



**Internal Audit Progress and Performance Update**

**March 2024**

## Introduction

- 1.1 The Internal Audit service for East Cambridgeshire District Council provides 210 days to deliver the 2023/24 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 2023/24 Audit Plan

At the time of reporting, fieldwork is either complete or underway in relation to 100% of the planned work. At the time of reporting, 90% of audit work has been completed to at least draft report stage – which already achieves the target set for delivery by the end of March 2024.

Progress on individual assignments is shown in Table 1.

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

To date, seven survey responses have been received in relation to feedback on completed assignments for the 2023/24 audit plan – this is summarised in Table 4.

### 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 four audit reports. The key findings were as follows:

#### **Debtors (accounts receivable)**

The audit of the debtors 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 debtor invoices raised 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 debtors 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 the accurate raising of invoices, credit notes and cancelled invoices, debt recovery and write offs.




Audit review of a sample of 25 debtor invoices demonstrated a good level of compliance with Council procedures and best practice. Sundry debtor invoices were consistently generated in a timely manner, demonstrated accuracy and were appropriately approved. However, of the credit notes tested, 20% were found to lack evidence of the necessary

level of approval, particularly in the case of intercompany (i.e. Council to trading company) credit notes.

Debt recovery procedures have been clearly outlined in the Council's Financial Procedure Rules. In general, the Council is demonstrating compliance with its debt recovery procedures but recognises that further work is required to improve the control environment by capturing and centrally recording the recovery actions taken by service areas, to allow for clear visibility into the status of each debt.

Monthly production and review of aged debt reports are conducted and a target of less than 25 days for invoice payments has been established and reported quarterly, providing a benchmark for assessing financial performance. All write offs and invoice cancellations reviewed aligned with established Council procedures.

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

| <b>Assurance Opinion</b>     |                 |   |
|------------------------------|-----------------|---|
| <b>Control Environment</b>   | <b>Moderate</b> |  |
| <b>Compliance</b>            | <b>Good</b>     |  |
| <b>Organisational Impact</b> | <b>Low</b>      |  |

### **Treasury management**




East Cambridgeshire District Council defines its treasury management activities as the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risk associated with those activities, and the pursuit of optimum performance consistent with those risks. The Council is responsible for ensuring that these activities comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Department for Levelling Up, Housing and Communities (DLUHC) guidance and codes of practice that set the governance and regulatory framework for treasury management. Failure to undertake activities in accordance with regulatory or best practice requirements could lead to poor value for money, financial loss, legal challenge and reputational damage. This audit sought to review the controls upon which the Council relies to mitigate this risk.

Overall, based on the findings of the audit there is generally a sound system of internal control and the control environment is operating as intended:

- There is an approved Treasury Management Strategy for 2023/24 along with documented Treasury Management Practices and operational procedure notes. However, there are some discrepancies between these documents that should be resolved (Recommendation 1).
- There is an approved list of low-risk counterparties along with minimum acceptable credit criteria, maximum monetary limits and maximum maturity limits for institutions and investment vehicles.

- The Council uses external treasury management advisors to acquire access to specialist skills and resources. The terms of their appointment are formally documented and are subject to regular review.
- Treasury management activities are subject to regular review and reporting in accordance with best practice. The reports are scrutinised by the Finance and Assets Committee and approved by Full Council.
- Council staff with responsibility for treasury management activities have received appropriate training for their duties.
- There are procedures in place to monitor daily cashflow and identify opportunities to invest or drawback monies to ensure the Council maintains cash balances.
- Segregation of duties for initiating and checking and authorising investment transactions is in place and clearly documented.
- Investment transactions are accurately recorded and reconciled to the finance system in accordance with procedure. An audit trail of records to evidence decision making is securely retained.
- Fidelity guarantee insurance is in place that provides protection against loss and fraud.

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

| <b>Assurance Opinion</b>     |                    |   |
|------------------------------|--------------------|---|
| <b>Control Environment</b>   | <b>Good</b>        |  |
| <b>Compliance</b>            | <b>Substantial</b> |  |
| <b>Organisational Impact</b> | <b>Low</b>         |  |

### **Budgetary control**




Budgetary control is a fundamental part of the Council's internal control framework to ensure probity and sound financial management and directly supports the Council's corporate priority of ensuring financial sustainability. Internal Audit reviewed the design of, and compliance with, key controls within the Council's budgetary control processes for 2023/24.

Based on the Internal Audit findings, it was confirmed that budgetary control procedures, roles and responsibilities are suitably documented and supplemented by budget holder training. The 2023/24 budget was promptly and accurately loaded into the finance system, subject to a minor coding error that was subsequently identified and corrected. All cost centres are assigned to a nominated budget holder and no supplementary estimates or virements have been processed during the year.

Budget monitoring and reporting controls are operating effectively overall. Budget holders have access to all necessary financial information to enable them to manage and monitor their spending effectively with appropriate support from the finance team. A basic administrative error resulted in a material error in commitments which was identified and corrected in Q2 and had no impact on overall budget monitoring or reporting arrangements. Officers have agreed to highlight this issue to budget holders to reduce the risk of future errors of this nature.

Testing confirmed that effective processes are in place for the reporting of significant budget variances to the relevant committees in accordance with Financial Regulations. Some exceptions were identified but these all related to variances in budget profiling i.e. timing of spend and had no impact on the forecast outturn for the year. This issue has been highlighted to officers.

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

| <b>Assurance Opinion</b>     |             |   |
|------------------------------|-------------|---|
| <b>Control Environment</b>   | <b>Good</b> |  |
| <b>Compliance</b>            | <b>Good</b> |  |
| <b>Organisational Impact</b> | <b>Low</b>  |  |

### **Community Infrastructure Levy (CIL) income**

The Community Infrastructure Levy (CIL) is a planning charge, introduced by the Government through the Planning Act 2008 to provide a fair and transparent means for ensuring that development contributes to the cost of the infrastructure it will rely upon, such as schools and roads. The levy applies to most new buildings and charges are based on the size and type of new floorspace.




The objective of this audit was to provide assurance that the Council is meeting requirements in the prompt and accurate collection of monies relating to CIL and that it satisfies the key CIL legislative requirements in its use and reporting of this money. In the financial year 2022/23 CIL income received by the Council amounted to £5,790,031.64, of which £2,199,239.98 was allocated to the agreed projects on the Council's CIL Infrastructure List). The IFS for 2022/23 was reported to Finance and Assets Committee in November 2023.

The Council has established use of software for recording and managing CIL contributions. Legally, developers should provide their respective contributions once trigger points are met but the Council's processes should support the capture of liable developments and issuing of demand notices. It was noted that reports generated from the system during the audit were not always complete, exposing potential risks due to human error and use of different parameters, and some issues were noted with the quality of data entry, which could pose risks to the timely recovery of contributions. Processes for recovering and recording monies have been established but have not been consistently formalised in procedural notes.

The audit testing highlighted some weaknesses and inconsistencies in the application of controls, particularly in relation to timely issuing of demand notices; charging of late payment surcharges/interest; and prompt and consistent recovery action. It is recommended that controls in these areas require formalising and greater management oversight, to ensure that monies due are collected in full and in accordance with the respective agreements. Performance measures relating to collection of CIL income and status of outstanding monies would assist in providing an insight into activity and effectiveness of the controls.

The Council can only use CIL monies to fund projects on the approved Infrastructure List, as approved by Council. Evidence has been seen that a sample of the projects funded in 2022/23 had been suitably approved and the spend reported in the IFS was reconciled to income records in all cases tested – with one exception relating to an erroneous accrual for £17,500 which it is understood has since been rectified.

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

| <b>Assurance Opinion</b>     |                 |   |
|------------------------------|-----------------|---|
| <b>Control Environment</b>   | <b>Moderate</b> |  |
| <b>Compliance</b>            | <b>Moderate</b> |  |
| <b>Organisational Impact</b> | <b>Medium</b>   |  |

#### 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 Committee meeting, six agreed actions have been implemented by officers. An overview is provided in Table 2.

At the time of reporting, there are four actions which remain overdue for implementation. Of these, there are no actions categorised as 'High' or 'Medium' priority which are more than three months overdue. Further details are provided in Table 3.

**Table 1 - Progress against 2023/24 Internal Audit Plan**

| Assignment                   | Planned start | Status                     | Assurance sought   | Assurance Opinion   |                    |            | Comments                  |
|------------------------------|---------------|----------------------------|--|---------------------|--------------------|------------|---------------------------|
|                              |               |                            |  | Control Environment | Compliance         | Org impact |                           |
| <b>Key financial systems</b> |               |                            |  |                     |                    |            |                           |
| Bank reconciliations         | Q4            | <b>Final report issued</b> | <p>To review the design of, and compliance with, key controls within the Council’s key financial systems, providing assurance over the controls in place to prevent and detect fraud and error. Focus on key controls in respect of:</p> <p>Written procedures to specify how bank reconciliations are to be completed; reconciliations being carried out by an appropriate officer in a timely manner and independently reviewed; and reconciliations completed fully and accurately with any unreconciled items identified and cleared in a timely manner.</p> | <b>Substantial</b>  | <b>Substantial</b> | <b>Low</b> | Reported in February 2024 |
| Creditors                    | Q4            | Draft report               |  |                     |                    |            |                           |
| Payroll                      | Q4            | <b>Final report issued</b> | <p>To review the design of, and compliance with, key controls within the payroll and HR system, providing assurance over the controls to prevent and detect fraud and error. Focus on key controls in respect of:</p> <p>Changes to employee standing data; Payment controls (incl. BACS controls, exception reporting and payment file checks); Control account reconciliations; Starters; and Leavers.</p>   | <b>Substantial</b>  | <b>Substantial</b> | <b>Low</b> | Reported in February 2024 |

| Assignment   | Planned start | Status              | Assurance sought  | Assurance Opinion   |             |            | Comments                 |
|--|---------------|---------------------|---|---------------------|-------------|------------|--------------------------|
|  |               |                     |   | Control Environment | Compliance  | Org impact |                          |
| Debtors  | Q4            | Final report issued | The provide assurance on key controls in respect of the risks identified covering the following areas:<br>Raising of debtor invoices;<br>Credit notes and cancelled invoices;<br>Debt recovery policies and procedures; and<br>Write offs.  | Moderate            | Good        | Low        | See section 2.3          |
| Treasury management                                    | Q4            | Final report issued | To provide assurance that the key risks for the treasury management system have been identified and that robust and effective controls are in place to address these risks. Focused on the risk of treasury management activities not being undertaken in accordance with regulatory or best practice requirements. | Good                | Substantial | Low        | See section 2.3          |
| Budgetary control                                      | Q4            | Final report issued | To provide assurance over budgetary control arrangements. Focus on the budget monitoring / management process.  | Good                | Good        | Low        | See section 2.3          |
| <b>Key policy compliance</b>                           |               |                     |   |                     |             |            |                          |
| Fees and charges                                       | Q1            | Final report issued | To provide assurance over the setting of fees and charges for Council services and the consistent application of these in invoicing. To cover both statutory and discretionary fees and charges.  | Moderate            | Moderate    | Medium     | Reported in July 2023    |
| Payment Card Industry Data Security Standard (PCI DSS) | Q1            | Final report issued | To review the Council's compliance with the Payment Card Industry Data Security Standard (PCI DSS) in handling of customer payments.  | Limited             | Moderate    | Medium     | Reported in October 2023 |
| <b>Risk based audits</b>                               |               |                     |   |                     |             |            |                          |
| Use of agency staff and consultants                    | Q1            | Final report issued | To provide assurance on procurement and management of agency staff and consultants to secure value for money and compliance with policies and IR35.   | Moderate            | Moderate    | Medium     | Reported in October 2023 |



| Assignment   | Planned start | Status              | Assurance sought  | Assurance Opinion                        |            |            | Comments                  |
|--|---------------|---------------------|---|--|------------|------------|---------------------------|
|  |               |                     |   | Control Environment                      | Compliance | Org impact |                           |
| Information governance                                       | Q2            | Final report issued | To provide assurance over compliance with the data protection legislation and pro-active management of the associated risks in handling, storing, processing and sharing of information.  | Good                                     | Good       | Low        | Reported in October 2023  |
| Community Infrastructure Levy (CIL) income                   | Q2            | Final report issued | To provide assurance over the timely and accurate collection of CIL monies.   | Moderate                                 | Moderate   | Medium     | See section 2.3           |
| Governance of trading companies – East Cambs Street Scene    | Q2            | Final report issued | 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). | Moderate                                 | Good       | Medium     | Reported in February 2024 |
| Governance of trading companies – East Cambs Trading Company | Q2            | Draft report        |   |  |            |            |                           |
| Private sector housing enforcement and empty homes strategy  | Q3            | Fieldwork underway  |   |  |            |            |                           |
| Grant claims   | As required   | Complete            |   | Disabled facilities grant audit complete |            |            |                           |
| <b>IT audits</b>   |               |                     |   |  |            |            |                           |
| Cyber security   | Q2            | Final report issued | High level assurances over actions taken since last audit; IT health checks; and pro-active work on preventative and detective controls.  | Good                                     | Good       | Low        | Reported in February 2024 |

| Assignment                                       | Planned start | Status             | Assurance sought  | Assurance Opinion  |            |            | Comments |
|--|---------------|--------------------|---|--|------------|------------|----------|
|  |               |                    |   | Control Environment                                      | Compliance | Org impact |          |
| <b>Governance and Counter Fraud</b>              |               |                    |   |  |            |            |          |
| Counter Fraud support / promotion / policies     | Q2            | As required        | Not applicable – consultancy work.  | Daily monitoring of Report Fraud mailbox                 |            |            |          |
| National Fraud Initiative                        | Q3            | <b>Complete</b>    | Not applicable – consultancy work.  | <b>N/A</b>   |            |            |          |
| 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            | <b>Complete</b>    |   | <b>N/A</b>   |            |            |          |
| Procurement compliance                           | Q4            | Fieldwork underway |   |  |            |            |          |

**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 <b>implemented</b> since last Committee meeting | -                               |             | 4                                 | 67%         | 2                              | 50%         | 6         | 60%         |
| Actions <b>overdue by less than three months</b>                | -                               |             | 2                                 | 33%         | 1                              | 25%         | 3         | 30%         |
| Actions <b>overdue by more than three months</b>                | -                               |             | -                                 | -           | 1                              | 25%         | 1         | 10%         |
| <b>Totals</b>   | -                               | <b>100%</b> | <b>6</b>                          | <b>100%</b> | <b>4</b>                       | <b>100%</b> | <b>10</b> | <b>100%</b> |

**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  |
|------------|------------------------|---|----------|---|-------------------------|--|
| 2023/24    | Information governance | DPIA mandatory field to be added into report templates - The implementation of the 'Data Protection Implications' mandatory field within the Council's report writing templates. With the addition of DPIAs completion when new personal data processing is being considered.               | Medium   | Data Protection Officer and Senior Information Risk Owner | 29/12/2023              | Yet to be discussed with Democratic Services.  |
| 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              | The works are now coming to an end and we have arranged for a fire audit to be carried out as soon as possible.<br><br>Water temperature checks and PAT testing evidence now in place. |

## Table 4: Customer Satisfaction

At the completion of each assignment, the Auditor issues a Customer Satisfaction Questionnaire (CSQ) to each client with whom there was a significant engagement during the assignment. There have been seven survey responses received during the year to date.

| Responses                       | N/A | Outstanding | Good      | Satisfactory | Poor |
|---------------------------------|-----|-------------|-----------|--------------|------|
| Design of assignment            | -   | 2           | 4         | 1            | -    |
| Communication during assignment | -   | 3           | 4         | -            | -    |
| Quality of reporting            | -   | 3           | 4         | -            | -    |
| Quality of recommendations      | -   | 2           | 4         | 1            | -    |
| <b>Total</b>                    | -   | <b>10</b>   | <b>16</b> | <b>2</b>     | -    |

## 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   |
| <b>Substantial</b> ●  | 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.             |
| <b>Good</b> ●         | 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. |
| <b>Moderate</b> ●     | 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.                    |
| <b>Limited</b> ●      | 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.                  |
| <b>No</b> ●           | 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   |  |
| <b>High</b> ●         | 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. |  |
| <b>Medium</b> ●       | 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.        |  |
| <b>Low</b> ●          | 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.

