



Internal Audit Progress and Performance Update

April 2025

1. Introduction

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

2. Performance

Delivery of the 2024/25 Audit Plan

- 2.1 At the time of reporting, 93% of audit assignments are completed to at least draft report stage, with only one audit to fully complete and all on track to be finalised ahead of the annual internal audit report for 2024/25. The Internal Audit service has a target to deliver at least 90% to draft report stage by 31st March, which has been met. Progress on individual assignments is shown in Table 1.

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

- 2.2 To date, seven survey responses have been received in relation to feedback on completed assignments for the 2024/25 audit plan. This is summarised in Table 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?

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

Bank reconciliations

The maintenance of accurate and up to date accounts is vital to the Council's financial control framework. The bank reconciliation process ensures that transactions appearing in the Council's accounting records are compared with bank statements allowing for discrepancies to be promptly identified and managed. This audit sought assurance on the design of, and compliance with, key controls for reconciliations carried out of the Council's consolidated bank account.

In summary, the audit found that bank reconciliations are performed on a monthly basis in compliance with the Council's Financial Procedure Rules. Finance officers complete two reconciliations, a monthly reconciliation that compares transactions in the cashbook and financial management system (Agresso) with bank statements, and a cumulative reconciliation to check that the figures balance across the financial year. Operating procedures detailing how to complete the reconciliations are in place. The documents are version controlled; however, it would be beneficial to add review dates to ensure that they remain current.

A review of all 2024/25 monthly and cumulative bank reconciliations completed at the time of audit (April 2024 to November 2024) found that the reconciliations were generally completed within a reasonable time from month end. However, three monthly reconciliations (July 2024, August 2024 and November 2024) had not been dated therefore the timeliness could not be assessed. Similarly, there was evidence that most reconciliations had been independently reviewed by a senior officer. However, two monthly reconciliations (August 2024 and November 2024) had not been signed by a reviewing officer, therefore separation of duties could not be assessed. Officers should ensure that all reconciliations are independently reviewed and signed and dated by both the preparing officer and the reviewing officer in accordance with procedure.

Detailed testing of a sample of bank reconciliations found that most figures agreed to supporting evidence and that the arithmetic was generally correct. However, an issue was identified in the November 2024 monthly reconciliation. Errors in the spreadsheet formulas used to calculate the reconciliation figures resulted in discrepancies between the cashbook, financial management system and bank statement figures. A further review of all 2024/25 monthly reconciliations found similar issues in the May 2024 and September 2024 spreadsheets. These reconciliations had been reviewed by a senior officer; however, it did not appear that the variances were identified at the time. This has been raised with the Director Finance and the formulas have since been corrected. Recalculations confirmed that the reconciliations were balanced, with no errors or variances between the accounts. Officers should ensure that the review process is strengthened to provide assurance that any variances are investigated in all future reconciliations.

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

Assurance Opinion	
Control Environment	Good (Green)
Compliance	Moderate (Amber)
Organisational Impact	Low (Green)

Payroll

The audit of payroll forms part of the 2024/25 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 audit assessed the effectiveness, accuracy and compliance of the payroll process with relevant policies, procedures and legislative requirements. The audit focussed on

user access controls, system parameters, non-standard payments and deductions, and the management of new starters and leavers.

Audit sample testing for 2024/25 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 15 non-standard payments and deductions (e.g. bonuses, acting up allowance, overtime claims etc.) found that all had been processed accurately, were properly supported and approved in accordance with relevant policies.

Furthermore, access to the iTrent system is appropriately restricted to authorised personnel, and the system, provides sufficient audit trail functionality, ensuring traceability and oversight of payroll related activities.

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

Assurance Opinion	
Control Environment	Substantial (Green)
Compliance	Substantial (Green)
Organisational Impact	Low (Green)

Treasury management

The 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; and the effective control of the risks associated with those activities. The Council must ensure compliance with statutory guidance and codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Ministry of Housing, Communities and Local Government (MHCLG) when setting up and approving its treasury management arrangements. This audit sought 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 summary the audit found that the Council has a formally approved Treasury Management Strategy that complies with statutory guidance for local government investments. There is an approved list of counterparties along with minimum acceptable credit criteria, monetary limits and maximum maturity periods. The Council use external treasury management advisers to acquire access to specialist resources and the terms of their appointment are formally documented. Treasury management activities are subject to regular reporting and scrutiny by the Finance and Assets Committee and Full Council. Officers and Members with responsibility for treasury management activities have received appropriate training for their duties. There are also procedures in place to monitor daily cashflow and identify opportunities to invest or drawback monies.

Testing of a sample of investment transactions found that segregation of duties for initiating and authorising investment transactions is in place. The investment transactions were accurately recorded and there was a clear audit trail of supporting documentation to evidence decision making. Investments are reconciled to the financial management system on a monthly basis. Insurance cover is also in place to provide protection against loss and fraud.

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

Assurance Opinion	
Control Environment	Substantial (Green)
Compliance	Substantial (Green)
Organisational Impact	Low (Green)

2.4 Implementation of audit recommendations by officers

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

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

At the time of reporting, there is one action which is overdue for implementation – this relates to a strategy for private sector housing. Work on this is progressing but is subject to feedback from external partners and is due to be presented to Operational Committee in June 2025.

Table 1 - Progress against 2024/25 Internal Audit Plan

				Assurance Opinion			
Assignment	Planned start	Status	Assurance sought	Control Environment	Compliance	Org impact	Comments
Key financial systems							
Bank reconciliations	Q4	Final report issued	<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>	Good (Green)	Moderate (Amber)	Low (Green)	See section 2.3
Payroll	Q3	Final report issued	<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>System access and parameters; Calculation of pay and deductions; Additional payments; Starters; and Leavers.</p>	Substantial (Green)	Substantial (Green)	Low (Green)	See section 2.3

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Accounts payable	Q4	Draft report issued					
Accounts receivable	Q4	Draft report issued					
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.	Substantial (Green)	Substantial (Green)	Low (Green)	See section 2.3
Medium term financial strategy	Q3	Final report issued	To provide assurances over the processes in place to inform the medium term financial strategy and linking this to associated strategies.	Good (Green)	Substantial (Green)	Low (Green)	Reported in February 2025
Key policy compliance							
Decision making and delegations	Q1	Final report issued	To provide assurance over compliance with the Council's Constitution and scheme of delegation in relation to decision making and evidence of compliance with delegated powers.	Moderate (Amber)	Good (Green)	Medium (Amber)	Reported in November 2024
UK Shared Prosperity Fund (UKSPF)	Q3	Final report issued	To provide assurance over the use of UKSPF monies (£839k); compliance with the terms and conditions; and consistent application of approved criteria for awarding grant monies.	Good (Green)	Good (Green)	Low (Green)	Reported in February 2025
Procurement compliance	Q4	Draft report issued					

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
Risk based audits							
Major project – Bereavement Centre	Q1	Final report issued	To provide assurance over the project management arrangements in place to support delivery of this major projects on budget, within timescales and to expected standards. To include assurances at key stages of the project in relation to risk/issue management, governance and decision making, communications, project resources, project planning, quality management, benefits realisation and cost management.	Good (Green)	Good (Green)	Low (Green)	Reported in February 2025
Supporting vulnerable people	Q1	Final report issued	To seek assurance on the arrangements for supporting vulnerable customers and meeting legal duties (i.e. domestic abuse / antisocial behaviour / safeguarding arrangements / financial advice); adapting to and providing for emerging needs (i.e. cost of living / asylum contingency and dispersal / refugees); and ensuring support mechanisms including cost of living support funds have been designed to meet the needs of the right people and administered in accordance with expected controls.	Substantial (Green)	Good (Green)	Low (Green)	Reported in November 2024
Housing allocations and homelessness	Q4	Draft report issued					
Planning service review	Q4	Fieldwork underway					
Grant claims	All year	Complete					

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

Table 2 - Implementation of agreed management actions

	'High' priority recommendations		'Medium' priority recommendations		'Low' priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and implemented since last Committee meeting	-	-	-	-	3	100%	3	75%
Actions overdue by less than three months	-	-	-	-	-	-	-	-
Actions overdue by more than three months	-	-	1	100%	-	-	1	25%
Totals	1	100%	1	100%	3	100%	4	100%

Table 3: 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. The standard CSQ asks for the client's opinion on four key aspects of the assignment. The responses received in the year to date are set out below.

Aspects of Audit Assignments	Not applicable	Outstanding	Good	Satisfactory	Poor
Design of Assignment	-	7	-	-	-
Communication during Assignments	-	7	-	-	-
Quality of Reporting	-	7	-	-	-
Quality of Recommendations	2	3	2	-	-
Total	2	24	2	-	-

Glossary

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

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

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

Limitations and responsibilities

Limitations inherent to the internal auditor's work

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

Opinion

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

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

Internal control

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

Future periods

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

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

Responsibilities of management and internal auditors

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

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