



EAST CAMBRIDGESHIRE
DISTRICT COUNCIL

Internal Audit Progress and Performance Update

March 2023

Introduction

- 1.1 The Internal Audit service for East Cambridgeshire District Council provides 210 days to deliver the 2022/23 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 2022/23 Audit Plan

At the time of reporting, fieldwork is either complete or underway in relation to 95% of the planned work. There are two audits where fieldwork is underway or complete but these are not finalised as at the time of reporting. The one remaining audit, Cyber Security, is in planning stages at the time of reporting. All audit outcomes will be reported in the Annual Internal Audit report for 2022/23.

Progress on individual assignments is shown in Table 1.

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

To date, four survey responses have been received in relation to feedback on completed assignments for the 2022/23 audit plan. The feedback 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 Committee meeting, the Internal Audit team has finalised a further four audit reports. The key findings were as follows:

Payroll




The audit of payroll forms part of the 2022/23 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. Staff costs account for a significant proportion of the Council's total annual spend, therefore it is important to ensure that a sound framework of controls is in place to manage this expenditure effectively and minimize the risk of fraud or error. Responsibility for administering the Council's payroll was transferred to MHR (a specialist HR and Payroll Software and services provider) with effect from 1st April 2018. The Council has retained an in-house Payroll Officer post and the Human Resources service.

The objective of the audit was to review the design of, and compliance with, key controls within the payroll and HR system, and to provide assurance over the controls to prevent and detect fraud and error. This review focused on controls over policies and procedures, system parameters, new employees, leavers, and non-standard payments and deductions.

The Council has up to date policies that cover all expected areas of pay (e.g. sickness, paternity/maternity, enhancements etc.) as well as sufficient operational procedure notes and processing schedules to ensure that the payroll is processed correctly and timely.

Audit sample testing for 2022/23 has confirmed accurate and timely payments to staff and that key controls in relation to administering starters and leavers are robust and operating effectively. Testing completed on a sample of 25 non-standard payments and deductions (e.g. bonuses, acting up allowance, market supplements etc) found that all had been processed accurately, were properly supported and approved in accordance with relevant policies, with the exception of extra responsibility allowance (ERA) payments. Council policy requires that ERA payments must be approved by the Chief Executive however this approval was not obtained for any of the three ERA payments in the audit sample and is not included in the template form for ERA payments. Each ERA payment was, however, supported by written justification and approval from a service lead or Director.

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

Assurance Opinion		
Control Environment	Substantial	
Compliance	Good	
Organisational Impact	Minor	

Treasury management

The Council is responsible for treasury decisions and activity and must ensure compliance with regulations and best practice; safeguarding and liquidity are of key importance to the Council, while any return on investment will assist the Council balancing its budget.

CIPFA and the Department for Levelling Up, Housing and Communities (formerly Ministry for Housing, Communities and Local Government) issue guidance and codes of practice that set the overall governance and regulatory framework for treasury management, including;

- CIPFA – Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2021).
- CIPFA – The Prudential Code for Capital Finance in Local Authorities (2021).
- MHCLG – Statutory Guidance on Minimum Revenue Provision (fourth edition – 2018).




- MHCLG – Guidance on Local Government Investments (third edition – 2018).

The scope of the audit was to provide adequate 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.

In overall terms, the audit confirmed that the internal control system for treasury management activities was found to be operating effectively. The Council has in place a Treasury Management Strategy for the financial year 2022/23 along with a Capital Strategy in accordance with the CIPFA revised Prudential and Treasury Management Codes. These were approved by Full Council in February 2022. These are supported by operational procedure notes and Treasury Management Practice notes. Testing of a sample of investments made by the Council confirmed that in each case there were sufficient surplus funds available to make the investments, investments were made within the approved counterparty limits, and were approved by the Finance Director.

There are monthly control reconciliations completed for both investments and interest between the loans records (Treasury Management Spreadsheet) and the general ledger which are prepared by the Senior Accountant and reviewed by the Finance Director. Sample testing of reconciliations covering the period April 2022 to October 2022 confirmed that they had been completed and reviewed in a timely and accurate manner.

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

Assurance Opinion		
Control Environment	Substantial	
Compliance	Substantial	
Organisational Impact	Minor	

Performance management

Effective performance management and monitoring is a key aspect of good governance. The Council's performance is measured against the Corporate Plan 2022/23, which was approved by Council in July 2022. Performance is monitored and reported to Members via both the Operational Services and Finance & Assets Committees on a bi-annual basis. The Council's performance management arrangements measure the effective delivery of services and, as such, support the corporate priorities.




The audit sought to provide assurance that the Council's performance management arrangements assist the Council in delivering appropriate levels of services in accordance with the Corporate Plan and any other strategies, and that managers and Members are engaged effectively in the process.

Performance monitoring was paused in March 2020 due to the Covid-19 Pandemic major incident, resulting in no reporting of performance through individual Service Delivery Plans (SDPs) or to Members in the financial year 2020/21. In March 2022 both the Operational Services Committee and Finance & Assets Committee approved a new suite

of SDPs for 2022/23, and in April 2022 the Council re-commenced performance management and monitoring with the first bi-annual monitoring reports noted by Members in November 2022. This mid-year reporting is on an exception basis i.e. noting any missed targets. It is recommended that this be reviewed to ensure Members are receiving informative performance information and to establish a well-rounded picture of service delivery, built around the needs of customers. The end of year reporting and new SDPs for 2023/24 are due to be presented to the relevant Committees in March 2023.

Based on Internal Audit's review, the Council has a wide range of targets linked to corporate and service objectives that are reviewed and updated as part of the annual business and budget planning process. The Council's performance management procedures are embedded across the Authority. SDPs are published on the Council's website, a review of the publication of these documents is now required to ensure information is published appropriately. Sample testing found that there was scope for targets, especially corporate targets, to be SMART (Specific, Measurable, Achievable, Realistic, Time bound) and tailored to the service to maximise their effectiveness. The introduction of a target development and monitoring template is recommended, with an example of good practice provided by Internal Audit.

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

Assurance Opinion		
Control Environment	Good	
Compliance	Satisfactory	
Organisational Impact	Minor	

Staff claims

The objective of the audit was to review the accuracy and clarity in the Council's approach to processing of staff claims. The audit seeks to provide assurance over compliance with key Council policies and procedures related to staff claims, compliance with these, and controls to prevent and detect fraud and error. This review focused on controls over policies and procedures, system parameters, verifications, approvals and guidance available to staff when submitting overtime and expense claims. In this financial year, to the end of December 2022, £52,822.88 had been paid to staff in overtime and expense claims.

General guidance on the Council's time and expense claims procedure is available to staff and approving managers. This includes guidance on making and approving claims. However, there is scope to develop this guidance further and into one central location to maximise ease of use for the end user and ensure clarity on all key areas.

Testing performed by Internal Audit, on a sample basis, confirmed that controls and records of expense claims (excluding mileage) and overtime were comprehensive and accurate, resulting in timely payments to staff. In relation to mileage claims, sample testing highlighted errors in 14% of cases, whereby the incorrect rate had been paid. In 67% of those cases this was due to an individual on the Essential Car User scheme

claiming the higher Casual User mileage rate, despite receiving the Essential User lump sum and, as such, only being entitled to a lower rate per mile. Of the 22 claims tested, it was also found that five (23%) claimants started and/or ended their journeys at their home address but no home to work mileage was deducted. The Council's policies and procedures do not make any reference to deduction or calculation of home to work mileage and it is recommended that this be reviewed, to ensure a clear and consistent policy and compliance with related tax implications.

Further testing on a sample of staff allocated to the Council's Essential Car User scheme found that 16% of staff on the scheme had not submitted any mileage claims within the last nine months, indicating that car use for their role may not be essential. The Council should ensure that these schemes are subject to regular review to confirm that, as ways of working evolve, they remain value for money and appropriate.

Given the errors noted on the mileage claims, all of which had been approved by managers, there appears to be scope for training and guidance for approving managers on what to look for when reviewing/approving claims and/or the introduction of a checklist for approving managers to complete when reviewing such claims.

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

Assurance Opinion		
Control Environment	Satisfactory	●
Compliance	Satisfactory	●
Organisational Impact	Minor	●

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, 4 agreed actions have been implemented by officers. An overview is provided in Table 2.

At the time of reporting, there are 6 actions which remain overdue for implementation. Of these, there are 4 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 2022/23 Internal Audit Plan

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Governance & Counter Fraud							
Counter Fraud support / promotion / policies	Q2	Complete	Not applicable – consultancy work.	Fraud awareness week promotion in November 2022 and revision of website to promote fraud reporting routes.			
National Fraud Initiative	Q3	Ongoing	All data uploaded ahead of deadlines. Matches to be reviewed during 2023.				
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					
Procurement compliance	Q4	Fieldwork					
Key financial systems							
Bank reconciliation	Q3	Final report issued	Annual assurances over the bank reconciliation processes and controls, covering: <ul style="list-style-type: none"> - 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. 	Substantial	Substantial	Minor	Reported at January 2023 meeting
Creditors	Q3	Final report issued	Cyclical assurances over key processes and controls for the creditors system, covering: <ul style="list-style-type: none"> - Controls over supplier standing data; - Ordering of goods / services and approval of invoices for payment; and - Follow up of 2021/22 recommendations. 	Satisfactory	Good	Minor	Reported at January 2023 meeting

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Debtors	Q3	Final report issued	Cyclical assurances over key processes and controls for the debtors system, covering: <ul style="list-style-type: none"> - Policies and procedures - Control account reconciliations - Raising of debtor invoices - Credit notes and cancelled invoices - Follow up of 2021/22 recommendations. 	Substantial	Substantial	Minor	Reported at January 2023 meeting
Payroll	Q3	Final report issued	Cyclical assurances over key processes and controls for the payroll system, covering: <ul style="list-style-type: none"> - Inadequate or non-compliance with Council policies and procedures - Untimely or inaccurate payroll payments - Weak or ineffective procedures for processing new starters - Weak or ineffective procedures for processing leavers. 	Substantial	Good	Minor	See section 2.3
Treasury management	Q3	Final report issued	Cyclical assurances over key processes and controls for treasury management, covering: <ul style="list-style-type: none"> - Non-compliance with statutory and regulatory requirements and best practice guidance - Loss of monies due to poor risk management, uninformed decision making or fraud. 	Substantial	Substantial	Minor	See section 2.3
Budgetary control	Q3	Final report issued	Cyclical assurances over key processes and controls for budgetary control, covering: <ul style="list-style-type: none"> - Budget setting - Budget approvals - Savings and growth proposals - Integrated financial planning 	Substantial	Good	Minor	Reported at January 2023 meeting

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Key policy compliance							
Safeguarding	Q1	Final report issued	<p>To provide assurance that adequate and effective controls are in place to mitigate the risks identified below in respect of the Council's safeguarding arrangements:</p> <ul style="list-style-type: none"> - Lack of effective leadership and accountability impacts how the Council manages its safeguarding arrangements; - Inappropriate vetting and training of individuals has the potential to expose vulnerable adults and/or children resulting in harm; or - A safeguarding or child protection issue arises due to inadequate safeguarding protocols and procedures. 	Satisfactory	Satisfactory	Moderate	Reported at November 2022 meeting
Staff claims	Q4	Final report issued	<p>To provide assurance over the processing of staff claims for overtime, mileage and expenses. Assessing the design and compliance with controls to prevent and detect fraud and error; and ensure the consistent application of policies.</p>	Satisfactory	Satisfactory	Minor	See section 2.3
Enforcement policy compliance	Q2	Final report issued	<p>To provide assurance that sufficiently robust controls are in place for enforcement compliance, and operating consistently, to ensure that the risks identified are being managed and mitigated effectively. Areas covered:</p> <ul style="list-style-type: none"> - Enforcement plans, policies, protocols and procedures - Enforcement Officer training and guidance - Enforcement policy compliance. 	Satisfactory	Satisfactory	Moderate	Reported at January 2023 meeting

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Risk based audits							
Asset related audits – follow up	Q4	Fieldwork complete					
Performance management	Q4	Final report issued	To provide assurance that the Council's performance management arrangements assist the Council in delivering appropriate levels of services in accordance with the Corporate Plan and any other strategies, and that managers and Members are engaged effectively in the process.	Good	Satisfactory	Minor	See section 2.3
Assets of Community Value	Q1	Final report issued	To provide assurance over the Council's consistent and compliant handling of applications for community right to bid.	Good	Substantial	Minor	Reported at July 2022 meeting
Grant claims	As required	Complete		Returns completed, as required.			
IT audits							
IT asset management	Q2	Final report issued	To provide assurance over the Council's IT asset records and management – including both hardware and software.	Satisfactory	Satisfactory	Minor	Reported at January 2023 meeting
Cyber security	Q4	Planning work 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 implemented since last Committee meeting	-	-	4	57%	-	-	4	40%
Actions overdue by less than three months	-	-	1	15%	-	-	1	10%
Actions overdue by more than three months	2	100%	2	28%	1	100%	5	50%
Totals	2	100%	7	100%	1	100%	10	100%

Table 3 – Actions overdue more than three months (High or Medium priority)

Audit plan	Audit title	Agreed action and context	Priority	Responsible officer	Date for implementation	Officer update / revised date
Medium	ICT Manager	<p>Incident management planning There is no specific major malware breach incident plan in place to ensure the most effective and timely response to breaches, limiting impact and enabling recovery to be as effective as possible.</p> <p>Such a plan should include communications with the police and relevant third parties and would inform responses in the case of an incident.</p> <p>An incident management plan should be produced and should include template documentation and logs and details of communications with the police and key partners to support timely action and resolution.</p>	Medium	ICT Manager	31 March 2022	<p>February 2023:</p> <p>This has been drafted and is currently being reviewed before publication.</p>
2021/22	ICT Outages	<p>ICT Strategy A strategy/service plan should be developed and approved to set out the focus of the ICT service and timeframes for key projects. The team has limited resources, and these must be deployed in line with the Council's agree priorities</p>	High	ICT Manager	31 July 2022	<p>February 2023:</p> <p>Work will commence on this immediately after the Hardware and Infrastructure Renewal Plan is completed.</p>

Audit plan	Audit title	Agreed action and context	Priority	Responsible officer	Date for implementation	Officer update / revised date
2021/22	ICT Outages	<p>Infrastructure renewal plan An infrastructure renewal plan should be drafted and approved. This should link with the ICT strategy/service plan and inform budget setting.</p>	Medium	ICT Outages	31 July 2022	<p>February 2023: Work is planned to take place in March with the Hardware and Infrastructure Plan to be completed by end of March 23.</p>
2021/22	ICT Outages	<p>Lessons learnt reviews This audit review has effectively collated these lessons learnt for the incidents in question but going forward this exercise should be conducted and documented promptly following the event and reviewed by management. A template and timeframe for this should be included in the Incident Management Plan.</p> <p>The contract with the back-up provider should be reviewed to ensure it is robust in making obligations clear and enabling penalties/compensation to be applied for failure to deliver.</p>	High	ICT Manager	31 July 2022	<p>February 2023: As above, the Incident Management plan has been drafted and is being reviewed before publication.</p>

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 four survey responses received during the year to date.

Responses	N/A	Outstanding	Good	Satisfactory	Poor
Design of assignment	-	3	1	-	-
Communication during assignment	-	4	-	-	-
Quality of reporting	-	3	1	-	-
Quality of recommendations	1	2	1	-	-
Total	1	12	3	-	-

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 Members might expect to receive.

Compliance Assurances		
Level	Control environment assurance	Compliance assurance
Substantial ●	There are minimal control weaknesses that present very low risk to the control environment.	The control environment has substantially operated as intended and only minor/no errors have been detected.
Good ●	There are minor control weaknesses that present low risk to the control environment.	The control environment has largely operated as intended although some errors have been detected.
Satisfactory ●	There are some control weaknesses that present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
Limited ●	There are significant control weaknesses that present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
No ●	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact		
Level	Definition	
Major ●	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.	
Moderate ●	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.	
Minor ●	The weaknesses identified during the review have left the Council open to low risk. This could have a minor 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.