

Internal Audit Progress Report

To: Audit Committee

Date: 14th March 2022

From: Chief Internal Auditor

[W153]

1. ISSUE

- 1.1. To advise Members of the work of Internal Audit completed during the financial year to date, and the progress against the Internal Audit Plan.

2. RECOMMENDATION

- 2.1. That the Committee notes the progress made by Internal Audit in the delivery of the Audit Plan and the key findings.

3. BACKGROUND/OPTIONS

- 3.1. The role of Internal Audit is to provide the Audit Committee, and management, with independent assurance on the effectiveness of the internal control environment. Internal audit coverage is planned so that the focus is upon those areas and risks which will most impact upon the Council's ability to achieve its objectives.
- 3.2. At the time of reporting, 100% of assignments within the plan are either complete or in progress. In addition to this planned work, the Internal Audit team have assisted with extensive counter fraud work in relation to pre/post payment checks on Covid-19 business grants.
- 3.3. Since the last Audit Committee update, two actions arising from audit reports have been implemented by officers. There are seven actions which remain overdue and are subject to ongoing follow up from Internal Audit.

4. ARGUMENTS/CONCLUSIONS

- 4.1. The attached report (Appendix 1) informs Members on the progress to date against the Audit Plan.

5. FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT

- 5.1. There are no additional financial implications arising from this report. Equality and Carbon Impact Assessments are not required.

6. APPENDICES

- Appendix 1 – Internal Audit Update Report – March 2022

Background Documents

None

Location

Internal Audit,
Room 207
The Grange, Ely

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Agenda Item 8
Appendix 1



EAST CAMBRIDGESHIRE
DISTRICT COUNCIL

EAST CAMBRIDGESHIRE DISTRICT COUNCIL
INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE
MARCH 2022

Introduction

- 1.1 The Internal Audit service for East Cambridgeshire District Council provides 210 days to deliver the 2021/22 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 2021/22 Audit Plan

At the time of reporting, fieldwork is either complete or underway in relation to 100% of the planned work. All assignments in fieldwork stages at the time of reporting are scheduled for completion in March 2022.

In addition to the planned assignments, the Internal Audit team have also assisted in processing a further five batches of pre-payment checks for Covid-19 business recovery grants, using the National Fraud Initiative data matching tool.

Progress on individual assignments is shown in Table 1.

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

To date, one survey response has been received in relation to feedback on completed assignments for the 2021/22 audit plan and results are 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, five audit reports have been finalised. The key findings from the reports were as follows:

Treasury management

The Council is responsible for its treasury decisions and activity and must ensure that it complies with treasury management regulations and best practice, whilst balancing the security and return on investments. The Council has remained debt free, and at the end of November 2021, investments with approved counterparties totalled £31 million.

Overall the governance arrangements for treasury management were found to be sound. The Council has in place a Treasury Management Strategy for the financial year 2021/22 and has also

produced a Capital Strategy for the financial year 2021/22 in accordance with the revised CIPFA Prudential and Treasury Management Codes. These were approved by Full Council in February 2021. 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. Testing of a sample of investments recalled confirmed that there was a justified reason for monies to be recalled, they were appropriately authorised and had been received back into the Council’s bank account on the due date.

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 Manager. At the time of the audit these had been completed up to November 2021. Testing of two months’ reconciliations confirmed that they had been completed 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	●

Fixed assets

It is important for the Council to track fixed assets for the purposes of financial accounting, preventative maintenance, and theft deterrence. Accuracy and completeness of the financial information used in the Council’s Statement of Accounts relies on the accurate and timely update of fixed asset records.

The Council’s fixed asset register is updated on an annual basis to ensure that assets are accurately reflected in the Statement of Accounts. The Council is currently implementing fixed asset software to facilitate the maintenance of fixed asset records. This will significantly improve the control environment, removing the risks associated with manual spreadsheet records and should enable the real time updating of the register during the financial year. This also provides an ideal opportunity to formalise associated controls and refresh data - such as ensuring that all assets have been assigned to named custodians and to conduct a review of all useful life estimates to ensure these are consistently aligned with latest CIPFA guidance or independent valuations.

Physical verification testing performed by Internal Audit, on a sample basis, confirmed that records of vehicles and plant listed in the fixed asset register were accurate and complete – with the exception of one ride on mower seen on site which was not included in the asset register (approx. value of £40K) and two mowers purchased by the trading company in 2019 (approx.

£36k in total). It was noted that one item of plant/machinery which had been traded in some years ago was still included on the register, albeit at nil net book value. It is recommended that a formalised regime for physical verifications and annual assurance statements from asset custodians be introduced and that expected processes for procuring and recording of company assets be clarified. It is noted that all assets in the sample had been promptly added to the Council's insurance cover, despite not being included on fixed asset records – as such there is scope to align these processes and ensure this information is used to inform fixed asset recording.

The Council's Constitution sets out the controls and delegated limits associated with the acquisition, disposal, transfer and write off of fixed assets. Sample testing of acquisitions and disposals confirmed compliance with applicable expected controls. Evidence was available to demonstrate compliance with Contract Procedure Rules in the procurement of assets. There had been no asset disposals noted for the year to date, but two disposals from 2020/21 were selected for testing and in both cases evidence of prior committee approval was available.

Land and buildings are subject to periodic valuation. Sample testing confirmed that valuations had been completed within the last four years and were consistent with the latest figures recorded within the asset register.

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

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

Climate change strategy

On 17th October 2019, Full Council passed a 'climate change motion', which declared a climate change emergency and agreed a number of actions to take place. One such action was to task the Operational Services Committee with the preparation of an Environment & Climate Change Strategy & Action Plan (Environment Plan). The first Environment Plan was adopted in June 2020, a fully refreshed Plan being approved in June 2021. The objective of the review was to provide assurance over the embedding of the new Environment & Climate Change Strategy and Action Plan and the effective delivery of the associated actions and vision.

The Council has made good progress to implement the actions included in the Environment & Climate Change Strategy & Action Plan. Review of documentation and testing of specific areas confirmed that the approved Environment & Climate Change Strategy & Action Plan has been published on the Council's website and there are regular reports to the Operational Services Committee on progress made. There is evidence of the wider acknowledgement of climate change across the Council for example through the introduction of a Climate Impact Assessment to be completed for all key decisions, the approval of two new Supplementary Planning Documents and working with Palace Green Homes to adopt a sustainability policy. The Council has approved an annual budget of £100k to deliver the Action Plan and to secure additional officer support.

One of the actions included in the first Environment & Climate Change Strategy & Action Plan was to identify/develop a training course for all staff and members to complete by 31st December 2021. The HR Manager advised that to date only 25% of staff and members had completed the training. The Council should aim for 100% completion of the training and should consider what actions can be taken to ensure this is achieved. In addition, the Council should review the present training material to ensure coverage of climate change more generally.

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

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

Covid-19 recovery

In responding to the pandemic local authorities have had to develop new ways of working to support local communities and businesses and ensure that services continue to be delivered whilst safeguarding staff and local residents. The national lock-downs required the rapid establishment of local support systems, remote working arrangements and application of flexible governance and internal control arrangements. Now that national restrictions have been lifted councils are focusing on recovering to business as usual whilst remaining vigilant and ensuring any efficiencies associated with new working practices are retained. This audit included a limited review of the Council's initial response to the pandemic but focused primarily on management of the recovery stage, including re-establishing effective governance and internal control arrangements.

Based on discussion with officers and review of documentation, it is evident that appropriate governance and decision making structures were put in place as part of the initial response to the pandemic, consistent with the Council's business continuity plans. Testing confirmed that arrangements were also in place for ensuring all decisions were properly recorded, although these could be strengthened through the development of a standard template to improve the audit trail. The Strategic Business Continuity plan is currently being updated to ensure it remains fit for purpose and takes account of any lessons learned.

Arrangements for management of the recovery process are also sound. Governance structures were refined as the Council moved through recovery phases and were supported by comprehensive action plans, good communications and appropriate performance management of the recovery process. These arrangements and associated recovery actions were found to be broadly consistent with the other councils in Internal Audit's client base, albeit the format and structure varies between authorities. Reinstatement of service planning and associated performance reporting from April 2022 should ensure that the ongoing impact of the pandemic is incorporated into service plans and policies going forward. It is recommended that a full and final update report be prepared for Members to provide an up-to-date position on the recovery and reflect on the hard work, achievements and lessons learned along the way.

No significant new or increased risks have been identified arising from new ways of working, although management should continue to monitor these arrangements as the new remote

working policy becomes fully embedded and take appropriate action if any additional risks emerge.

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

Assurance Opinion		
Control Environment	Good	●
Compliance	Substantial	●
Organisational Impact	Minor	●

ICT email outages – lessons learnt review

During 2021 and 2022 to date, the Council experienced four outages of its Microsoft Outlook email system – once in February 2021, twice in July 2021 and once in January 2022. The longest outage of the live email system being three days (with full restoration taking up to 13 working days). The email server is classed as a ‘high priority’ system within the Council’s Disaster Recovery Plan and, as such, is assigned a target one day recovery time in the case of an incident/outage. The objective of this review by Internal Audit was to establish the root cause of these incidents, how they were resolved and the lessons learnt, including any further actions that are recommended to strengthen controls going forward.

It has been established that the outage in February 2021 was due to the Council’s transaction log data exceeding its permitted limit on the server. This arose due to a failure of back up arrangements with the Council’s back up provider to suitably back up and then clear these logs at regular intervals. Regular checks are now conducted by Council officers to ensure this process is operating effectively.

The two incidents In July 2021 were due to corruption within the Microsoft Exchange transaction logs. The Council retains an on premise Exchange server, where this data is held, and is therefore reliant on the restoration of this server to maintain the email system. It became apparent during the recovery phases that restoration of the data was not resolving the root cause as the corrupt data was being restored as part of the back-up from the server. There is a possibility that the corruption of the data occurred as a result of the data limits being exceeded in February 2021 – but the definite cause cannot be evidenced and could not be confirmed by Microsoft following their own investigations.

The data corruption issue was ultimately resolved in August 2021 via a full and time consuming restore of the Exchange server from mailbox records and a reconfiguration of back up arrangements. There have been no further issues with corruption of files within the Exchange server since this was completed and it is understood that file restorations since this was completed are running notably faster.

The incident in January 2022 was part of a national outage of Microsoft Exchange servers due to the ‘Y2K 22 bug’. This was not specific to the Council but only affected organisations which retained on premise Exchange servers. Due to the IT service not providing an out of hours service, this was investigated on the first working day of the year and resolved the following day and was reliant on responses from Microsoft.

All of these incidents related to the Microsoft Exchange server and the current project to transfer to Office 365 is a positive move to align with latest best practice and address the risks associated with retaining an on premise server. The server remains under extended support but it is recommended that the plans for this server be formally documented and agreed, taking account of associated risks and issues, to confirm whether any on premise server will be retained following the Office 365 roll out.

This review sought to provide a reflection upon the incidents and capture lessons to be learnt which should be taken forward as management actions. These include actions associated with:

- improving incident management (i.e. record keeping/communication logs; audit trails to capture the response and decision making; and a subsequent review of lessons learnt/actions required);
- pro-active testing of systems and disaster recovery plans;
- formalising monitoring strategies;
- reviewing use of the 'public folder' and data held within this; and
- development of an IT strategy/service plan and infrastructure replacement plan to prioritise project work and inform investment in IT assets.

It is understood that some of these actions were already planned and the gaps in documentation had been identified internally following the incidents. There is also scope to review the Council's support packages and conduct a cost benefit analysis of investing in 24/7 support from providers, which would provide a higher level of support, including out of hours, to assist with responding to such incidents in future.

Due to the nature of this review, no assurance opinions can be assigned, but a detailed action plan has been agreed with management to address the matters arising. These actions will be subject to follow up review by Internal Audit.

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

At the time of reporting, there are seven actions which remain overdue for implementation. Of these, there is one action categorised as 'Essential' which is more than three months overdue, further details are provided in Table 3.

Table 1 - Progress against 2021/22 Internal Audit Plan

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Governance & Counter Fraud							
Counter Fraud support / promotion	Q4	Complete	Review of ethical governance policies completed and report issued.	Consultancy			Reported to Committee in January 2022
National Fraud Initiative	Q3	As required	Not applicable	Consultancy			
Risk Management support	Q1 – Q4	In progress	Not applicable	Consultancy			
Annual Governance Statement support	Q1	Complete	Not applicable	Consultancy			
Procurement compliance	Q4	Fieldwork underway					Awaiting evidence from officers for testing in March 2022
Key Financial Systems							
Bank Reconciliation	Q3	Final report issued	To review the design of, and compliance with, key controls within the Council's financial systems, working on a cyclical basis. Providing assurance over the controls to prevent and detect fraud and error.	Substantial	Good	Minor	Reported to Committee in January 2022
Creditors	Q4	Fieldwork underway					Delivery in March 2022

					Assurance Opinion				
Assignment		Planned start	Status		Assurance sought	Control Environment	Compliance	Org impact	Comments
Debtors		Q4	Fieldwork underway						Delivery in February and March 2022
Payroll		Q4	Draft report issued						Report with management for comment
Treasury Management		Q3	Final report issued		<i>To review the design of, and compliance with, key controls. Providing assurance over the controls to prevent and detect fraud and error.</i>	Substantial	Substantial	Minor	See section 2.3
Fixed Assets		Q3	Final report issued		<i>To provide assurance over the controls in place to record and track fixed assets for the purposes of financial accounting, preventative maintenance, and theft deterrence.</i>	Satisfactory	Satisfactory	Minor	See section 2.3
Budgetary Control		Q3	Fieldwork underway						Delivery in March 2022
Financial Management Code (consultancy)		Q4	Fieldwork underway						Awaiting self-assessment for review in March 2022
Key policy compliance									
Staff recruitment checks		Q1	Final report issued		<i>To provide assurance that appropriate processes are in place to ensure that the recruitment process is clearly documented, including appropriate checks to prevent and detect recruitment fraud.</i>	Substantial	Substantial	Minor	Reported to Committee in November 2021

					<i>Assurance Opinion</i>			
<i>Assignment</i>		<i>Planned start</i>	<i>Status</i>	<i>Assurance sought</i>	<i>Control Environment</i>	<i>Compliance</i>	<i>Org impact</i>	<i>Comments</i>
Risk based audits								
Covid-19 recovery		Q3	Final report issued	<i>To provide assurance over the Council's arrangements for recovering from the Covid-19 pandemic and ensuring that appropriate governance and internal control arrangements remain in place.</i>	Good	Substantial	Minor	See section 2.3
ICT outages – lessons learnt review		Q3	Final report issued	<i>To review the lessons learnt from the outages of the email system during 2021 and 2022; and any actions arising to strengthen controls going forward.</i>	Lessons learnt review – not compliance audit			See section 2.3
Environment and climate change strategy		Q2	Final report issued	<i>To provide assurance over the embedding of the new Environment and Climate Change Strategy and the effective delivery of the associated actions and vision.</i>	Substantial	Substantial	Minor	See section 2.3
Development control		Q2	Final report issued	<i>Assurance that the Council operates in accordance with key legislation, monitors and progresses issues to an appropriate conclusion and demonstrates transparency in terms of processes, communication with the public and decisions reached.</i>	Substantial	Substantial	Minor	Reported to Committee in November 2021
Disabled facilities grants		Q2	Verification completed	<i>Verification completed and sent to Cambridgeshire County Council.</i>	Not applicable			Reported to Committee in November 2021

Table 2 - Implementation of Audit Recommendations

	'Essential' priority recommendations		'Important' priority recommendations		'Standard' priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and implemented since last Committee meeting	-	-	1	20%	1	50%	2	22%
Actions overdue by less than three months	1	50%	4	80%	1	50%	6	67%
Actions overdue by more than three months	1	50%	-	-	-	-	1	11%
Totals	2	100%	5	100%	2	100%	9	100%

Table 3 – Actions overdue more than three months (Essential or Important priority)






Audit plan	Audit title	Agreed action and context	Priority	Responsible officer	Date for implementation	Officer update / revised date
2020/21	Contract extensions	<p>Review and update of the Contracts Register.</p> <p>Services should identify all contracts, including contract extensions, over £5,000 which are not yet on the Contracts Register and provide the required details to Legal Services.</p>	Essential	Finance Manager	31/10/2020	<p>The Finance team have conducted a review of spend reports to identify potential suppliers who are not included on the Contracts Register.</p> <p>The legal team are working with the relevant service leads to establish any gaps in contract register entries. Of the 36 suppliers identified, there are three where remaining evidence is being sought to complete the exercise.</p> <p>Testing is currently underway as part of the Procurement Compliance audit for 2021/22.</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 has been one survey response received during the year to date.

Responses	Outstanding	Good	Satisfactory	Poor
Design of assignment	1	-	-	-
Communication during assignment	1	-	-	-
Quality of reporting	1	-	-	-
Quality of recommendations	-	-	-	-
Total	3	-	-	-

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 although some minor 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 Finance and Assets 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.

