

## CAMBRIDGE CITY COUNCIL

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REPORT OF: Head of Internal Audit

TO: Civic Affairs Committee

26 June 2013

WARDS: All

### **HEAD OF INTERNAL AUDIT: ANNUAL AUDIT OPINION 2012 / 2013**

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#### **1 INTRODUCTION**

- 1.1 In accordance with the Public Sector Internal Audit Standards the Head of Internal Audit (HIA) should provide a written report to those charged with governance. This is timed to support the Annual Governance Statement (AGS), which is also being presented to this committee for challenge by Members, before being signed off by the Leader of the Council and Chief Executive. The Head of Internal Audit is required to give an opinion on the overall adequacy and effectiveness of the organisation's internal control environment and the risk management framework.

#### **2 RECOMMENDATIONS**

- 2.1 Members of Civic Affairs Committee are asked to review, and provide challenge to, the opinion of the Head of Internal Audit.

#### **3 OVERALL OPINION**

- 3.1 **The overall conclusion is that Cambridge City Council has a fundamentally sound governance framework from which those charged with governance can gain assurance.**
- 3.2 However, no system of control can provide absolute assurance against material mis-statement or loss, nor can Internal Audit give that assurance.

#### **4 BACKGROUND**

- 4.1 The Internal Audit service works within a framework of:
- General acceptance of control within the management culture;
  - Agreement of actions arising from Internal Audit reports; and
  - A high level of support from Senior Management and Members.

- 4.2 Audits during the year have been conducted in accordance with the principles contained in the Auditing Practices Board's auditing guideline '*Guidance for Internal Auditors*', CIPFA's '*Code of Practice for Internal Audit in Local Government in the United Kingdom 2006*' and with other relevant statutory obligations and regulations. The Code of Practice, with effect from 1 April 2013 has been replaced with the Public Sector Internal Audit Standards and these were reported to Civic Affairs in March 2013.
- 4.3 Given this context, and in the light of work undertaken in the year, the Head of Internal Audit is able to give reasonable assurance on the adequacy and effectiveness of the organisation's internal controls in respect of the work undertaken. Further details are available in **Appendix 1**.
- 4.4 In preparing the overall opinion, the Head of Internal Audit has reviewed all audit activity carried out during 2012 /2013. Each individual audit undertaken contains an assurance opinion on the adequacy and effectiveness of controls in place to mitigate the risks identified by managers. Where weaknesses in control are identified, an action plan is agreed with management and this is recorded in the Council's Risk Register. Progress is monitored against target dates for delivery of these agreed actions during the year.

## **5 SIGNIFICANT CONTROL WEAKNESSES**

- 5.1 A number of key issues have been identified from the work of the Internal Audit team during 2012 / 2013, and actions agreed to resolve them. One of the key issues identified this year concerns the arrangements for the management of contracts and projects. This issue has been fed through into this year's Annual Governance Statement Action Plan.

## **6 CONSULTATIONS**

- 6.1 Managers and Heads of Service are consulted on all Internal Audit reports at draft stage to agree the proposed action plan. Directors, the Leader of the Council, relevant Executive Councillor and the Council's External Auditors receive copies of the final versions of all Internal Audit reports. Copies of Executive Summaries are sent to the Chief Executive and the Council's Monitoring Officer; in addition the final reports are posted on the secure intranet allowing access by all Councillors.

## **7 IMPLICATIONS**

- (a) **Financial Implications:** None
- (b) **Staffing Implications:** None
- (c) **Equal Opportunities Implications:** None
- (d) **Environmental Implications:** None
- (e) **Community Safety:** None

## **BACKGROUND PAPERS:**

The following are the background papers that were used in the preparation of this report:

- Audit Plan for 2012/2013;
- Audit Reports issued during 2012/2013;
- Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (CIPFA).
- Accounts and Audit Regulations 2011
- Public Sector Internal Audit Standards 2013

To inspect these documents contact Steve Crabtree on extension 8181.

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# HEAD OF INTERNAL AUDIT ANNUAL AUDIT OPINION 2012 / 2013

## ANNUAL REPORT

1. Introduction
2. Arriving at an Opinion
3. Head of Internal Audit Opinion
4. Basis For Head of Internal Audit Opinion
5. Resourcing and Performance
6. Audit Plan Coverage

## 1. **INTRODUCTION**

1.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. On behalf of the Civic Affairs Committee and the Director of Resources, Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating the effectiveness in achieving the organisation's objectives. This report is the culmination of the work during the course of the year and seeks to provide an opinion on the adequacy of the control environment and report the incidence of any significant control failings or weaknesses. The report also gives an overview of audit performance during the year. The overall report will then feed into the Annual Governance Statement included in the Statement of Accounts.

## 2. **ARRIVING AT AN OPINION**

### 2.1 **Background**

The opinion is derived from work carried out by Internal Audit during the year, as part of the agreed Internal Audit Plan for 2012 / 2013. The Internal Audit Plan was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control. We have conducted our audits both in accordance with the mandatory standards and good practice within the Code of Practice and additionally from our own internal quality assurance systems. Our opinion is limited to the work carried out by Internal Audit but, where possible, we have considered the work of other assurance providers.

### 2.2 **Risk Based Audit Planning**

Internal Audit continues to embrace the risk assessment approach to audit. A risk based approach is used to develop the Internal Audit Annual Plan, allowing us to direct resources at areas key to the organisation's success and to provide an opinion on the control environment as a whole. During the course of the year the risks of the Authority are continually reviewed. Each audit job also uses risk assessment to ensure that suitable audit time and resources are devoted to the more significant areas. This risk based approach to audit planning results in a detailed range of audits that are undertaken during the course of the year to support the overall opinion on the control environment. Examples include:

- Risk based reviews of fundamental financial systems that could have a material impact on the accounts and other corporate and departmental systems;
- Contract, procurement, performance and project audits; and
- Fraud and irregularity investigations

## 2.3 Reporting

Where appropriate, each report we issue during the year is given an overall opinion based on the criteria below. Certain pieces of work do not result in an audit report with an opinion (such as consultancy work, involvement in working groups, review of NFI reports and follow-ups). The report opinion, along with our consideration of other audit work, is used to formulate the overall Head of Internal Audit Opinion.

AUDIT ASSURANCE	
Assurance	Definitions
<b>Full</b>	Controls are in place to ensure the achievement of service objectives and good corporate governance, and to protect the Authority against significant foreseeable risks.
<b>Significant</b>	Controls exist to enable the achievement of service objectives and good corporate governance, and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with control process were identified and/or opportunities still exist to mitigate further against potential risks.
<b>Limited</b>	Controls are in place and to varying degrees are complied with, however, there are gaps in the process which leave the service exposed to risks. Therefore, there is a need to introduce additional controls and/or improve compliance with existing ones, to reduce the risk exposure for the Authority.
<b>No</b>	Controls are considered to be insufficient, with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Authority exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.

The report opinion is based upon the number and type of recommendations we make in each report. Individual action categories are as follows:

RECOMMENDATIONS MADE TO IMPROVE ASSURANCE LEVELS		
Status	Definitions	Implementation
<b>Critical</b>	Extreme control weakness that jeopardises the complete operation of the service.	Immediately
<b>High</b>	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.	As a matter of priority
<b>Medium</b>	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority.	At the first opportunity
<b>Low</b>	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust.	As soon as reasonably practical

### 3. OPINION 2012 / 2013

The Code of Practice for Internal Audit in Local Government in the UK 2006 states that the HoIA must provide a written report to those charged with governance timed to support the Annual Governance Statement. This report must include an opinion on the overall adequacy and effectiveness of the organisation's control environment, presenting a summary of how that opinion is derived including reliance placed on work by other assurance bodies.

The internal control environment is fundamentally well established and continuing to operate well in practice even though 2012 / 2013 has been a challenging year for the organisation. There have been instances where the control environment was not strong enough or complied with sufficiently to prevent significant risks to the organisation. The main area of concern in the year has been in relation to the management of contracts and projects and Internal Audit has been working closely with management in this area to improve key controls. This has been included in the Annual Governance Statement as an action to be addressed going forward. All Executive Summaries of audit reports have been made available to Members throughout the year via the secure intranet. Nevertheless, the key conclusions from the reports are detailed in Section 3 below.

The overall conclusion is that Cambridge City Council has a **sound governance framework** from which those charged with Governance can gain **reasonable assurance**. Internal Audit has made a number of recommendations to further improve the systems of control and the organisation is actively working to make improvements in these areas. Agreed actions are recorded and monitored through the Council's risk register.

Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that, in the main, these controls continue to work well in practice although there are some areas where improvements are necessary.

***However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.***

Steve Crabtree  
Head of Internal Audit  
May 2013

#### 4. **BASIS OF HEAD OF INTERNAL AUDIT OPINION**

4.1 The audit work that was completed for the year to 31 March 2013 is listed in Section 6, which summarises all the audits undertaken and their results in terms of the audit assurance levels provided and the number of actions agreed. A summary of assurance levels is detailed below.

This shows that **65%** of the systems audited achieved an assurance level of significant or higher, compared to **62%** last year (and **59%** in 2010 / 2011).

AUDIT ASSURANCE						
Assurance Levels	Issued			%		
	2010/11	2011/12	2012/13	2010/11	2011/12	2012/13
Full	5	4	2	18	14	6
Significant	11	14	20	41	48	59
Limited	10	10	11	37	34.5	32
No	1	1	1	4	3.5	3
Total	<b>27</b>	<b>29</b>	<b>34</b>	<b>100</b>	<b>100</b>	<b>100</b>
N/A	-	-	7	-	-	-

ACTIONS AGREED			
	Numbers		
	2010/11	2011/12	2012/13
Low	22	10	14
Medium	73	82	45
High	65	53	90
Critical	-	3	1
	<b>160</b>	<b>148</b>	<b>150</b>

4.2 In addition to the audits detailed in the above table, further audit work was carried out including follow-ups, consultancy work and specific activities such as investigations. Some of these works, such as investigations or the provision of advice / "critical friend" role will not warrant an assurance rating, but there may be some actions to be addressed. During the year, 6 activities fell into this category and the full details are shown in Section 6. At the year end a number of audits were in various stages of completion and audit opinions relating to these will be reported during 2013 / 2014.

#### 4.3 **Annual Governance Statement**

In June 2007 CIPFA, in conjunction with the Society of Local Authority Chief Executives (SOLACE), published Delivering Good Governance in Local Government: Framework. The Department for Communities and Local Government has determined that this guidance represents proper practice. Consequently, Civic Affairs Committee should seek assurance that this guidance has been followed to compile the Annual Governance Statement (AGS). To help the Committee gain that assurance and to give some independent assurance that the AGS is free from material misstatement Internal Audit undertakes reviews of the key corporate governance systems.



Using our audit work and being involved in the development of the Annual Governance Statement we can confirm that there is evidence to indicate that policies, procedures and systems are in place for corporate governance to be effective within the Council. The Council has demonstrated a firm foundation for this and Internal Audit remains of the opinion that the policies, procedures and systems are generally in place for good corporate governance. From our audit work we have made reference to the need to improve contract and project management and this has been included in the Action Plan.

#### 4.4 Risk Management

Internal Audit have been involved in the development and roll out of the new risk management arrangements across the Council. The updated Risk Management Strategy setting out the revised framework was approved by Civic Affairs in March 2013. All agreed Internal Audit actions are recorded on the risk register and monitored for implementation. Quarterly reports are referred to each Departmental Management Team on outstanding actions and are also flagged up with the Strategic Leadership Team half yearly. The summary position is as follows:

Year	ACTIONS MADE				
	Agreed	Implemented	Completion Date Not Due	Cancelled	Overdue Action
2011 / 2012	148	87	5	2	54
2012 / 2013	150	75	28	0	47

The new risk register was introduced during 2012 / 2013. Due to the previous system being not fit for purpose there has not been an effective mechanism to monitor delivery of actions. The new system is addressing this and with corporate buy in from Directors the level of actions outstanding is reducing quickly.

#### 4.5 Key Financial Systems

A risk based review of the authority's key financial systems is undertaken to provide evidence supporting the internal audit opinion on the adequacy of the organisation's control environment. As in previous years, the key financial systems subject to audit were agreed in advance with the authority's external auditors as they review this work and use this as a key source of assurance for the organisation. These have been reviewed and they confirm that it meets their requirements in terms of timeliness, quality and supporting evidence. Audit coverage during the year has provided sufficient evidence to conclude that those key financial control systems evaluated are sound.

#### 4.6 Summary Activities

Section 6 identifies the works undertaken and concluded in the year. Key activities include:

- Risk Management. There has been renewed impetus to embed effective risk management across the organisation. Following the implementation of the new risk register, there is a greater focus on managing risks and achieving corporate buy in.
- Health and Safety (Contract Management). The audit concluded that while site visits are undertaken to verify that health and safety issues are identified and addressed, however there is a lack of documentation to evidence these checks.
- Business mileage. There is an inconsistent approach across departments in verifying that employees' private vehicles have been appropriately insured and MOT's obtained where necessary.
- Funding to voluntary organisations. There are inconsistencies in the procedures for processing and managing grant funding across the organisation and we have suggested some form of streamlining.
- Responsive Repairs Improvement Plan. Delays in recruiting to key posts within the department have hindered progress against the Plan. Staff have now been appointed so this is now back on track.
- Leaseholder Charges. Information to ensure all costs are recovered has not always been available on a timely basis.
- PCI DSS Compliance. A lack of checks on software providers did not ensure that they were still compliant and returns had not been completed on a timely basis.
- Commercial Property Portfolio. Stock condition surveys were not completed on a timely basis for all properties.
- Capital Expenditure. It was identified that there was inconsistency in the monitoring of the capital plan and a need for appropriate re-profiling.
- Markets. Robust arrangements for the monitoring of income from stallholders are required and issues of lone working were identified.
- Members Allowances. Special responsibility allowances were incorrectly paid following changes in membership.
- Depot Cash Handing. Weaknesses were identified in the arrangements for the payment of goods and services at the Depot.

Two audits undertaken during the year received FULL assurance, these being:

- Void Clearance; and
- Implementation of the outcomes from the recent pay review.

#### 4.7 Allegations of Fraud and Breaches of Code of Conduct

Fraud and Irregularity investigations were previously reported to the Standards Committee annually. This would have covered Internal Audit work as well as that of the Revenue and Benefits Services Fraud Prevention Team. This is now part of the remit of Civic Affairs and a report elsewhere on this agenda covers fraud and whistleblowing.

## 5. RESOURCING AND PERFORMANCE

### 5.1 Resourcing

The staffing position in Internal Audit is slightly lower than when the Annual Internal Audit Plan was agreed, due to maternity leave. The resource level for the year was:

Post	FTE	Vacancy	Change In Year	Commentary	At Year End
Head of Internal Audit	0.50	-	-	Continuation of shared service with Peterborough	0.50
Principal Auditor	0.76	-	-		0.76
Senior Auditor	2.96	-0.60	-0.80	Vacancy held for the year to provide budget savings One officer commenced maternity leave Xmas 2012	1.56
Audit Assistant	1.81	-	-		1.81
	<b>6.03</b>	<b>-0.60</b>	<b>-0.80</b>		<b>4.63</b>

### 5.2 Performance

During the year, it should be noted that:

- Customer feedback remains very positive.
- The continuation of the shared service arrangement with Peterborough City Council which is delivering cost efficiency savings and improved performance;
- External audit reliance on our work; and
- Sickness levels remain below corporate levels.

## 6. AUDIT PLAN COVERAGE

AUDIT ACTIVITY	Report No.	ASSURANCE LEVEL	ACTIONS								COMMENTARY
			AGREED					Action status: 3 June 2013			
			Critical	High	Med	Low	Total	Complete	Overdue	Not Yet Due	
<b>CORE SYSTEM ASSURANCE WORK</b>	<b>Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s151 officer to make his statement included in the Annual Accounts on the reliability of the supporting financial systems.</b>										
Housing Benefit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Complete
Council Tax											Draft
Treasury Management											Draft
<b>ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK</b>	<b>Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section details the audit work that specifically relates to the production of the Annual Governance Statement</b>										
Annual Governance Statement	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Complete
Annual Audit Opinion	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Complete
Internal Audit Effectiveness	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Complete
National Fraud Initiative	-	-	-	-	-	-	-	-	-	-	In progress
Prevention of Fraud and Corruption Policy	-	-	-	-	-	-	-	-	-	-	Report to Civic Affairs June 2013
Risk Management	2012/13 37	Limited	0	1	0	0	1	0	1	0	Complete

AUDIT ACTIVITY	Report No.	ASSURANCE LEVEL	ACTIONS								COMMENTARY
			AGREED					Action status: 3 June 2013			
			Critical	High	Med	Low	Total	Complete	Overdue	Not Yet Due	
<b>CORPORATE / CROSS CUTTING AUDITS</b>	<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.</b>										
Health and Safety	2012/13 03	Limited	0	6	0	0	6	2	4	0	Complete
Data Protection Compliance	2012/13 45	Significant	0	7	0	0	7	0	3	4	Complete
Implementation of the outcomes from the Business and Support Services Review (BSSR)											Fieldwork
Purchase Orders											Draft
Climate Change Fund	2012/13 04	Significant	0	4	1	0	5	3	0	2	Complete
Fees and Charges											Draft
Business Mileage	2012/13 01	Limited	0	4	0	0	4	4	0	0	Complete
Corporate Change Process											Cancelled
Devolvement of decision making on developer contributions	2012/13 35	Significant	0	3	0	0	3	0	0	3	Complete
Gifts and Hospitality	2012/13 18	Significant	0	0	6	2	8	2	3	3	Complete
Funding to Voluntary and Community Organisations	2012/13 17	Limited	0	3	4	1	8	N/A	N/A	N/A	Complete



AUDIT ACTIVITY	Report No.	ASSURANCE LEVEL	ACTIONS								COMMENTARY
			AGREED					Action status: 3 June 2013			
			Critical	High	Med	Low	Total	Complete	Overdue	Not Yet Due	
<b>DEPARTMENT</b>	<b>CHIEF EXECUTIVES</b>										
Social Media	2012/13 32	Significant	0	0	0	2	2	1	0	1	Complete
Performance Management	2012/13 31	Significant	0	1	1	0	2	1	1	0	Complete
<b>DEPARTMENT</b>	<b>CUSTOMER AND COMMUNITY SERVICES</b>										
Welfare Reform Act	2012/13 26	Significant	0	0	1	0	1	1	0	0	Complete
Leaseholder Charges (s.20)	2012/13 02	Limited	0	6	0	0	6	1	5	0	Complete
Voids Clearance Process	2012/13 05	Full	0	0	0	1	1	1	0	0	Complete
Home Improvement Agency											Draft
Right To Buy											Fieldwork
Corn Exchange Box Office											Ongoing monitoring
Community Development – Asset Management	2012/13 36	Significant	0	5	0	0	5	4	0	1	Complete
Care Call System	2012/13 29	Significant	0	0	1	0	1	1	0	0	Complete









AUDIT ACTIVITY	Report No.	ASSURANCE LEVEL	ACTIONS								COMMENTARY	
			AGREED					Action status: 3 June 2013				
			Critical	High	Med	Low	Total	Complete	Overdue	Not Yet Due		
<b>UNPLANNED ACTIVITY: PROJECT MANAGEMENT / PROCUREMENT / CONTRACT MANAGEMENT ADVICE</b>												
<p>Various pieces of contracts advice were provided during the year. These covered all stages of the contracts process. Key activities covered:</p> <ul style="list-style-type: none"> <li>Leisure Management</li> <li>Box Office Software</li> <li>Re-let of ICT</li> <li>Planned Maintenance</li> </ul> <p>Advice and support on projects included:</p> <ul style="list-style-type: none"> <li>Responsive Repairs Improvement Plan</li> <li>Stores / Procurement</li> </ul>												
<b>UNPLANNED ACTIVITY: SPECIAL INVESTIGATIONS – E.G. ALLEGATIONS OF BREACHES OF OFFICER CODE OF CONDUCT / WHISTLEBLOWING</b>												
S.I. – Customer and Community Services #01	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Whistleblowing
S.I.- Environment #01	2012/13 12	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Whistleblowing
S.I. – Resources #01	2012/13 33	N/A	0	10	0	0	10	10	0	0	0	Whistleblowing
<b>UNPLANNED ACTIVITY: REQUESTED WORK</b>												
Street Trading Consents	2012/13 20	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Request
Cash Handling at the Depot	2012/13 25	Limited	0	13	7	3	23	12	11	0	0	Request
<b>RISK MANAGEMENT</b>												
Internal Audit has assisted in the implementation of the updated risk register. Ongoing work includes the review and monitoring of Council's risks and implementation of actions agreed to mitigate these.												