



EAST
CAMBRIDGESHIRE
DISTRICT COUNCIL

Minutes of a meeting of the Audit Committee held in the Council Chamber, The Grange, Nutholt Lane, Ely, on Monday, 10 January 2022, at 4.30pm.

PRESENT

Cllr Lis Every (Chairman)
Cllr Charlotte Cane
Cllr Mark Inskip
Cllr Alan Sharp

OFFICERS

Ian Smith – Finance Manager
Maggie Camp – Legal Services Manager
Tracy Couper – Democratic Services Manager
Russell Wignall – Legal Assistant

27. **PUBLIC QUESTION TIME**

No public questions were received.

28. **APOLOGIES AND SUBSTITUTIONS**

Apologies for absence were received from Councillor Daniel Schumann.

29. **DECLARATIONS OF INTEREST**

No declarations of interests were made.

30. **MINUTES**

The Committee received the Minutes of the meeting held on 22 November 2021.

A number of questions relating to the Minutes had been submitted by Members prior to the meeting and these, along with answers provided by officers, were set out in Appendix 1 to these minutes.

The Chairman reported that she had received a number of requested amendments to the Minutes from Councillor Cane. She explained that one of these had related to the omission of Appendix 1 detailing Member questions and answers and this had been corrected, with amended version circulated to Councillors and published on the website. She apologised for the omission. The Chairman stated that the remainder of the amendments appeared to be differences in interpretation.

The Chairman reminded Members that Minutes were intended to be an accurate, concise and balanced summary of the main points discussed and agreed at a meeting and not a verbatim record. It was for the relevant Committee at the following meeting to determine whether this was the case and Members could propose, via a Motion, any valid corrections believed to be required on the grounds of accuracy in accordance with Council Procedure Rule 14.

The Chairman stated she had considered Councillor Cane's amendments and taken advice from officers and proposed the following Motion which was seconded by Councillor Sharp:

"That the Minutes be confirmed as a correct record and signed by the Chairman subject to the following amendment:

page 3, 5th paragraph, amend to read:

'External Audit expected to give an unqualified opinion on the authority's financial statements once all the necessary adjustments had been made.'

Councillor Cane questioned why the Chairman was not taking the remainder of the amendments and the Chairman reiterated that she had considered these and believed them to be more about differences in interpretation than accuracy. The Chairman read out Council Procedure Rule 14 for the sake of clarity.

Councillor Cane then proposed an amendment which was seconded by Councillor Inskip that the Minutes be amended to include all of her requested amendments as follows:

'1 - Item 21 – just over halfway down P3 it states "However, External Audit had given an unqualified opinion on the authority's financial statements." This statement is incorrect and the External Auditor did not say this. I suggest you check this with him, but I think he said that he expected to give an unqualified opinion once all the necessary adjustments had been made.

2 – Item 21 – 3 para from the bottom of P4 it states "Mr Hodgson stated that it would not make a difference from a public perspective but was significant in accounting terms, although it did not affect the outturn position." This is incorrectly recorded. What he actually said was "The misclassification of Covid related Grant income was unlikely to make a difference from a public perspective and made no difference to the outturn. The error in consolidation also did not affect the outturn but both errors were material."

3 – Item 21 - 2 para from the bottom of P4 starts with "Despite the above explanations..." This is a wholly inappropriate statement, which nobody made at the meeting, and should be deleted.

4 – Item 21 – 2 para from the bottom of P4 where it says "governance processes were improved to prevent such situations arising in the future." Is too vague – what was said was - governance processes were improved to ensure the audited and approved trading company accounts were received by ECDC in good time to consolidate the accounts before the audit.

5 – Item 22 - 3 para – should say "A motion to accept the recommendation in the report to approve the Statement of Accounts, subject to non-material changes, was proposed.

6 - Item 22 – 4 para from the bottom of P5 is missing a sentence. After “a member requested...material changes required.” It should say – Another member asserted that the changes were not material.

7 – Item 22 3 para from the bottom of P5 incorrectly records what the External Auditor said. It should say – Mr Hodgson confirmed that they were material, even though there was no impact on the outturn.

8 – Item 22 2 para from the bottom of P5 incorrectly records the discussion. It should say – Some members expressed their unwillingness to approve the resolution because as worded it would only allow non-material changes to the accounts being approved when it had already been clarified that material changes were required if the auditor was to give an unqualified opinion.

9 – Item 22 after the revised motion is set out it should say – a member expressed concern at approving accounts which were known to have material errors which members had only been informed of at the meeting and for which only verbal explanations had been given.

10 – Item 23 final para before the resolution – the discussion is incorrectly reported. It should say – the member asked why the committee was told at their July meeting that the leases had been signed when the Internal Audit report showed that they had still not been signed at the date of the report to this meeting.

11 – Item 24 – this is missing part of the discussion – A member asked the Chief Executive what significant issues were emerging from the review. He replied that he would provide written details to the Members of the Committee after the meeting.’

Councillor Cane explained in detail the reasons for each of the individual amendments. Another Member reiterated that the Minutes could not be a verbatim record and could not include every comment made by Members at a Committee. However, the requirement for fuller Minutes might need to be reviewed. During further discussion, Councillor Cane stated that she accepted that Minutes could not be a verbatim record, but felt particularly strongly about her amendments, as they covered key aspects of the proceedings and comments/undertakings made by Members and Officers. Particular attention was drawn to amendment 5 above, which it was stated was corroborated by a Tweet sent by Councillor Inskip in the meeting itself. Under the circumstances, the Chairman and seconder stated that they were prepared to amend the Motion to include item 5 of Councillor Cane’s amendments.

Councillor Cane requested a recorded vote on her amendment.

Upon being put to the vote, the amendment was declared to be lost on the Chair’s casting vote, with voting as follows:

FOR: Councillors Cane and Inskip

AGAINST: Councillors Every and Sharp

The Chairman then asked for debate on the Motion, as amended. Councillor Cane particularly emphasised that she did not consider that the Minutes accurately summarised discussions on the Statement of Accounts, which was a key role for this Committee, and commented that she should have been afforded the courtesy of a response to her amendments before this meeting.

The Chairman acknowledged the latter point. Councillor Cane also asked for a recorded vote on the Motion, as amended.

Upon being put to the vote, the Motion, as amended, was declared to be carried on the Chair's casting vote, with voting as follows:

FOR: Councillors Every and Sharp
AGAINST: Councillors Cane and Inskip

It was resolved:

That the Minutes be confirmed as a correct record and signed by the Chairman subject to the following amendments:

Minute 21 - page 3, 5th paragraph, amend to read:
'External Audit expected to give an unqualified opinion on the authority's financial statements once all the necessary adjustments had been made.'

Minute 22 – 3 paragraph – amend to read:
'A motion to accept the recommendation in the report to approve the Statement of Accounts, subject to non-material changes, was proposed.'

31. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman reported that Mark Hodgson and Jacob McHugh from External Audit had advised that they were unable to attend the meeting as they were self-isolating. Therefore, Agenda Item 6 - Auditor's Annual Report, was being deferred to the meeting scheduled for 14 March 2022, as no representative from External Audit would be in attendance to present the report and respond to Member questions. The Member questions already sent and responded to in relation to this item also would be deferred to the March meeting.

Similarly, Rachel Ashley-Caunt from Internal Audit was unable to attend the Committee meeting, as she had advised that she too was self-isolating. However, the Finance Manager would introduce Agenda Item 8 - Internal Audit Progress Report on her behalf, respond to any questions he could answer and take away other questions to be responded to in writing after the meeting.

A Member expressed her best wishes to the Auditors for a speedy recovery.

A Member then questioned why the Statement of Accounts had not been published by the deadline date of 30 November 2021, as it was important to achieve this deadline. The Chairman stated that there were no procedural grounds to raise this matter under this item, but she would allow the question.

The Member also queried on what authority the Statement of Accounts had been signed-off, as they included a consolidation in relation to ECTC of £4M and not £2M as reported to the Committee, which was a material change not reported at the meeting. The Chairman stated that she had signed-off the Statement of Accounts on the advice of the S151 Officer and External Auditor. The Member highlighted the fact that the authority in the resolution in Minute 22

of the Committee on 22 November 2021, only authorised the sign-off of the Statement of Accounts with any further non-material changes. Another Member corroborated that the change in this sum to £4M was not identified and reported at the meeting. The Finance Manager stated that the consolidation issue was reported at the meeting and that the resolution to authorise the change referred to the issue, not the value.

32. **EXTERNAL AUDIT – AUDITOR’S ANNUAL REPORT**

Item deferred to March meeting.

33. **PROVISION OF INTERNAL AUDIT SERVICES**

The Committee considered a report (reference W131, previously circulated) detailing options for the future provision of Internal Audit Services in the light of the ending of the current partnering and delegation agreement on 31 March 2022.

A number of questions relating to this Agenda item had been submitted by Members prior to the meeting and these, along with answers provided by officers, were set out in Appendix 1 to these minutes.

The Chairman proposed and Councillor Sharp seconded the recommendation in the report as follows:

That the contents of the report be approved and enter into a delegation agreement for our Internal Audit Service with North Northamptonshire Council for five years from 1st April 2022, authorising the Finance Manager, in consultation with the Legal Services Manager, to finalise the delegation agreement.

An amendment was moved by Councillor Cane and seconded by Councillor Inskip to amend the above Motion as follows:

- Change the word ‘approved’ to ‘noted’
- Change ‘Finance Manager’ to ‘Chief Executive’
- Change ‘5 years’ to ‘12 months’
- Add following wording at end: ‘and instruct the Chief Executive to draw up a full Internal Audit Options Paper for the Committee in July 2022 for a decision to be taken on the provision of Internal Audit Services from 1 April 2023.’

With regard to question 1 of the questions provided in advance of the meeting, a Member queried how the Finance Manager knew that North Northamptonshire Council were willing/able to continue with the contract, if there had been no direct discussions. The Finance Manager stated that Internal Audit had expressed a willingness for the service to continue, as had the other 3 non-partner Councils. The Member queried why Cambridgeshire County Council, West Northamptonshire Council and Milton Keynes Council were not continuing with the service. The Finance Manager stated that the 4 non-partner Councils were

continuing with the service. The Member then read an extract from the 'lessons learned report' regarding the contribution of Internal Audit to the failings at Northamptonshire County Council and asked in the light of this why this Council considered it appropriate to continue with the outsourced arrangement. The Finance Manager highlighted the sections in his submitted report regarding good standards of service delivery and resilience, compared to the previous in-house service reliant on 1 officer. The Member referred to the position tonight relating to the Chief Internal Auditor being unable to attend due to Covid-19, and the Finance Manager highlighted that, below the Chief Internal Auditor, the structure of the service gave access to auditors with a varied range of knowledge and expertise to conduct different audits.

A Member queried whether the Internal Audit Plan would be delivered in full by 31 March 2022, as the answer to a Member question on the following Agenda item showed that only 50% of audits were at draft report stage as at 5 January 2022. The Finance Manager reported that all 4 non-partner Councils considered the service provided as good and wanted it to continue. The Member again asked if the Plan would be delivered in full by 31 March 2022 and what evidence there was that the service represented good value for money (VFM). The Finance Manager repeated his views regarding cost-effectiveness, resilience and access to a greater range of skills and expertise compared to a single officer. No specific VFM assessment had been carried out, but the hourly rate charged compared favourably and the quality of service provided remained good.

The Member also queried the issue of independence, given that Internal Audit had an involvement in risk management and risk assessment through membership of the Officer Risk Management Group. The Finance Manager clarified that Internal Audit facilitated the Group and worked to professional standards, which included maintaining independence.

The Chairman asked Councillor Cane to explain the rationale behind her amendment and asked the Finance Manager to explain the implications of a possible phased deferral of a decision on the continuation of the service. The Finance Manager stated that the Council could examine alternatives such as going out to tender or looking for other public sector providers, but there was no evidence to suggest that a better quality or priced service would result and the benefits of continuity of service and good professional working relationships were a great advantage in his view. A deferral of the decision would mean that this Council would not have concurrent service arrangements with the other 3 councils.

Councillor Cane stated that she wished to replace the Finance Manager with Chief Executive to ensure independence, as the Internal Audit role largely involved examining the work of the Finance Team and they had a close relationship. She had been minded to vote against the Motion, due to the fact that Members were being asked to enter into a 5 year contract based upon a report with little information/evidence and with a short timescale to the expiry of the current arrangements. However, a 12 month agreement would allow time for a full review to test the market and understand the pros and cons of the various options.

Another Member referred to the benefits of Internal Audit Services being supplied by an external provider and that the issues with Northamptonshire County Council were not relevant to this Council. However, the Member had some sympathy with the view that the Chief Executive should be responsible for the finalising of the agreement, in order to maintain independence due to the working relationship between the Finance Manager and Internal Audit. The Member expressed a willingness to support a 3 year agreement.

In that context, Councillor Cane agreed that she would be willing to amend her amendment as follows:

- Change the word 'approved' to 'noted' and add words 'and approval be given to' before 'enter into'
- Change 'Finance Manager' to 'Chief Executive'
- Change '5 years' to '2 years'
- Add following wording at end: 'and instruct the Chief Executive to draw up a full Internal Audit Options Paper for the Committee in July 2022 for a decision to be taken on the provision of Internal Audit Services from 1 April 2024.'

Councillor Inskip, as seconder, stated his agreement to these changes, as there was a need to look at whether other options were available compared to 5-6 years ago in the interests of due diligence and there may be benefits from a new supplier in terms of offering a different approach/perspective.

The Finance Manager referred to the fact that he had not discussed the possibility of a 2 year delegation agreement with North Northamptonshire Council and the current LGSS agreement terminated from 1 April 2022.

Upon being put to the vote, both the amendment and substantive motion were carried unanimously.

It was resolved (unanimously):

That the contents of the submitted report be noted and approval be given to enter into a delegation agreement for our Internal Audit Service with North Northamptonshire Council for two years from 1st April 2022, authorising the Chief Executive, in consultation with the Legal Services Manager, to finalise the delegation agreement and instruct the Chief Executive to draw up a full Internal Audit Options Paper for the Committee in July 2022 for a decision to be taken on the provision of Internal Audit Services from 1 April 2024.

34. **INTERNAL AUDIT PROGRESS REPORT**

The Chairman asked Members of the Committee if they wished to defer this item due to the absence of a representative of Internal Audit. However, a Member stated that they had questions to the Finance Manager on the report.

The Committee considered a report (reference W132, previously circulated) advising Members of the work of Internal Audit completed for the financial year to date and the progress against the Internal Audit Plan.

A number of questions relating to this Agenda item had been submitted by Members prior to the meeting and these, along with answers provided by officers, were set out in Appendix 1 to these minutes.

A Member referred to the Member question and response referring to the uncompleted essential action in Table 2. The Finance Manager stated that this was detailed in Appendix 3 and that Internal Audit would produce a follow-up report in quarter 4.

With regard to the Member questions and responses on Procurement Compliance, a Member asked how the Council could show that it was following Contract Procedure Rules, if this could not be evidenced by the completion of a contract, and why an audit opinion of 'satisfactory' had been given. They also queried if the 30% figure related to works/services not requiring the completion of a contract. The Finance Manager agreed to provide a written response to Members of the Committee.

Another Member referred to the fact that the Legal Team would need to work with Service Leads in a timely manner to identify any gaps in contract register entries in order to ensure that Internal Audit could report to the March Audit Committee meeting.

It was resolved:

That the progress made by Internal Audit in the delivery of the Audit Plan and the key findings be noted.

35. **RISK MANAGEMENT**

The Committee received a presentation by the Finance Manager on the Council's current Risk Management arrangements, a copy of which is attached at Appendix 2. The Committee also considered a report (reference W133, previously circulated) containing revised drafts of the Risk Management Policy and Framework documents and the updated Corporate Risk Register.

A number of questions relating to this Agenda item had been submitted by Members prior to the meeting and these, along with answers provided by officers, were set out in Appendix 1 to these minutes.

Members raised the following questions and issues at the meeting with regard to the presentation and submitted documents:

Members queried if the Corporate Risk Register was submitted to full Council. The Finance Manager confirmed that it was considered and reviewed by this Committee. It was suggested that all Councillors needed to consider and review the Corporate Risk Register.

Members queried how new risks were identified and added to the Corporate Risk Register and the Finance Manager explained the process. Members commented that this should be reviewed.

Members stated that Risk Management training needed to be provided for all Councillors and refresher training carried out for Service Leads, having regard to the time that had elapsed since such training had been carried out.

With regard to the Impact Guidance in Appendix 5 of the Risk Management Policy, Members commented that the descriptions seemed very vague and were open to different interpretations by different people. Therefore, some form of quantified numerical guidance was required, such as percentage rates or probability rates, to assist the assessment process.

Members queried how the risk appetite of 15 had been established and the reasons for this. The Council needed a proper definition of its risk appetite and a justification for it. The Risk Scoring Matrix also needed to be reviewed to include real examples of what the scoring meant in terms of impact and likelihood.

A Member commented that the 'Action RAG' column in the Corporate Risk Register had not been completed in every case and a number of the entries in the 'Target Date' column were shown as 'ongoing'.

A Member queried the relationship between Internal Audit (IA) reports and the reflection of risks in the Corporate Risk Register, using the examples of the IA report on contract compliance and the statement that out of date versions of corporate policies were published on the internet/intranet.

Members stated that they could not recommend the updated Risk Management Policy and Framework documents to full Council for approval at this stage, as they needed to be reviewed further by the Risk Management Group having regard to the above comments from this Committee.

Members also raised questions and made comments on the Corporate Risk Register to be considered by the Risk Management Group, based upon the Member questions and responses relating to this item in Appendix 1, as follows:

Risk A2 – How is the rating for this risk in relation to ECTC based upon the £500,000 figure evidenced? Why is there a single risk for the 2 Trading Companies when both different in nature and consequences of failure? Should be listed and risk rated separately. How does Risk Management Group evidence decision to keep together as key controls the same?

Risk A3 – How is the rating for this risk evidenced bearing in mind only 57 affordable housing units completed on a target of 130 per year?

Risk B3 – How evidence issues and assessment relating to Brexit and Covid in relation to ECSS shortage of HGV drivers? Why is this risk not correlated/reflected in Risk D8 on staff recruitment, absence and retention?

Risk C2 – Outlook issue in January 2022 may have been supplier issue, but how evidence that correct controls in place to deal with such issues? Also happened on 1 January but Members/public not notified of issue until 4 January. Need to consider how effectively notify Members/public, etc, under such circumstances, e.g. blanket texts, posting messages on social media. Disaster Recovery Plan not tested and Cyber Security Review raised a number of issues. How are these to be mitigated by ICT staff when already overstretched and so is the risk rating correct?

Risk C4 – is risk rating correct when are issues with non-compliance on LG Transparency Code and GDPR?

The Chairman acknowledged the need for an effective flow of corporate monitoring information to this Committee, whilst avoiding duplication with the role and responsibilities of the Policy Committees, and stated that she would be discussing the role and relationship of this Committee and the Policy Committees further with the Chief Executive.

It was resolved (unanimously):

That the presentation on current Risk Management arrangements; the updated Risk Management Policy and Framework documents and Corporate Risk Register attached to the submitted report be noted, and the Risk Management Group be requested to consider the comments of the Committee detailed in these Minutes and respond to the July meeting of the Committee, including with regard to a programme of training for Members and Officers.

36. **FORWARD AGENDA PLAN**

The Committee received and considered the Forward Agenda Plan.

It was resolved:

That the Forward Agenda Plan be noted and the Chairman and Lead Officer for the Committee consider the inclusion of the following items:

- The requirement for an additional meeting of the Committee in April/May 2022;
- Review of the Anti-Fraud and Corruption Policy;
- An Audit Committee Effectiveness Checklist
- Review of the Code of Corporate Governance.

The meeting closed at 7.50pm.

Chairman:.....

Date:

**AUDIT COMMITTEE
10 JANUARY 2022
QUESTIONS FROM MEMBERS OF COMMITTEE**

Item 4 – Minutes

Questions from Councillor Cane

<p>Why were members informed that everything was on course for the accounts to be signed off by the deadline of 30 November when the process was delayed because all 3 of the key personnel had leave between the 22-30 November. It should have been clear by 22 November that the 30 November deadline would not be met due to these leave arrangements and members should have been informed accordingly.</p>	<p>At the time of the meeting, there was every expectation that the 30th November deadline would be achieved, and arrangements were in place to work around the leave arrangements of those concerned.</p>
<p>When will we receive the written response from the Chief Executive on the actions to be taken to improve the governance processes so that the trading company accounts are received by the Council in good time to consolidate prior to the audit?</p>	<p>The Chief Executive instructed the ECDC Finance Manager to work with the ECTC/ECSS Finance Manager to ensure that sign off processes align and do not cause delay to the Council.</p> <p>A timetable is being established. The Chief Executive will write to Members of the Audit Committee to confirm this prior to the March meeting.</p>
<p>Please can we have a schedule of all the changes, material and non-material, between the final published accounts and the accounts approved by the audit committee.</p>	<p>Deficit movement of £177K = £159 Loss on disposal of Fixed Assets + £19K Impairment on the same</p> <p>CIES: Income and Expenditure change of 9176K for Agent to Principle grants. No Net difference Net Expenditure changed +£19 for Impairment on Sale of Fixed Assets Loss on disposal of Non Current Assets +£159</p> <p>MIRS: Movement on Loss on Disposal of Fixed Assets £159K + Impairment £19K</p> <p>Note 8 Income & Expenditure: Same as CIES</p>

	<p>Movement to Other service expenses from Government grants for Agent to Principle accounting. Loss on disposal of Non-Current Assets added Note 8A – Grant Income: Change for Agent to Principle accounting as Note 8 Table for Agent grants added</p> <p>Note 11 – Change for Disposal of Fixed Assets + Impairment</p> <p>Note 12: Assets held for sale moved outside of the main table</p> <p>Group Accounts – CIES Change from Net to Gross on Income & Expenditure - No impact on Net. (ECTC 1,888 & ECSS 2,158) £159K Disposal of Fixed Asset and £19K Impairment feeding through from ECDC CIES Interest £50K eliminated from Group accounts</p> <p>Group MIRS: -£159K Loss on disposal of FA +£83 Pension adjustment moved from 2019/20 to 20/21</p> <p>Group Balance sheet: Interest £50K eliminated from WIP - £159K on Loss on disposal of FA</p>
<p>When did the Finance Manager provide written details to members of how the 3 priority items outstanding for more than 3 months would be resolved before the next meeting of the committee?</p>	<p>There was only a limited time between the previous meeting and the agenda dispatch for this meeting, so unfortunately no separate up-date was provided, but this is included in Agenda item 8.</p>
<p>Please can we see copies of the 2 signed leases.</p>	<p>These will be provided to Members.</p>
<p>What progress has been made on implementing proper brought forward process/arrangements for lease renewals?</p>	<p>The Legal Services Manager is working with Finance colleagues to identify software that will enable the Council to effectively monitor leases going forward.</p>

Item 6 – External Audit – Auditor’s Annual Report

Questions from Councillor Cane

<p>Why was the Audit Results Report Update Addendum issued on 7 December not circulated to members?</p>	<p>It was considered sufficient that Committee receive the Auditor’s Annual report as included on the agenda for this meeting, but Members can be sent a copy of the document if they so wish.</p>
<p>What is the amount of the adjustment for consolidation errors in 2020/21– is it the £2m reported to November’s Audit Committee or the £4m shown in the final report?</p>	<p>It is the £4m</p>
<p>When was the error on the 2019/20 consolidation identified?</p>	<p>20th November 2021</p>
<p>P22 It is noted that the Council has ‘Contract Procedure Rules’ which ensure that services are procured appropriately and the expected benefits are realised. Given that Internal Audit found in their testing that 30% of the sample had no written contract and 80% of the sample were not included on the contracts register how can this be considered an effective assurance? It should be noted that concerns about shortcomings in procurement documentation and compliance have been raised by Internal Audit since at least October 2020, so this is relevant to the 2020/21 accounts.</p>	<p>Noted, further procurement training was provided to staff on the 22nd June 2021, to further highlight the importance of ensuring all documentation is correctly prepared.</p>

Item 7 – Provision of Internal Audit Services

Questions from Councillor Cane

<p>What discussions has the Finance Manager, or other ECDC Officers, had with North Northants Council about the continuation of this contract?</p>	<p>No discussions were held, however, in reaching the recommendation the Finance Manager reviewed reports from other Council’s and noted an equally positive response on the quality of service that they had received.</p>
<p>Item 7 para 3.5 – what is the evidence that the plan is delivered in full each year and represents ‘good value for money’?</p>	<p>The internal audit plan has been delivered in full during each year of the delegation.</p>

<p>Para 3.6 – what is the evidence that the Internal Audit Team have demonstrated their ability to be independent? How does this square with them facilitating the Risk Management Group and having ‘developed good relationships with senior management?’</p>	<p>‘Good relationships with senior management’ does not relate to any relationship that would impair the independence of the internal audit service. Rather, direct access to the Council’s senior management and reporting relationships are a requirement of the Public Sector Internal Audit Standards and provide the service with ability to build an understanding of the organisation and its risks.</p> <p>The risk management group facilitation provides internal audit with an insight into the Council’s risk management activity and assurance over how risk management is operating. Internal Audit’s input to this group is limited to sharing good practice/examples of risk activity at other local authorities, to trigger consideration of comparable risks and opportunities; retaining a central master copy of the risk register document; and providing independent advice to members of the group. Internal audit have no input on the content/scoring or responsibility for risks or actions.</p>
<p>What Internal Audit provision have you compared this provision to?</p>	<p>This was compared to the Council having it’s own directly employed Internal Auditor.</p>
<p>Which of the Councils in the original shared services scheme have stayed in this scheme, which have left and which have indicated that they are likely to leave?</p>	<p>The original shared service has been repatriated to partner councils. East Cambs is one of four non-partner councils who had delegated their internal audit service to the former shared service. All three of the other councils remain satisfied with the service and are in the process of delegating their internal audit service to North Northamptonshire Council from 1st April 2022.</p>
<p>What consideration has been given to the involvement of this Internal Audit service with Northamptonshire County Council prior to it being issued with a Section 114 notice?</p>	<p>The Council has focused on the quality of the service that it has received and is assured that this quality service will continue.</p>
<p>What consideration has been given to the Lessons Learned Report from the</p>	<p>The Council has focused on the quality of the service that it has received and is</p>

Intervention at Northamptonshire County Council, which noted that the outsourcing of Internal Audit had contributed to the ‘failure to accept challenge’?	assured that this quality service will continue.
What inflation measure will be used to increase the annual fee?	The national pay award % - given that the service is primarily staff costs.

Item 8 – Internal Audit Progress Report

Questions from Councillor Cane

What percentage of the assignments are completed?	As of 5 th January 2022, 50% are at least in draft report stages. This does not reflect those assignments in advanced stages of delivery.
2.3 Bank Reconciliations p3 – How many reconciliations had not been signed by the reviewer; how many did you check; how were you able to gain assurance that the reconciliations which had not been signed had been reviewed? What actions have been taken to prevent a recurrence of this issue?	<p>A review of the completed reconciliations between the finance system and the cash book for the period April 2021 to October 2021 confirmed that monthly reconciliations had been completed.</p> <p>All of the monthly bank reconciliations for the period had been signed with the name of the preparer and the reviewer. It was noted, however, that the signatures of the preparer of the April 2021 and May 2021 reconciliations had not been dated and no dates were recorded against the signature of the reviewer. As such, these were not considered to have been ‘fully signed’ and it is not possible to provide assurance over the timeliness of completion.</p>
2. Counter Fraud p3 – Please can we have a schedule of policies and codes of practice which need to be updated and those which had different versions on the internet/intranet.	The Employee Code of Conduct sets out the rules concerning how staff should conduct themselves whilst undertaking employment duties. It covers all the relevant areas expected in such a document however it has not been reviewed since 2014, and referred to a post no longer in the Council’s establishment (HR & Facilities Service Manager) and the role of the Senior Planning Officer regarding personal interests in planning applications (now Planning Manager).

	<p>The Council's Whistleblowing Policy is dated 2014 and provides guidance on how staff should raise concerns within the Council. There is information contained in the Policy which is out of date as there is reference to the Audit Commission which no longer exists and Public Concern at Work which changed to Protect in 2018.</p> <p>There are different versions of the same documents published on the Council's website. There is a Community Engagement Strategy covering the period 2018-2023 which replaced the former Consultation Policy but the latter is still included on the Council's website. A Press & PR Protocol or Corporate Communication Strategy dated 2007 is posted on the website under Policies, Strategies and Plans, but a revised Press & PR Protocol dated November 2019 is included in the Council's Constitution.</p> <p>The Council's Code of Corporate Governance has been developed in accordance with the Delivering Good Governance in Local Government Framework, which builds on the seven Principles for the Conduct of Individuals in Public Life. The current version of the Code was approved in 2017 and would benefit from a review to ensure that it reflects current committee arrangements, policies, strategies, codes and plans.</p>
<p>8.2 Procurement Compliance p4 – 30% of the items tested had no documented contract in place and 80% were not included on the contracts register –</p> <p>a) how can that be described as 'minimal control weakness'?</p> <p>b) If 30/80% is minimal, what level would be required for significant or fundamental control weaknesses?</p>	<p>The opinion is based on the overall control compliance, not specific to any one control. The weaknesses identified were in relation to timely completion of contract documentation (30%) and inclusion in the contract register (80%).</p> <p>Wider testing included compliance with procurement rules in the seeking of appropriate quotations/competitive tendering/use of frameworks/seeking appropriate approvals etc.</p>

<p>c) How can it be described as “mainly operated as intended”? If 30/80% is mainly operated as intended, what level would be required for not operated as intended or fundamentally broken down?</p>	<p>The overall opinion takes the findings on all key controls into consideration. The lack of evidence of a documented contract and inclusion on the register remains a breach of the CPRs/expected controls and, as such, reflects the ‘Satisfactory’ compliance opinion and ‘moderate risk’ assigned to the overall audit report. It was noted that these cases pre-dated work by the Council to strengthen controls in this area.</p>
<p>8.2 Procurement Compliance p4 – the non-compliance leaves the Council open to medium risk – where is this risk on the Corporate Risk Register?</p>	<p>The legislative element of the risk is identified in C3. The audit findings pre-dated work to promote compliance with the Contract Procedure Rules.</p>
<p>Table 2 – why does it show that all essential actions have been completed, when table 3 shows an uncompleted essential action?</p>	<p>Noted – error in categorisation in Table 2.</p>

Item 9 – Risk Management

Questions from Councillor Cane

<p>What consideration has been given to members’ previous suggestions?</p>	<p>Members had raised specific queries in relation to A2, A3, C2, C3, C4, C5 and D8. The risk management group considered each of the queries raised when discussing each of the risks.</p>
<p>App 1 – why is the summary of changes for V1.2 blank? Please can we have a schedule of the changes</p>	<p>Apologies this was not completed, the changes related to tightening up some of the language to make the process clearer</p>
<p>App1 section 7 states that the RMF is regularly reviewed by the CMT – what does regular mean in this context?</p>	<p>The Finance Manager & S151 Officer is the CMT representative on the Risk Management Group which meets quarterly.</p>
<p>App1 S5 states our maximum residual risk is 15 – what is the justification for this? Does it apply to all activities?</p>	<p>It is good practice to define a risk appetite/tolerance and that is what this is seeking to do.</p>
<p>App1 Section 7 penultimate para – what is the link for the Framework?</p>	<p>The link will be provided to Members once the document has been formally approved and available on the website.</p>
<p>App1 S8 Please can we have details for the training, workshops and briefings, including what has been delivered; how many sessions have been delivered; how many staff and</p>	<p>There has been no training in the last 12 months. The Finance Manager will arrange for staff and Member training in 2022.</p>

members have attended over the last 12 months.	
Item 9 App 2 S3.7 – 3 options for mitigating risks seems very light. Why is there no reference to prioritising the risks, accepting some risks, avoiding some risks, monitoring risks and further preventing risks?	The three categories are broad enough to encapsulate the categories suggested.
Item 9 App 2 S3.9 – please can we see a copy of the current Action progress report?	Appendix 4- the final columns are the action log.
Item 9 App2 S3.12 p10 if ‘effective contract...management is of vital importance’ and ‘contract management tools are used to minimise risks’ – what is the impact of a lack of documented contracts with about 30% of suppliers and 80% of contracts not being included on the contracts register?	The Risk Management Group will discuss this specific concern at its next meeting.
Item 9 App 4 C2 – please can we have a copy of the Cyber Security Audit report and the actions arising?	This will be provided to Members.
What is the definition of ‘occasional’, ‘frequent’ or ‘regular’ as used in assessing Likelihood?	The standard definition of these words is used.
How is ‘regular’ a useful word in this context? Regular suggests a pattern rather than any measure of frequency – something can happen regularly every Century or every 15 minutes. Indeed, if its regular, the risk is more easily managed as we know when the event will occur. And can take appropriate mitigating action at that time.	While the point on regular is noted, it is trying to portray something that is very likely to happen.
A2- Cllr Inskip suggested that the different business models and therefore different types of risk between the 2 trading companies meant that this risk should be split into 2 different risks. What reasons made the Risk Management Group decide that Cllr Inskip was wrong?	It was agreed at the Risk Management Group to keep these together as the Key Controls are the same.

<p>A2- The Combined Authority has said: That the projected repayment profile on the loan to East Cambridgeshire for the MOD housing at Ely continues to slip. This is due to the continuing delay in sale of the fifteen ‘affordable’ housing units, and a slower than projected rate of sale of the market price units. The Combined Authority is monitoring East Cambridgeshire Trading Company’s performance closely. The Combined Authority has confirmed that ECTC is not defaulting on the loan. However, it says, “there is an increasing likelihood that in order to repay the loan in March 2023 then the borrower may need to re-finance the remaining market units in the scheme that might be unsold in March 2023.” On what basis did the Risk Management Group decide that I was ‘unlikely’ that ECTC would fail to deliver upon its business plan and expected level of performance?</p>	<p>In relation to ECTC the primary corporate risk for the Council is the repayment of the loan.</p> <p>The Risk Management Group will review the risk description as soon as possible to provide clarity</p>
<p>On what basis did the Risk Management Group decide that the financial impact if ECTC failed to deliver upon its business plan and expected level of performance was less than £500,000 given that the loan from East Cambs alone is significantly more than £500,000?</p>	<p>The inherent risk score reflects the value of the loan and the residual risk score reflects the mitigation.</p>
<p>A3- How many residents have moved into affordable housing in the last 12 months?</p>	<p>The Council does not have a record of this information. The Council monitors completions in the Annual Monitoring Report. In 2021 57 Affordable Housing Units were completed.</p>
<p>A3- How many affordable dwellings are estimated to be needed across East Cambs?</p>	<p>The estimated need for affordable housing is approximately 130 units per annum.</p>
<p>A3- The Combined Authority has noted that East Cambs has not joined with all other authorities in the Eastern Community Homes to support community homes groups</p>	<p>The Council has directly employed a Community Led Housing Advisor to support Community Led Development Groups in the district.</p>

<p>and has had is housing support grant cut by government (because of the actions of the previous Mayor) In the light of this, why did the Risk Management Group consider that ‘Engagement with the CPCA to access Housing Fund’ was a key control which would reduce risk?</p>	<p>Access to the Housing Fund would enable additional affordable housing units to be built in the area. For example, a developer may have been willing to convert open market units to affordable housing units and a grant may have been available to achieve this.</p>
<p>A3- Why did the Risk Management Group consider that the loan to ECCLT to deliver shared ownership units in Ely was a key control? How many of these units are now occupied? If not all 15, when are the rest expected to be occupied?</p>	<p>The top-up loan facilitated the delivery of the Shared Ownership units. The properties are not yet occupied and it is understood that occupations will happen in the next few months.</p>
<p>A3- Are we now delivering on the housing strategy and if not why did the Risk Management Group consider the failure to deliver was unlikely?</p>	<p>There is no set target. The key controls are the various actions that the Council will use to deliver affordable housing across the district. The Council can either facilitate or take direct action to enable the provision of affordable housing in the district and this is being done.</p>
<p>B2- On what basis did the Risk Management Group consider that the 2015 Local Plan was up to date, given that the Council had sought to produce a new Local Plan which it withdrew as a result of criticisms by the Inspector?</p>	<p>The Council can demonstrate a five year land supply. The current published land supply report demonstrates that there is 7+ years.</p> <p>The Council is currently carrying out a single issue review on policy GROWTH 1.</p>
<p>B3- ECSS have a shortage of HGV drivers which is impacting on our waste collection services. Many commentators have suggested that Brexit is a significant factor in the national shortage of HGV drivers. What evidence does the Risk Management Group have that in the case of ECSS Covid, rather than Brexit, was the overriding issue?</p>	<p>The current score reflects the current status of the COVID 19 pandemic and this will be reviewed on a regular basis.</p>
<p>C2- Email has been interrupted several times in the last year and was interrupted again this January for more than a whole working day, causing inefficient working amongst other things.</p>	<p>Noted. The issue in January was a national issue.</p>

<p>C2- On what basis did the Risk Management Group decide that this might occur as there is a history of occasional occurrence, rather than a history of frequent or even regular occurrence?</p>	<p>The Risk Management Group are awaiting the outcome of the Audit findings and will discuss this at a future meeting.</p>
<p>C3- Given that 80% of expenditure over £5k which were tested was not included on the contracts register making the Council 'not compliant with the Local Government Transparency Code' according to our Internal Auditor, on what basis did the Risk Management Group decide that it was 'highly unlikely' that the Council would be non-compliant with regulatory requirements?</p>	<p>Since this time staff have received further training and all staff are reminded of the need to ensure that contracts are registered on the contracts register.</p>
<p>C3- Why does the paper state 'There are no known issues of non-compliance' when the Internal Auditor has stated that the Council is 'not compliant with the Local Government Transparency Code'?</p>	<p>The Risk Management Group are awaiting the outcome of the Internal Review in Q4 and will make the necessary adjustment (if required).</p>
<p>D8- The Risk Management Group reduced the likelihood of difficulties with staff recruitment and retention because of low staff turnover. What consideration did they give to the counter evidence of ECSS' difficulty in recruiting and retaining HGV drivers, which has led to a reduction in waste collection services?</p>	<p>It is for ECSS to manage the risk of staff turnover and issues with HGV drivers.</p> <p>ECDC has a low staff turnover.</p>
<p>Why does the Risk Management Group consider that the impact of staff shortages would only be low? How would we deliver full services without full staff?</p>	<p>The impact of the risk has been reduced by the remote working policy, particularly in relation to staff absence.</p>



EAST CAMBRIDGESHIRE DISTRICT COUNCIL

THE GRANGE, NUTHOLT LANE,
ELY, CAMBRIDGESHIRE CB7 4EE
Telephone 01353 665555

MEETING: **AUDIT COMMITTEE**

TIME: 4:30pm

DATE: **Monday 14 March 2022**

VENUE: **Council Chamber, The Grange, Nutholt Lane, Ely, CB7 4EE**

ENQUIRIES REGARDING THIS AGENDA: Tracy Couper

TELEPHONE: (01353) 665555 EMAIL: democratic.services@eastcamb.gov.uk

MEMBERSHIP:

Conservative Members

Cllr Lis Every (Chairman)
Cllr Dan Schumann (Vice-Chairman)
Cllr Alan Sharp

Substitutes:

Cllr Lavinia Edwards
Cllr Amy Starkey
Cllr Lisa Stubbs

Liberal Democrat Members

Cllr Charlotte Cane (Lead Member)
Cllr Mark Inskip

Substitutes:

Cllr Alec Jones
Cllr Christine Whelan

Lead Officer

Ian Smith, Finance Manager

Quorum: 3 Members

AGENDA

1. **Public Question Time** [oral]
The meeting will commence with up to 15 minutes public question time
2. **Apologies and Substitutions** [oral]
3. **Declarations of Interest** [oral]
To receive declarations of interest from Members for any Items on the Agenda in accordance with the Members Code of Conduct
4. **Minutes**
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 10 January 2022

5. **Chairman's Announcements**
6. **External Audit – Auditor's Annual Report**
7. **Internal Audit Charter & Work Plan 2022-23**
8. **Internal Audit Progress Report**
9. **Forward Agenda Plan**

[oral]

NOTES:

1. Members of the public are welcome to attend this meeting. There are a number of schemes aimed at encouraging public participation in the Council's activities and meetings. These include Public Question Time at the start of a meeting and a process to enable petitions to be submitted. Details of these can be obtained by calling the telephone number on this Agenda or by logging onto the Council's website.
2. Members of the public can gain entry by reporting to Reception during Office Hours or can enter via the door in the glass atrium at the back of the building for evening meetings.
3. The Council has adopted a 'Purge on Plastics' strategy and is working towards the removal of all consumer single-use plastics in our workplace. Therefore, we do not provide disposable cups in our building or at our meetings and would ask members of the public to bring their own drink to the meeting if required.
4. Fire instructions for meetings:
 - If the fire alarm sounds please make your way out of the building by the nearest available exit i.e. the back staircase or the fire escape in the Chamber. Do not attempt to use the lifts.
 - The fire assembly point is in the front staff car park by the exit barrier.
 - The building has an auto-call system to the fire services so there is no need for anyone to call the fire services.

The Committee Officer will sweep the area to ensure that everyone is out.

5. Reports are attached for each agenda item unless marked "oral".
6. If required, all items on the agenda can be provided in different formats (e.g. large type, Braille or audio tape, or translated into other languages), on request, by calling Main Reception on (01353) 665555 or e-mail: translate@eastcambs.gov.uk
7. If the Committee wishes to exclude the public and press from the meeting, a resolution in the following terms will need to be passed:

"That the press and public be excluded during the consideration of the remaining item no(s). X because it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during the item(s) there would be disclosure to them of exempt information of Category X of Part I Schedule 12A to the Local Government Act 1972 (as amended)."

**East Cambridgeshire District
Council**

**Auditor's Annual Report
Year ended 31 March 2021**

8 December 2021



EY

Building a better
working world

Contents

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of East Cambridgeshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of East Cambridgeshire District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of East Cambridgeshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

Executive Summary



Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Council's:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 8 December 2021.
Going concern	We have concluded that the Finance Manager's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the annual report and other information published with the financial statements	Financial information in the annual report and published with the financial statements was consistent with the audited accounts.

Area of work	
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the Annual Governance Statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued our Audit Results Report on the 10 November 2021 to the Audit Committee. We issued an Audit Results Report Update Addendum on the 7 December 2021.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued

Fees

We carried out our audit of the Council's financial statements in line with the "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA. As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to accounting for Covid-19 related Government Grant income, Going Concern, the valuation of Property, Plant and Equipment and the new NAO Code for VFM. As a result, we will agree an associated additional fee with the Finance Manager. We include details of the audit fees in Appendix 1.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.



Mark Hodgson

Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities



Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on the 8 March 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, annual report and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit



Financial Statement Audit

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

The Annual Report and Accounts is an important tool for the Council's to show how it has used public money and how it can demonstrate its financial management and financial health.

On 8 December 2021, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Audit Committee on the 22 November 2021 and supplemented this with an Audit Results Report Update Addendum on the 7 December 2021. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	<p>We did not identify any material weakness in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied, or of any management bias in accounting estimates.</p> <p>We have not identified any inappropriate journal entries or other adjustments to the financial statements.</p>
Inappropriate capitalisation of expenditure Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.	<p>Our sample testing of additions to Property, Plant and Equipment found that they had been correctly classified as capital and included at the correct value.</p> <p>Our sample testing did not identify any revenue items that were incorrectly classified.</p> <p>Our data analytics procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.</p>

Continued over.

Financial Statement Audit (continued)

Significant Risk	Conclusion
<p>Inappropriate claims under the Local Government income compensation scheme</p> <p>In response to the Covid-19 pandemic, MHCLG introduced the local government income compensation scheme for lost sales, fees and charges as a result of COVID-19. We have identified an opportunity and incentive to overstate claims through this grant, to increase income received against any ongoing losses.</p>	<p>Our review of claims through the Local Government Income compensation scheme did not identify any inappropriate claims under the scheme.</p>
<p>Accounting for Covid-19 related grant funding</p> <p>In response to the Covid-19 pandemic, the Council have received significant levels of grant funding, both to support the Council and to pass on to local businesses. Each of these grants will have distinct restrictions and conditions that will impact the accounting treatment of these.</p> <p>Given the volume of these grants, and the new conditions for the Council to understand the accounting impact of, there is a significant risk that these may be misclassified in the financial statements or inappropriately treated from an accounting perspective.</p>	<p>Our sample testing of Covid-19 related grant funding did not identify any grants that were incorrectly classified as specific or non-specific in nature. The Council incorrectly identified its responsibility for the 'Additional Restrictions' Grant as an 'Agent' instead of as a 'Principal' which impacts the disclosure accounting. Management corrected the £0.992 million understatement of both Income and Expenditure in respect of this.</p> <p>Our work also identified the need for additional disclosure around Agent based grants, given their material nature.</p> <p>These adjustments were corrected in the final Statement of Accounts.</p>

Continued over.

Financial Statement Audit (continued)

In addition to the significant risks identified, we also concluded on the following areas of audit focus or inherent risk.

Other area of audit focus	Conclusion
<p>National Non-Domestic Rates Appeals Provision</p> <p>The calculation of the National Non-Domestic Rates (NNDR) Appeals Provision is estimate based. Statistics compiled by the Ministry for Housing, Communities and Local Government, reveal that councils were forecasting net additions to appeal provisions totalling £927 million this financial year, and £1.2 billion next year. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based.</p>	<p>Our work did not identify any issues with the assumptions used by Council's specialist in the calculation of the NNDR appeals provision.</p> <p>Where the Council had made local adjustments to reflect on local knowledge and developing appeals, these were also found to be reasonable.</p> <p>We had no other matters to report.</p>
<p>Valuation of Other Land & Buildings</p> <p>Other land and buildings (OLB) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>Our work has identified the following differences in respect of Land & Buildings valuations:</p> <ul style="list-style-type: none">• Indexation on one asset was incorrectly applied as a valuation increase, rather than a decrease. Land & Buildings were therefore overstated by £0.171 million.• Assets Held for Sale are required to be separately disclosed on the Balance Sheet as a 'Current Asset', at the lower of carrying amount and fair value. The classification of this asset, and the upwards revaluation of the asset, means total assets were overstated by £0.423 million• For 3 Car Park assets revalued in the year, the valuations have been calculated on the incorrect number of parking spaces. Land & Buildings is therefore overstated by £0.441 million.• The Council's valuer had retained the 'material uncertainty' clause within their valuation report. This had been disclosed by Management within the financial statements, however the original disclosure required updating to be specific to Car Park assets.

Continued over.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p>Pension Valuations and Disclosures The Authority makes extensive disclosures within its financial statements regarding its membership of Pension Scheme administered by Cambridgeshire County Council. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. We undertake procedures on the use of management experts and the assumptions underlying fair value estimates. For 2020/21, there may be an impact of Covid-19 on pension asset values as at 31 March 2021.</p>	<p>The Cambridgeshire Pension Fund auditor highlighted a material movement in the valuation of Investment Assets of the Pension Fund, in their assurance letter to us. As a result, the Council received an updated IAS19 report from the Actuary, which determined that the liability in the draft accounts was overstated by £0.566 million. The audited statements were updated in this respect.</p>
<p>Group Accounting The Authority consolidates East Cambridgeshire Trading Company and East Cambs Street Scene into its group accounts. There is an inherent risk in ensuring that the group accounts reflect fairly the financial position and performance of each component.</p>	<p>Our work identified the following issues in respect of group accounting:</p> <ul style="list-style-type: none">• The Council had incorrectly eliminated intercompany activity on a net basis, instead of a gross basis. This has been corrected in both the current year (£4.046 million) and comparative figures for 2019/20 (£4.886 million) reducing the overstatement of both Income and Expenditure in the Group CIES statement• The component auditor identified uncorrected misstatements within East Cambridgeshire Trading Company, meaning income was understated by £0.153 million. This misstatement remained uncorrected in the final Statement of Accounts as it was not material to the Group Accounts.

Continued over.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p>Bad debt provision and recoverability of debtors</p> <p>As a result of the impact of Covid-19, there may be increased uncertainty around the recoverability of receivables. This includes large value debtors with subsidiary companies and outstanding management fees in respect of the leisure centre. The provision for these bad debts is an estimate, and calculation requires management judgement. We would expect the Council to revisit their provision for bad debt calculation in light of Covid-19 and assess the appropriateness of this estimation technique.</p>	<p>Our work did not identify any issues in respect of the bad debt provision calculation and the recoverability of debtors.</p>
<p>Accounting for Collection Fund disclosures</p> <p>During 2020-21, in response to the financial hardship faced by individuals and businesses, there may be lower levels of recovery of collection fund income. There are also specific sectors including retail, hospitality and leisure that have received additional business rates relief for the financial year. There is therefore an inherent risk of incorrect accounting based on the significant level of change in the year.</p>	<p>Our work did not identify any issues with figures within the Collection Fund statement.</p> <p>The Council have presented the Collection Fund deficit as a 'Provision', where latest guidance is that this should be classified as an 'Earmarked Reserve'. As a result £3.105 million has been reclassified from Provisions to Earmarked Reserves.</p>
<p>Going concern disclosures</p> <p>The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period</p>	<p>We did not identify any events or conditions in the course of our audit that may cast significant doubt on the entity's ability to continue as going concern.</p> <p>Management had used the basis of their assessment to produce the disclosures included within the draft financial statements. We are satisfied that the revised disclosure note appropriately sets out the circumstances surrounding the financial implications prevalent at the Balance Sheet date.</p>

Continued over.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p>Auditing Accounting Estimates ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019. This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors. The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates.</p>	<p>We have not identified any issues in respect of estimates included within the financial statements, other than those specifically set out in this report.</p>

Financial Statement Audit (continued)

Audit differences

Adjusted differences

- ▶ Property, Plant & Equipment – Indexation on one asset was incorrectly applied as a valuation increase, rather than a decrease. Property, Plant & Equipment therefore overstated by £0.171 million
- ▶ Property, Plant & Equipment – Under IFRS 5, Assets Held for Sale are required to be separately disclosed on the balance sheet as a current asset, at the lower of carrying amount and fair value. The classification of this asset, and the upwards revaluation of the asset, means total assets were overstated. The lower carrying amount value of £0.165 million should be shown and held as a 'Current Asset' instead of as 'Non-Current Asset - Property, Plant and Equipment'.
- ▶ Property, Plant & Equipment – For 3 car park assets revalued in year the valuations have been calculated on the incorrect number of parking spaces. Land & Buildings overstated by £0.441 million.
- ▶ Property, Plant & Equipment – During the year, the Council have disposed of Public Conveniences held within the asset register of £0.159 million. This has incorrectly been reflected as a downwards revaluation, when this should be recognised as a loss on disposal. This has no net impact on the closing value of Property, Plant & Equipment.
- ▶ Pension Liability – Management have corrected an audit difference in relation to the Pension Liability reducing the liability by £0.566 million, as a result of increases in the valuation of Pension Fund Investments due to timing differences reported through the audit of Cambridgeshire Pension Fund.
- ▶ Provisions – The Council have presented the Collection Fund deficit as a provision, where latest guidance is that this should be classified as an Earmarked Reserve. £3.106 million has been reclassified from Provisions to Earmarked Reserves.
- ▶ Cash and Cash Equivalents – The Council have classified £5.000 million within one account as a 'Cash and Cash Equivalent'. As the terms of this account, on acquisition, are that 180 days notice would be required to withdraw from the account, this should be classified as a 'Short Term Investment. This has no net impact on the Balance Sheet.
- ▶ Group CIES – The Council have incorrectly eliminated intercompany activity on a net basis, instead of a gross basis. This has been corrected in both the current year (£4.046 million) and comparative figures for 2019/20 (£4.886 million) overstatement of both Income and Expenditure in the Group CIES statement.
- ▶ Covid-19 Grant - The Council incorrectly identified its responsibility for the 'Additional Restrictions' Grant as an 'Agent' instead of as a 'Principal' which impacts the disclosure accounting. Management have corrected for £0.992 million understatement of both income and expenditure in respect of this.

Disclosure Differences

We also identified a small number of misstatements in disclosures which management corrected.

Uncorrected Differences

Management did not correct two immaterial adjustments. Management did not correct for a difference identified by the component auditor, relating to an understatement of income by £0.153 million. Management did not correct for a projected misstatement in creditors, where an identified difference has been extrapolated to give a projected overstatement of expenditure by £0.166 million.

Financial Statement Audit (continued)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £0.751 million as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.038 million.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures: We audited all disclosures and undertook procedures to confirm material completeness
- ▶ Related party transactions. We audited all disclosures and undertook procedures to confirm material completeness

Section 4

Value for Money



Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the Audit Committee on the 22 November 2021 which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the Finance Manager and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work in November 2021 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our VFM commentary highlights relevant issues for the Council and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability
How the Council plans and manages its resources to ensure it can continue to deliver its services;
 - Governance
How the Council ensures that it makes informed decisions and properly manages its risks; and
 - Improving economy, efficiency and effectiveness:
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
-

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

Each year the Finance team prepares a budget for the budget year, and the Medium Term Financial Strategy (MTFS) which sets out indicative budgets for three further years. The MTFS includes assumptions about all known expenditure and income over that period. This is taken to Full Council in February each year for approval. The Council prepares a capital strategy alongside the revenue budget for the same time period, with the revenue implications of the capital strategy included within the revenue budget.

How the body plans to bridge its funding gaps and identifies achievable savings

The Council's latest published budget for the next financial year, 2021/22, was balanced via the use of the Surplus Savings Reserve. The 2022/23 budget has also been balanced through the use of the Surplus Savings Reserve. Further work is ongoing as part of the preparation of the detailed 2022/23 budget to balance the 2023/24 budget through additional identified saving opportunities. The Council's objective is always to have a balanced budget in each of the next two financial years when the budget is approved in the February of each year, to demonstrate that the Surplus Savings Reserve provides sufficient headroom to manage funding gaps.

Financial sustainability (continued)

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The budget setting process considers any changes to service delivery proposed by Service Leads, as long as those changes are linked to the Council's priorities. The Medium Term Financial Strategy (MTFS) process, is the framework under which sustainable service delivery is planned for within an annual balanced budget, and over the next four year life of the MTFS.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Council have joint arrangements in place with other local Council's to achieve effectiveness and efficiency of service delivery, including the Anglian Revenues Partnership (ARP) who provide services linked to local taxation collection and administration of housing benefits. Finances are planned through the Medium Term Financial Strategy (MTFS) and budget setting processes. The Council's Corporate Plan is also presented and approved at Full Council each year. This sets out the wider objectives and key priorities of the Council in respect of service delivery.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Budgets are produced in line with expected income and expenditure based on the current knowledge of the Finance team. The key assumptions are set out in the Medium Term Financial Strategy (MTFS). The Council's Chief Finance Officer has set the minimum level of reserves for the General Fund at a level that is equivalent to 10% of the Council's net operating budget. In addition, the Council currently holds a 'Surplus Savings Reserve', derived from planned savings schemes set up as part of the annual budget setting process. Together, these provide Management with confidence that if unavoidable overspends did occur these could be managed through the Council's existing reserves balances. The Medium Term Financial Strategy sets out risks and uncertainties that could impact the Council's financial position.

Governance

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council maintains a 'Corporate Risk Register' that is reviewed quarterly by the Risk Management Group and is presented to Audit Committee twice a year. The Council's Internal Auditor supports the production of the Council's Annual Governance Statement each year, feeding in their observations on internal control as identified through the audits that they have completed during the year. The Internal Audit Annual Report is presented to the Audit Committee which provides an overall audit opinion, alongside details of the individual audits undertaken during the year to reach the final opinion.

How the body approaches and carries out its annual budget setting process

An updated Medium Term Financial Strategy (MTFS) is taken to the Finance and Assets Committee in September each year, providing the initial budget for the following financial year, with forecasts across the remaining 3 years of the Medium Term Financial Strategy (MTFS) life (i.e. The MTFS is a rolling 4 year strategy). Following this meeting, the draft budget report is developed into a full annual budget, including the impact on Council Tax requirements. This is then re-presented to the Finance and Assets Committee in January, before being presented to Full Council in February for approval ahead of the start of the financial year to which it relates. Budget figures are determined by the Finance Team through discussions with relevant budget holders, and the Medium Term Financial Strategy (MTFS) is revisited at regular intervals to build in any significant changes.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

The Council operates a financial management system to which budget data is uploaded in line with agreed timescales. This enables budget holders to review their budgets on screen and regularly update their forecast spend. Quarterly budget monitoring reports are presented to the Corporate Management Team, and to relevant Committees. Internal Audit review key aspects of the system of financial control as part of their cyclical audit strategy and report their findings as part of the Internal Audit Annual Report.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

Decision making processes and schemes of delegation are set out within the Constitution for all Committees, as well as decision making that is delegated to Council Officers. Where formal decisions are required they are scrutinised by the appropriate committee in advance of presentation to Full Council. This ensures that the necessary information is provided and that recommendations can be challenged before decisions are made.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

The Constitution contains policy documents such as the 'Member's Code of Conduct' which defines the rules to be adhered to as part of meeting the relevant requirements and setting appropriate standards. There is a separate 'Employees Code of Conduct' to ensure employees are also meeting the required standards for officers of the Council. Any issues, for example through the Council's whistle-blowing policy or complaints policy, are investigated in accordance with agreed processes and/or referred to Internal Audit or the Monitoring Officer, as appropriate to the issue. Councillors are required to complete and update their 'Declarations of Interest' on an annual basis.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement.

Regular reporting of performance and finances is undertaken, with quarterly budget monitoring reports presented to the Corporate Management Team, and then to the Finance and Assets Committee. As part of this, the Council consider the delivery of services and the Council's priorities and previous performance. Service leads are responsible for monitoring the performance of teams, in line with key Council objectives as set out in the Corporate Plan. This is reflected on within the Commentary and Review of 2020/21 section of the Narrative Report within the Statements of Accounts.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Improving economy, efficiency and effectiveness (continued)

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Corporate Plan sets out the Council's priorities which the Council call as 'future promises and commitments'. The Council monitors the provision of services against these commitments, with quarterly budget monitoring reports presented to the Corporate Management Team, and then to the Finance and Assets Committee. Monitoring of the Corporate Plan and the progress of actions to address the plan is through discussion at Corporate Management Team, with subject papers taken to relevant Committees on an ad-hoc basis. The nature of monitoring therefore is dependent on the nature of the service provided and the commitments monitored. The Narrative Report sets out a review of achievements against the Corporate Plan for that year.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

The Council ensures that it is represented on partnership bodies by relevant officers or members, as required. Key partnerships include the Anglia Revenues Partnership and working arrangements with the two subsidiary companies, East Cambridgeshire Trading Company and East Cambridgeshire Street Scene, for which regular reports are taken to the Finance & Assets Committee and the Operational Services Committee.

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Council has, as part of its Constitution, 'Contract Procedure Rules' which officers are expected to adhere to when procuring on behalf of the Council. The Council also maintain a 'Contract Register'. Internal Audit review procurement activity as part of their cyclical Internal Audit plan, and procurement compliance received 'satisfactory assurance' for 2020/21. The Monitoring Officer has overall responsibility for ensuring the Council complies with relevant laws and regulations.

Recommendations

Recommendations

As a result of our VFM procedures we have not made any recommendations.

The Council faces further challenge and change beyond 2021 which will form part of our 2021/22 VFM arrangements work.

Forward look

Looking forward to 2021 and beyond, the Council continues to face significant financial pressures over the medium term, which we would expect to see assessed and continually updated and reflected within the Medium Term Financial Plan.



Section 5

Other Reporting Issues

Other Reporting Issues

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and identified that the conclusion of the Annual Governance Statement required additional narrative to specifically set out whether any significant governance issues had been identified. The Council amended the Annual Governance Statement to include this.

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued. We will liaise with the Council to complete this work as required.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Other powers and duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Other Reporting Issues (cont'd)

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

Appendix A

Audit Fees



Audit Fees

Our fee for 2020/21 is in line with the audit fee reported in our Audit Results Report presented to the Audit Committee on 22 November 2021.

	Planned fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£'s	£'s	£'s
Total Scale Fee - Code work	31,955	31,955	31,955
Additional Fee determined by PSAA Ltd (Note 1)	-	-	25,600
Revised Proposed Scale Fee	31,955	31,955	57,555
2020/21 Additional work:			
Changes in work required to address professional and regulatory requirements and scope associated with risk.	Note 2		
2020/21 Additional Procedures required in response to the additional risks identified in this Audit Plan in respect of:		-	-
<ul style="list-style-type: none"> Accounting for Covid-19 related Government Grant income, NDR Appeals provision, Collection Fund Accounting, Recoverability of Receivables, Going Concern, Group Accounts. 			
Total fees	TBC	31,955	57,555

Note 1 – PSAA Ltd determined the Fee Variation on 22 October 2021.

Note 2 – For 2020/21, we have re-assessed the scale fee again to take into account the same recurring risk factors as in 2019/20, which includes procedures performed to address the risk profile of the Council and additional work to address increase in Regulatory standards and the financial reporting impact of Covid-19, as we set out in our Audit Results Report. In addition there are additional procedures required for the risks identified and addressed through the audit as reported in both the Audit Plan and the Audit Results Report. The additional fee for 2020/21 is yet to be fully discussed with management and thus remains subject to determination by PSAA Ltd.

We confirm we have not undertaken any non-audit work.

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Internal Audit Plan 2022/23

To: Audit Committee

Date: 14th March 2022

From: Chief Internal Audit

[W152]

1. ISSUE

- 1.1. To present the draft Internal Audit plan for 2022/23 and the Internal Audit Charter to the Committee for review and formal approval.

2. RECOMMENDATION

- 2.1. The Committee is asked to review and approve the proposed Internal Audit plan for 2022/23 and the Internal Audit Charter.
- 2.2. The Committee is asked to approve the delegation of authority to the Council's s151 Officer to approve in year amendments to the audit plan between Committee meetings, this in consultation with the Chair of the Audit Committee.

3. BACKGROUND/OPTIONS

- 3.1. The Public Sector Internal Audit Standards (PSIAS) state that the Chief Internal Auditor must "establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals" and "must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management (Corporate Management Team) and the board (Audit Committee) for review and approval".
- 3.2. Internal Audit will provide 210 days of audit and assurance work in 2022/23. A two year plan has been prepared to illustrate how assurance can be provided over the longer term.
- 3.3. The risk based Internal Audit plan should provide the Committee and senior management with the assurances required over key risks for the year ahead. A copy of the draft Internal Audit plan is provided in Appendix 1. Where the plan coverage has been amended from that initially suggested in the two year audit plan reviewed in 2021, this is summarised in Table 1, below, and is due to changes in the risk assessment of the areas and/or in year changes agreed during 2021/22.

Table 1: Amendments to 2022/23 coverage since initial two year plan

Audit	Days added	Days removed	Comments
Asset related audits - follow up	6		New follow up audit added, to provide assurance over actions implemented since the Asset Management audit in 2020/21 and the Fixed Asset audit in 2021/22.
Risk management	2		Increased days - for assurance work, as detailed below.
IT asset management	8		Audit postponed from 2021/22.
Performance management	7		Audit postponed from 2021/22.
Grant claims	5		For verification of Disabled Facilities Grants and homelessness grants.
Financial management		-8	Added to 2021/22 audit plan, so follow up work postponed until 2023/24.
Food safety		-8	Postponed from 2022/23 to 2023/24 due to lower risk profile.
Fees and charges		-5	Postponed from 2022/23 to 2023/24 due to lower risk profile.
Agency staff		-7	Postponed from 2022/23 to 2023/24 due to lower risk profile.
Totals	28	-28	

- 3.4. The plan includes a range of audit assignments which seek to add value and provide assurance. The fundamental coverage of key financial controls and procurement policy compliance is included on an annual basis as these inform the annual Audit Opinion and provide the necessary assurances to the Council's s151 Officer.
- 3.5. In providing risk based assurances over the Council's processes and controls, a range of audits have been proposed which relate to key risk areas identified through consultation and review of risk registers. These will provide targeted reviews of areas where assurance over the design and effectiveness of controls is a priority.
- 3.6. Included within the plan is an allocation of time for risk management. Risk management and compliance with the Risk Management Strategy is the responsibility of the Council's management. In the last year, Internal Audit has sought to clarify its role in relation to adding value to risk management

processes and it is proposed to develop this further in 2022/23 with the introduction of rolling assurance reviews. It is proposed that Internal Audit will select a sample of controls listed within the risk register on a quarterly basis and conduct targeted testing to confirm these controls are in place and operating as expected. Given that there is a reliance upon these controls to manage the key risks and achieve the residual risk scores, the validity and effectiveness of the controls listed will be verified and reported back to the Audit Committee. In order to resource this wider role, it is proposed that an additional two days per year be assigned to this work.

- 3.7. The plan will remain subject to ongoing review during the financial year to ensure it continues to address the Council’s key risks and adds value. Should the risk environment change during the year, the audit plan should be updated accordingly. To enable the Internal Audit service to be responsive in addressing risks, it is recommended that delegated authority be given to the Section 151 Officer, in consultation with the Chair of the Audit Committee, to approve audit plan changes between meetings should this be necessary. Any such changes would be reported to the subsequent meeting of the Audit Committee.

4. INTERNAL AUDIT CHARTER

- 4.1. The Internal Audit Charter is also brought to Committee for annual approval. This document sets out how the Internal Audit service will be delivered for the year ahead. This document was last formally approved by the Finance and Assets Committee in 2021. No material amendments to the body of the Charter are proposed for this year with the exception of amending references to the Finance and Assets Committee to the Audit Committee and reflecting the updated job title of the Chief Internal Auditor throughout.

5. ARGUMENTS/CONCLUSIONS

- 5.1. The attached draft audit plan should provide appropriate coverage for the Council.

6. FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT

- 6.1. There are no additional financial implications arising from this report. An Equality Impact Assessment is not required.

7. APPENDICES

- Appendix 1 – Draft Internal Audit plan 2022/23
- Appendix 2 – Internal Audit Charter

<u>Background Documents</u>	<u>Location</u>	<u>Contact Officer</u>
None	Internal Audit, Room 207 The Grange, Ely	Rachel Ashley-Caunt Chief Internal Auditor RAshley-Caunt@rutland.gov.uk



Internal Audit Plan 2022/23 & 2023/24

EAST CAMBRIDGESHIRE DISTRICT COUNCIL

Table 1: Draft Internal Audit Plan 2022/23 and 2023/24

Audit	2022 /23	2023/24	Service area	Corporate Objectives	Corp Risk ref	Assurances to be sought
Anglia Revenues Partnership						
Council Tax	10	10	Revenues and Benefits	<i>Sound Financial Management</i>	B1	To provide assurance over the controls operating in the management of revenues and benefits services – given the high volume and value of transactions.
Benefits & Overpayments	15	15				
National Non Domestic Rates	10	10				
Counter Fraud and Corruption						
Counter Fraud Procedures	5	5	Cross-cutting	<i>Sound Financial Management</i>	<i>Fraud risks</i>	To review the Council’s counter fraud policies and procedures against best practice and to review their robustness in light of latest trends/developments.
National Fraud Initiative	10	10	Cross-cutting		<i>Fraud risks</i>	Support with reviewing and investigating matches identified by the National Fraud Initiative.
Key Financial Systems						
Bank reconciliation	6	6	Finance	<i>Sound Financial Management</i>	B1	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.
Creditors	7	7	Finance		B1	
Debtors	6	6	Finance		B1	
Payroll	7	7	Finance		C5	
Treasury management	5	5	Finance		B1	
Budgetary control	5	5	Cross-cutting		B1	
Fixed assets	-	7	Finance		B1	
Risk management						
Risk management support	14	14	Cross-cutting	<i>All</i>	All	Administration and reporting of corporate risk register, supporting documents and review of the framework against best practice. To include quarterly testing of a sample of controls.
Making every penny count						
Procurement compliance	9	9	Cross-cutting	<i>Sound Financial Management</i>	B1	Selection of a sample of transactions over £500, to be checked against the published list, to ensure compliance with contract procedure rules and achievement of value for money.
Key policy compliance						
Fees and Charges	-	5	Cross-cutting	<i>Sound Financial Management</i>	C3	To provide assurance over compliance with key Council policies and procedures, based on sample testing.
Use of agency staff	-	7	Cross-cutting			

Audit	2022 /23	2023/24	Service area	Corporate Objectives	Corp Risk ref	Assurances to be sought
Staff claims – overtime / travel	6		Cross-cutting			
Insurance	-	5	Finance			
Safeguarding	8	-	Cross-cutting			
Enforcement policy compliance	7	-	Cross-cutting			
Risk Based audits						
Asset related audits - follow up	6	-	Corporate	<i>Sound Financial Management</i>	C3	To follow up on strengthening of controls following the audit of Asset Management in 2020/21 (relating to lease agreements, EPC ratings and tenant management) and the Fixed Assets audit from 2021/22 (relating to fixed asset records and verifications).
Performance management	7	-	Cross-cutting	<i>All</i>	C3	A Council service-wide audit that will seek to provide assurance that the following areas are sufficiently controlled: a) Use of performance indicators across the Council; b) Reporting of performance indicators including both positive and negative performance; c) Deriving value from performance indicators.
Financial management	-	7	Corporate	<i>Sound Financial Management</i>	B1	To assess the Council's financial management arrangements against the latest CIPFA Financial Management Code.
Assets of community value	6	-		<i>Social and Community Infrastructure</i>	C3	To provide assurance over the Council's consistent and compliant handling of applications for community right to bid.
PCI DSS compliance	-	6	Corporate	<i>Sound Financial Management</i>	C6	To review the Council's compliance with the Payment Card Industry Data Security Standard (PCI DSS) in handling of customer payments across the organisation.
Food safety	-	8	Commercial	<i>Social and Community Infrastructure</i>	C3	The audit will provide assurance on the processes and procedures for supporting the Food Standards Agency's Rating Scheme, including businesses food safety management systems and people fitness to work arrangements.
Information governance	-	8	Corporate	<i>Corporate</i>	C4	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.

Audit	2022 /23	2023/24	Service area	Corporate Objectives	Corp Risk ref	Assurances to be sought
Grant claims	5	-		<i>Sound Financial Management</i>	N/A	Including verification of homelessness grant monies and disabled facilities grants.
IT						
IT asset management	8	-	ICT	<i>All</i>	C2	To provide assurance over the Council's IT asset records and management – including both hardware and software.
Cyber security	10	10	ICT	<i>All</i>	C2	To provide assurance over the robustness of critical IT systems, including review of user access controls, disaster recovery and preventative and detective controls against attacks.
Client Support						
Advice and guidance	5	5	Cross-cutting			
Follow up of agreed actions	5	5	Cross-cutting			
Annual report and Head of Internal Audit opinion	5	5	Cross-cutting			
Audit plan development	3	3	Cross-cutting			
Committee and Management reporting	10	10	Corporate			
Annual Governance Statement	10	10				
Total	210	210				

INTERNAL AUDIT CHARTER AND STRATEGY

1. INTRODUCTION & CONTEXT

- 1.1 Internal Audit is required to maintain an Internal Audit Strategy and Charter. The core governance context for Internal Audit is summarised below:

The Accounts and Audit Regulations (2015) set out that:

A relevant authority must ensure that it has a sound system of internal control which—

(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;

(b) ensures that the financial and operational management of the authority is effective;

and

(c) includes effective arrangements for the management of risk.

And that:

A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

A relevant authority must, each financial year—

*(a) conduct a review of the effectiveness of the system of internal control required by regulation 3;
and*

(b) prepare an annual governance statement

- 1.2 The Public Sector Internal Audit Standards (PSIAS) include the need for risk-based plans to be developed for internal audit and to receive input from management and the 'Board' (usually discharged by the Council's equivalent Audit Committee). The work of Internal Audit therefore derives directly from these responsibilities, including:

PSIAS : 2010 - "The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."

PSIAS : 2450 – "The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

- 1.3 The purpose of the audit charter and strategy is to put in place an approach that will enable Internal Audit to deliver a modern and effective service that:

- Meets the requirements of the Public Sector Internal Audit Standards and the Accounts and Audit Regulations;
- Ensures effective audit coverage and a mechanism to provide independent and objective overall assurance in particular to Councillors and management;

- Provides an independent Annual Opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control environment;
- Identifies the highest risk areas of the Council and allocates available internal audit resources accordingly;
- Adds value and supports senior management in providing effective control and identifying opportunities for improving value for money; and
- Supports the S151 officer in maintaining prudent financial stewardship for the Council.

1.4 The following definitions apply throughout the Charter and Strategy:

- The Audit Committee – acts as the PSIAS defined Council 'Board';
- The Chief Internal Auditor – is the PSIAS defined 'Chief Audit Executive';
- East Cambridgeshire Council's Corporate Management Team (CMT) – is the PSIAS defined 'senior management' team;
- Internal Audit – is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes;
- Assurance Services – an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the Council. E.g.s include financial, performance, compliance, system security and due diligence; and
- Consulting Services – Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility - examples include counsel, advice, facilitation and training.

2. STRATEGY & VISION

2.1 Internal Audit will provide the public, Councillors and Council officers with confidence that Council operations are properly governed and controlled, risks are effectively managed and service delivery meets customer need. Where confidence is not possible the service will ensure that the implications and risks are understood to ensure proportionate action is taken. Internal Audit will be responsive to the Council's needs and the risks to which the Council is exposed. The 'Mission' for Internal Audit is therefore:

'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'.

2.2 Internal Audit is not responsible for the control systems it audits. Responsibility for effective internal control rests with the management / executive of the Council. Directors and Service Leads are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services and achieve approved objectives / policy.

2.3 Internal Audit will provide a robust high quality audit service that delivers honest, evidenced assurance, by:

- Focusing on what is important. Deploying its resources where there is most value aligned to the corporate objectives and priorities, the processes to facilitate these and the key risks to their achievement, whilst ensuring sufficient assurance to support the Annual Governance Statement.
- Being flexible and responsive to the needs of the Council. The Annual Plan will be reviewed quarterly enabling Audit resources to be redeployed as new risks emerge, with the agreement of senior management and the board.
- Being outward looking and forward focused. The service will be aware of national and local developments and of their potential impact on the Council's governance, risk management and control arrangements.
- Providing Assurance. There is value in providing assurance to senior managers and members that the arrangements they put in place are working effectively, and in helping managers to improve the systems and processes for which they are responsible.
- Balancing independent support and challenge. Avoiding a tone which blames, but being resolute in challenging for the wider benefit of the Council and residents.
- Having impact. Delivering work which has buy-in and which leads to sustained change.
- Enjoying a positive relationship with and being welcomed by the 'top table'. Identifying and sharing organisational issues and themes that are recognised and taken on board. Working constructively with management to support new developments.
- Strengthening the governance of the Council. Being ambassadors for and encouraging the Council towards best practice in order to maximise the chances of achieving its objectives, including the provision of consultancy and advice.

2.4 The Internal Audit Service maintains an ongoing and comprehensive understanding of:

- Local Government / Public Sector;
- The Council and its community; and
- Professional Audit and Corporate Governance standards.

- 2.5 All staff within the audit service hold a relevant professional qualification, part qualification or are actively studying towards a relevant qualification. All participate in continuing professional development, both in relation to specific audit skills e.g. contract audit, and softer skills e.g. communication skills.

3. AUTHORITY

- 3.1 In accordance with PSIAS, the Chief Internal Auditor has full responsibility for the operation and delivery of the Internal Audit function including the production and execution of the audit plan and subsequent audit activities. The annual audit plan will be agreed in consultation with relevant officers, the Resource & Finance Committee, and the senior management team.
- 3.2 Internal Audit's authority is documented and defined within the Council's Constitution and Financial Regulations. Internal Audit's remit extends across the entire control environment of the Council.
- 3.3 Internal Audit has unrestricted access to all Council and partner records and information (whether manual or computerised systems), officers, cash, stores and other property, it considers necessary to fulfil its responsibilities. Internal Audit may enter Council property and has unrestricted access to all locations and officers and councillors without prior notice if necessary.
- 3.4 All Council contracts and partnerships shall contain similar provision for Internal Audit to access records pertaining to the Councils business held by contractors or partners.
- 3.5 All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities.
- 3.6 The Audit Committee (as the Board) shall be informed of any restriction unduly placed on the scope of Internal Audit's activities which in the opinion of the Chief Internal Auditor prevent the proper discharge of Internal Audit functions.
- 3.7 The Chief Internal Auditor and individual audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.
- 3.8 To provide for independence the day to day management of the Internal Audit Service is undertaken by the Chief Internal Auditor who report to the Audit Committee. This accords with the Public Sector Internal Audit Standards which requires the Chief Internal Auditor to report to the very top of the organisation.
- 3.9 The Chief Internal Auditor has direct and unrestricted access to the Council's Chief Executive, Section 151 Officer, Directors, External Audit and equivalent Governance and Audit Committees at his/her discretion, including private meetings with the Chair of the Audit Committee.

4. INDEPENDENCE & OBJECTIVITY

- 4.1 Independence is essential to the effectiveness of the internal audit service; so it will remain free from interference in all regards. This shall include, but not be limited to, matters of audit selection, scope, procedure, frequency, timing or report content.
- 4.2 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 4.3 In addition to the ethical requirements of the various professional bodies, each auditor is required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest and declare any potential 'conflict of interest' on allocation of an audit. Any potential impairments to independence or objectivity will be declared prior to accepting any work.

- 4.4 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, 'approve' procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment. Where auditors have previously been involved in any of these activities or consultancy work they will be prohibited from auditing those areas for at least 2 years. Where appropriate, audits are rotated within the team to avoid over-familiarity and complacency.
- 4.5 The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit service.

5. HOW THE SERVICE WILL BE DELIVERED

Audit Planning

- 5.1 The audit plan guides the work of the service during the year. The planning principles are:
- Focusing assurance effort on the most important issues, the key obligations, outcomes and objectives, critical business processes and projects, and principal risks; pitching coverage therefore at both strategic and key operational aspects;
 - Maintaining up to date awareness of the impact of the external and internal environment on control arrangements;
 - Using a risk assessment methodology to determine priorities for audit coverage based as far as possible on management's view of risk in conjunction with other intelligence sources e.g. corporate risk register, audit risk scores;
 - Taking account of dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs, but recognising in a resource constrained environment there will be situations when not all needs can be met which is where risk management is key;
 - Being flexible so that the plan evolves through the year in response to emerging risks and issues;
 - Providing for the delivery of key commitments, such as work done in support of the External Auditor thus reducing the external audit fee, and to deliver governance and antifraud responsibilities; and
 - Including provision for responding to requests for assistance with special investigations, consultancy and other forms of advice from management and sources.
- 5.2 Annex A illustrates the Planning cycle and the processes through which individual assignments are undertaken, reports issued and opinions given.
- 5.3 The number of available audit days to the Internal Audit Service will be reviewed to be sufficient to enable the audit service to deliver the risk based plan in accordance with professional standards. This takes into account the fact that additional resource will be procured as and when necessary e.g. for technical IT audits, when significant resource is diverted through unplanned work. The focus on the high risk areas will reduce the overall coverage required.
- 5.4 In order to deliver the Annual Audit Plan at the required quality and professionalism we strive to ensure that the team has the required mix of skills and experience. The use of external experts e.g. IT auditors compared to employing or developing these expensive resources in house is constantly under review to ensure that the service delivers a high quality product at best value for money. Future recruitment will take into account the expertise and skills required to fill any gaps within the current service.
- 5.5 The breadth of coverage within the plan necessitates a wide range of high quality audit skills. The types of audit work undertaken include:
- Risk based system audit

- Compliance audit
- IT audit
- Procurement and contract management audit
- Project and programme audits
- Risk Management
- Fraud/investigation work
- Value for money audit
- Control self-assessment techniques
- Consultancy and advice

5.6 Internal Audit may procure external audit resource to enhance the service provision as necessary.

Internal Audit Annual Opinion

5.7 Each year the Chief Internal Auditor will provide a publicly reported opinion on the effectiveness of governance, risk and control, which also informs the Annual Governance Statement. This will be supported by reliable and relevant evidence gathered through all work undertaken by Internal Audit during the year.

Conduct of work

5.8 The principles of how Internal Audit conduct work are:

- Focusing on what is important to the Council and in the ultimate interests of the public;
- Striving continuously to foster buy-in and engagement with the audit process;
- Ensuring findings and facts reported are accurate and informed by a wide evidence base, including requesting information from ex-employees and other stakeholders where appropriate;
- Ensuring that risks identified in planning are followed through into audit work;
- Ensuring that the right skills and right approaches are in place for individual assignments;
- Suggesting actions that are pragmatic and proportionate to risk, tailored for the best result and take into account the culture, constraints and the cost of controls;
- Focusing as a rule on ensuring compliance with existing processes and systems and reducing bureaucracy rather than introducing new layers of control;
- Being resolute in challenging; taking account of views, escalating issues and holding our position when appropriate;
- Driving the audit process by agreeing deadlines, meeting these on our part, and escalating non-response promptly in order to complete our work; and
- Having high standards of behaviour at all times.

Reporting

5.9 The reports produced by the service are its key output. The reporting principles are:

- Providing balanced evidence-based reports which recognise both good practice and areas of weakness;
- Reporting in a timely, brief, clear and professional manner;

- Ensuring that reports clearly set out assurance opinions on the objectives/risks identified in planning work;
- Always seeking management’s response to reports so that the final report includes a commitment to action;
- Sharing reports with senior management and members, identifying key themes and potential future risks so that our work has impact at the highest levels; and
- Sharing learning with the wider organisation with a view to encouraging best practice across the Council.

5.10 A written report will be prepared and issued following the conclusion of each internal audit engagement, including follow up audits; unless, in the opinion of the Chief Internal Auditor and Client Lead / Management, a written report is unnecessary. Each report will:

- provide an evidenced opinion on the adequacy of the governance, risk and control processes;
- identify inadequately addressed risks and non-effective control processes;
- detail agreed actions including explanation for any corrective action that will not be implemented;
- provide management’s response and timescale for corrective action;
- provide management’s explanations for any risks that will not be addressed; and
- identify individuals responsible for implementing agreed actions Senior Management shall ensure that agreed corrective actions are introduced.

5.11 All audits and follow ups receiving a limited audit opinion will be highlighted to the Corporate Management Team, and the Audit Committee. Regular reports to the Audit Committee shall highlight each limited report until controls have been restored to satisfactory levels at least.

5.12 To assist the manager/reader in easily identifying the areas that are well managed and the significance of areas of concern, actions, objectives and overall assurance opinions are categorised using three key elements as summarised below (and set out in detail at Annex B):

- 1) Assess and test the CONTROL ENVIRONMENT,
- 2) Test COMPLIANCE with those control systems, and
- 3) Assess the ORGANISATIONAL IMPACT of the area being audited.

Actions / Recommendations

5.13 Actions are categorised dependent on the risk as follows:

Importance	What this means
Essential	Action is imperative to ensure that the objectives for the area under review are met
Important	Requires actions to avoid exposure to significant risks in achieving objectives for the area
Standard	Action recommended to enhance control or improve operational efficiency

Follow up

5.14 All Essential and Important actions are followed up in accordance with the agreed action implementation dates. Further follow ups are undertaken as required. The Internal Audit Service will review their role in this area with the aim of promoting the action owner to proactively inform Internal Audit and provide evidence when an action has been fully implemented to inform the follow up process. Such an approach emphasises the need for managers to deliver required improvements without prompting, reinforcing their accountabilities

Quality Assurance

5.15 The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards;
- All Council Policies and Procedures;
- Professional standards and Code of Ethics required by auditor's respective professional bodies;
- Internal Audit Strategy, Charter and Audit Manual; and
- All relevant legislation.

5.16 The Chief Internal Auditor maintains an appropriate Quality Assurance Framework and reports on this annually. The framework includes:

- An audit manual documenting methods of working;
- Supervision and review arrangements;
- Customer feedback arrangements;
- Quality Standards;
- Annual Internal review;
- Periodic external reviews;
- Performance measures, including:
 - i) Proportion of Plan completed, including spread of areas covered
 - ii) Proportion of agreed actions implemented
 - iii) Proportion of Weak / Limited Assurance opinion reports that improve to at least satisfactory as at follow up
 - iv) Productive/direct time as a % of total time
 - v) Customer satisfaction levels

5.17 The completion of every assignment shall be monitored against:

- end to end time
- days taken to complete
- time between key audit stages e.g. draft issue to final report issue
- customer satisfaction

5.18 The Audit Committee, Corporate Management Team and the Section 151 Officer receive regular updates on audits completed, the assurance opinions and actions implemented. Limited opinion

reports and key actions not implemented are discussed in more detail as appropriate with CMT, the Section 151 Officer and / or the Audit Committee.

5.19 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of:

- ongoing performance monitoring;
- an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards;
- an external assessment at least once every five years by a suitably qualified, independent assessor;
- a programme of Continuous Professional Development (CPD) for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies;
- the Chief Internal Auditor holding a professional qualification (current Chief Internal Auditor is a member of CIMA) and being suitably experienced; and
- encouraging, and where appropriate acting on, customer feedback.

6. *AUDIT COMMITTEE OVERSIGHT*

6.1 The Chief Internal Auditor will provide regular update reports to the Audit Committee to advise on the progress in completing the audit plan, the outcomes of each internal audit engagement, and any significant risk exposures and control issues identified during audit work.

6.2 The Chief Internal Auditor will also present an annual report giving an opinion on the overall adequacy and effectiveness of the control environment which will be timed to support the Council's Annual Governance Statement. In addition the Audit Committee will:

- approve any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken;
- approve, but not direct, the draft audit plan and subsequent changes so that internal audit independence is maintained, and to ensure that coverage reflects the key risks of the Council;
- be informed of results from the quality assurance and improvement programme; and
- be informed of any instances of non-conformance with the Public Sector Internal Audit Standards.

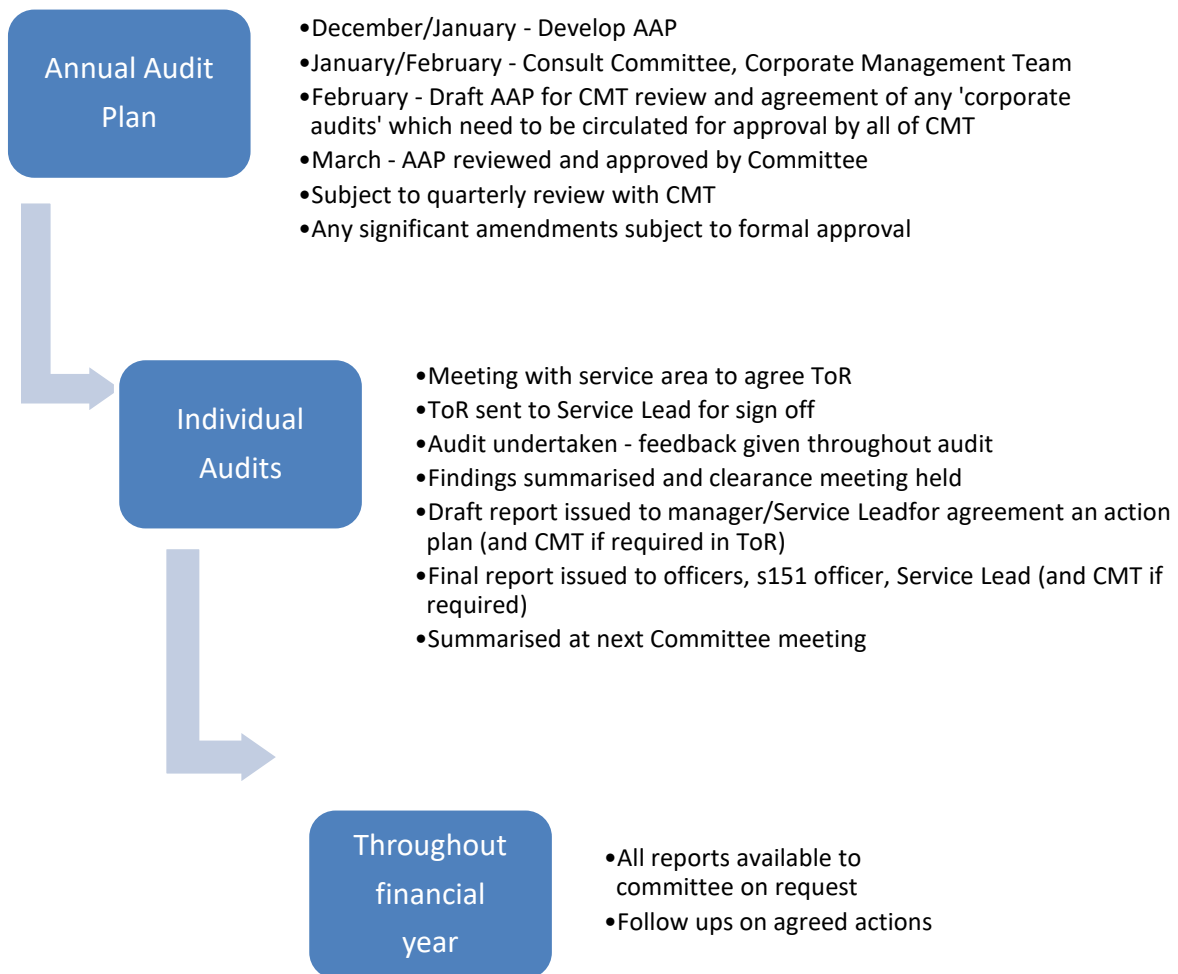
7. *ANTI-FRAUD AND ASSOCIATED ISSUES*

7.1 The Chief Internal Auditor will ensure that all work is undertaken and all staff are conversant with the Council's Anti-Fraud policies and culture, including:

- Anti-Fraud and Corruption policy
- Whistleblowing policy
- Anti-Money Laundering Policy

7.2 All Internal Audit staff will be alert to possibility of fraud during all work but are not responsible for identifying fraud.

Annex A – Audit Planning & Delivery Process



Annex B – Audit Definitions

There are three elements to consider when determining an assurance opinion as set out below.

Control Environment / System Assurance

The adequacy of the control environment / system is perhaps the most important as this establishes the key controls and frequently systems ‘police/ enforce’ good control operated by individuals.

Assessed Level	Definitions
Substantial	Substantial governance/control measures are in place that give confidence the control environment operates effectively.
Good	Governance/control measures are in place with only minor control weaknesses that present low risk to the control environment.
Satisfactory	Systems operate to a moderate level with some control weaknesses that present a medium risk to the control environment.
Limited	There are significant governance/control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental governance/control weaknesses that present an unacceptable level of risk to the control environment.

Compliance Assurance

Strong systems of control should enforce compliance whilst ensuring ‘ease of use’. Strong systems can be abused / bypassed and therefore testing ascertains the extent to which the controls are being complied with in practice. Operational reality within testing accepts a level of variation from agreed controls where circumstances require.

Assessed Level	Definitions
Substantial	Testing has proven that the control environment has operated as intended without exception.
Good	Testing has identified good compliance. Although some errors have been detected these were exceptional and acceptable.
Satisfactory	The control environment has mainly operated as intended although errors have been detected that should have been prevented / mitigated.
Limited	The control environment has not operated as intended. Significant errors have been detected and/or compliance levels unacceptable.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse. The system of control is essentially absent.

Organisational Impact

The overall organisational impact of the findings of the audit will be reported as major, moderate or minor. All reports with major organisational impact will be reported to the Corporate Management Team along with the relevant Directorate's agreed action plan.

Organisational Impact	
Level	Definitions
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.

Findings prioritisation key

When assessing findings, reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks arising from the control weakness found, as set out in the Management Action Plan.

For ease of reference, we have used a system to prioritise our recommendations, as follows:

Essential	Important	Standard
<p>Failure to address the weakness has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial/ reputational loss.</p> <p>The improvement is critical to the system of internal control and action should be implemented as quickly as possible.</p>	<p>Failure to respond to the finding may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial/ reputational loss.</p> <p>The improvement will have a significant effect on the system of internal control and action should be prioritised appropriately.</p>	<p>The finding is important to maintain good control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently.</p> <p>Management should implement promptly or formally agree to accept the risks.</p>

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

Contact Officer

Rachel Ashley-Caunt
Chief Internal Auditor
RAshley-Caunt@rutland.gov.uk

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

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
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.

AUDIT COMMITTEE
ANNUAL AGENDA PLAN

AGENDA ITEM NO. 9

LEAD OFFICER(S): Ian Smith, Finance Manager & S151 Officer

DEMOCRATIC SERVICES OFFICER: Tracy Couper

Meeting: Monday 25 July 2022 4.30pm		Meeting: Monday 28 November 2022 4.30pm		Meeting: Monday 30 January 2023 4.30pm	
Agenda Planning meeting:		Agenda Planning meeting:		Agenda Planning meeting:	
Pre-meeting briefing:		Pre-meeting briefing:		Pre-meeting briefing:	
Report deadline: 4pm Monday 11 July 2022		Report deadline: 4pm Monday 14 November 2022		Report deadline: 4pm Monday 16 January 2023	
Agenda despatch: Wednesday 13 July 2022		Agenda despatch: Wednesday 16 November 2022		Agenda despatch: Wednesday 18 January 2023	
Chairman's Announcements	Chairman	Chairman's Announcements	Chairman	Chairman's Announcements	Chairman
External Audit – Audit Plan	External Audit	External Audit – Audit Results Report	External Audit	External Audit – Auditor's Annual Report	External Audit
Internal Audit Annual Report & Opinion	Internal Audit	Statement of Accounts	Finance Manager & S151 Officer	Internal Audit Progress Report	Internal Audit
Code of Corporate Governance Review	Finance Manager & S151 Officer/Legal Services Manager & MO	Internal Audit Progress Report	Internal Audit	Corporate Risk Management Monitoring Report	Finance Manager & S151 Officer
Draft Annual Governance Statement	Chief Executive	Annual Governance Statement	Chief Executive	<i>Actions taken by the Finance Manager on the grounds of urgency (if any)</i>	DSO
Provision of Internal Audit Services – Options Paper	Chief Executive/Finance Manager & S151 Officer	External Audit – VFM Risk Assessment	External Audit	Forward Agenda Plan	DSO
Risk Management Policy, Framework & Training Programme	Finance Manager & S151 Officer	Anti-Fraud & Corruption Policy	Finance Manager & S151 Officer		
Corporate Risk Management Monitoring Report	Finance Manager & S151 Officer	<i>Actions taken by the Finance Manager on the grounds of urgency (if any)</i>	DSO		
<i>Actions taken by the Finance Manager on the grounds of urgency (if any)</i>	DSO	Forward Agenda Plan	DSO		
Forward Agenda Plan	DSO				

Notes: 1. Agenda items which are likely to be “urgent” and therefore not subject to call-in are marked *
2. Agenda items in italics are provisional items / possible items for future meetings.

