



**Internal Audit Progress and Performance Update**

**February 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 approximately 100% of the planned work.

Progress on individual assignments is shown in Table 1.

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

To date, five 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:

#### **Bank reconciliations**




The maintenance of accurate and complete bank reconciliations is vital to East Cambridgeshire District Council's overall financial control framework. Failure to carry out reconciliations in an accurate and timely manner may result in an inability to identify and correct errors, potential misstatement of accounts and unidentified fraud. The audit sought to review the design of the controls upon which the Council rely to mitigate this risk and establish the extent to which those controls are being complied with.

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

- Procedure notes are in place with only minor variations to current practice and there is resilience in the Finance Department to complete bank reconciliations in the event of unexpected staff absences.
- Bank reconciliations are carried out by appropriate officers and are subject to independent review and sign off. They are completed on a regular and timely basis and any extraordinary delays are accounted for.

- Detailed testing of a sample of reconciliations found that figures could be agreed to supporting evidence, reconciliations were accurate and arithmetically correct and there were no unexplained or unusual reconciling items. Unpresented cheques more than 12 months from the date of issue were generally written back, and cash in transit was promptly banked in the following period.

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

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

## **Payroll**

The audit of payroll 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. 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. The Council has a managed payroll service with MHR (a specialist HR and Payroll Software and services provider) and an in-house Payroll Officer.

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 contractual changes, new employees, leavers, payroll processing and control account reconciliations.

MHR are responsible for running the payroll calculation process and producing and distributing standard control and exceptions reports prior to processing the payroll payment. Audit review confirmed that BACS payments are suitably segregated and approved by authorised officers and there is sufficient review of control and exception reports by two officers, prior to approval.

Audit sample testing for 2023/24 has confirmed accurate and timely payments to staff and that key controls in relation to administering starters, leavers and contractual are robust and operating effectively. Control account reconciliations are carried out by appropriate officers and are subject to independent review and sign off. They are completed on a regular and timely basis and any extraordinary delays are accounted for. Detailed testing of a sample of reconciliations found that figures could be agreed to supporting evidence, reconciliations were accurate and arithmetically correct and there were no unexplained or unusual reconciling items.

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

Assurance Opinion		
Control Environment	Substantial	●
Compliance	Substantial	●
Organisational Impact	Low	●

### **Governance of Local authority trading company – East Cambs Street Scene**




East Cambs Street Scene (ECSS) is the company owned by East Cambridgeshire District Council incorporated in January 2018 to provide the recycling and waste service across the District. The Operational Services Committee acts as ‘shareholder committee’ for ECSS. 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).

Following review and amendment to senior management roles and responsibilities during the course of this audit, the governance documentation now requires updating. This may also provide a timely opportunity for training be provided for company directors to ensure their roles and responsibilities are clarified and roles going forward are consistently exercised. An assessment against the CIPFA guidance has generally provided assurance that key requirements have been addressed within the Memorandum of Understanding and Shareholder Agreement but this also highlighted some recommended elements which are not currently or clearly addressed within the existing governance documentation.

Risk management in relation to this trading company arrangement is delivered at different levels / perspectives - both in 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. A key risk relates to financial pressures and this has been clearly recognised as part of amendments made during the course of the audit, to strengthen reporting on budgetary performance. Greater clarity has now been documented in relation to reporting of forecast overspends and there may be scope to reflect on other types of risks where a tolerance can be set for escalation/reporting to the Council.

A new suite of performance indicators was implemented in 2023 with the development of an ECSS Performance Dashboard allowing clear and transparent reporting. Sample testing by Internal Audit confirmed that, for those indicators selected, targets and methodology for calculation were clearly defined; supporting, raw data was available, with an audit trail; and accuracy of reported performance could be verified.

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

Assurance Opinion		
Control Environment	Moderate	
Compliance	Good	
Organisational Impact	Medium	

### Cyber security

Robust arrangements for establishing, developing and maintaining cyber security are fundamental to delivery of the Council's corporate objectives. Cyber security arrangements are intended to protect the cyber environment of the Council.




Cyber threats are not new, but the focus on cyber security has increased due to many high profile disruptive and damaging security incidents and breaches. Cyberspace and the internet have provided significant benefits and opportunities for organisations, however, this comes with an ever increasing level of risk that needs to be managed. Hackers, insiders, criminals and nation states have a range of motives for stealing, disrupting or destroying information and the IT systems that rely upon them.

The Council's in-house team provide hardware (laptops, desktops and servers) as well as support for all staff users, Members and two trading companies.

The scope of the audit was to provide high level assurance over risk management arrangements for cyber security, including preventative and detective controls, and progress made in relation to actions arising from the latest IT health check and audit coverage. In overall terms, the audit confirmed that the Council has a range of preventative and detective controls in place. Review of the remediation plan put in place to address the 250 critical and high risk issues identified in the November 2022 penetration test (many were multiples of the same basic finding around updates to software) identified that management has addressed almost all of these, with action still ongoing in only four instances. Some recommendations have been made where action can be taken to further improve the control environment.

Internal Audit cannot provide technical assurance over the operation of controls in this area nor perform penetration testing, but place reliance on sources of assurance, including ICT health checks, Public Sector Network compliance certification and remediation plan records.

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

Assurance Opinion		
Control Environment	Good	
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 Committee meeting, ten agreed actions have been implemented by officers. An overview is provided in Table 2.

At the time of reporting, there are five actions which remain overdue for implementation. Of these, there is one action categorised as 'Medium' priority which is 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>	See section 2.3
Creditors	Q4	Fieldwork underway					
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>	See section 2.3

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Debtors	Q4	Fieldwork underway					
Treasury management	Q4	Draft report					
Budgetary control	Q4	Fieldwork underway					
<b>Key policy compliance</b>							
Fees and charges	Q1	<b>Final report issued</b>	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.	<b>Moderate</b>	<b>Moderate</b>	<b>Medium</b>	Reported in July 2023
Payment Card Industry Data Security Standard (PCI DSS)	Q1	<b>Final report issued</b>	To review the Council's compliance with the Payment Card Industry Data Security Standard (PCI DSS) in handling of customer payments.	<b>Limited</b>	<b>Moderate</b>	<b>Medium</b>	Reported in October 2023
<b>Risk based audits</b>							
Use of agency staff and consultants	Q1	<b>Final report issued</b>	To provide assurance on procurement and management of agency staff and consultants to secure value for money and compliance with policies and IR35.	<b>Moderate</b>	<b>Moderate</b>	<b>Medium</b>	Reported in October 2023
Information governance	Q2	<b>Final report issued</b>	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.	<b>Good</b>	<b>Good</b>	<b>Low</b>	Reported in October 2023
Community Infrastructure Levy	Q2	Draft report					
Governance of trading companies – East Cambs Street Scene	Q2	<b>Final report issued</b>	To provide assurances over the Council's management of this trading company arrangement in relation to robust governance, risk management,	<b>Moderate</b>	<b>Good</b>	<b>Medium</b>	See section 2.3



Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
			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).				
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	<b>Complete</b>		<b>Disabled facilities grant audit complete</b>			
<b>IT audits</b>							
Cyber security	Q2	<b>Final report issued</b>	High level assurances over actions taken since last audit; IT healthchecks; and pro-active work on preventative and detective controls.	<b>Good</b>	<b>Good</b>	<b>Low</b>	See section 2.3
<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>			

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
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	1	100%	8	73%	1	33%	10	67%
Actions <b>overdue by less than three months</b>	-	-	2	18%	1	33%	3	20%
Actions <b>overdue by more than three months</b>	-	-	1	9%	1	33%	2	13%
<b>Totals</b>	<b>1</b>	<b>100%</b>	<b>11</b>	<b>100%</b>	<b>3</b>	<b>100%</b>	<b>15</b>	<b>100%</b>

**Table 3 – Actions overdue (High or Medium priority)**

<b>Audit plan</b>	<b>Audit title</b>	<b>Agreed action and context</b>	<b>Priority</b>	<b>Responsible officer</b>	<b>Date for implementation</b>	<b>Officer update / revised date</b>
2022/23	Procurement compliance	A new SLA to be prepared and signed for spend on homelessness.	Medium	Housing & Community Advice Manager	31/07/2023	SLA drafted and sent to provider some months ago – chasing provider weekly for response.
2022/23	Staff claims	Approving manager training and guidance - All approving managers to receive training and guidance on what to look for when approving time and expense claims. Delivery of this training could be virtual or face to face.  Along with the implementation of a checklist to aid in the accurate review/approval of claims.	Medium	HR Team, HR Officer & HR Manager	29/12/2023	The policy includes a new checklist for employees and managers to aid in the accurate submission and approval of claims. The HR Officer has adapted her HR induction checklist to ensure new staff are advised of the requirements of the new policy. Work underway to brief existing managers by 31 March 2024.
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.

## 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 five survey responses received during the year to date.

Responses	N/A	Outstanding	Good	Satisfactory	Poor
Design of assignment	-	2	2	1	-
Communication during assignment	-	2	3	-	-
Quality of reporting	-	2	3	-	-
Quality of recommendations	-	2	2	1	-
<b>Total</b>	-	<b>8</b>	<b>10</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.