the draft revenue budget for 2024/25 and MTFS for 2025/26 to 2027/28 - link.</p>

RAG Rating Indicator for risk register entry

 Red	Control is not present or not currently operating.
 Amber	Control is not operating fully or consistently in line with risk register entry.
 Green	Control in place and evidenced as operating as stated.

Glossary

At the completion of each assignment the Auditor will report on the level of assurance that can be taken from the work undertaken and the findings of that work. The table below provides an explanation of the various assurance statements that the Committee might expect to receive.

Compliance Assurances		
Level	Control environment assurance	Compliance assurance
Substantial ●	There is a sound system of internal control to support delivery of the objectives.	The control environment is operating as intended with no exceptions noted which pose risk to delivery of the objectives.
Good ●	There is generally a sound system of internal control, with some gaps which pose a low risk to delivery of the objectives.	The control environment is generally operating as intended with some exceptions which pose a low risk to delivery of the objectives.
Moderate ●	There are gaps in the internal control framework which pose a medium risk to delivery of the objectives.	Controls are not consistently operating as intended, which poses a medium risk to the delivery of the objectives.
Limited ●	There are gaps in the internal control framework which pose a high risk to delivery of the objectives.	Key controls are not consistently operating as intended, which poses a high risk to the delivery of the objectives.
No ●	Internal Audit is unable to provide any assurance that a suitable internal control framework has been designed.	Internal Audit is unable to provide any assurance that controls have been effectively applied in practice.

Organisational Impact		
Level	Definition	
High ●	The weaknesses identified during the review have left the Council open to a high level of risk. If the risk materialises it would have a high impact upon the organisation as a whole.	
Medium ●	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a medium impact upon the organisation as a whole.	
Low ●	The weaknesses identified during the review have left the Council open to low risk. This may have a low impact on the organisation as a whole.	

Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal Audit is undertaking a programme of work agreed by the Council's senior managers and approved by the Audit Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant, responsible managers.

There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work; were excluded from the scope of individual internal assignments; or were not brought to Internal Audit's attention.

Internal control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and unforeseeable circumstances.

Future periods

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.