

CAMBRIDGE CITY COUNCIL

REPORT OF: Head of Internal Audit

TO: Civic Affairs Committee

25 June 2014

WARDS: All

HEAD OF INTERNAL AUDIT: ANNUAL AUDIT OPINION 2013 / 2014

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 Public Sector Internal Audit Standards and these were set and 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 2013 / 2014. 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 While our work has not identified any significant control weaknesses, there are a number of issues which have emerged from across the Council during 2013 / 2014 which have been incorporated into the Annual Governance Statement Action Plan. As part of our involvement in the preparation and validation of the Annual Governance Statement we agree that these actions are appropriate.

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, the 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.

7 IMPLICATIONS

- (a) **Financial Implications:** None
- (b) **Staffing Implications:** None
- (c) **Equality and Poverty 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 2013/2014;
- Audit Reports issued during 2013/2014; and
- Public Sector Internal Audit Standards 2013

To inspect these documents contact Steve Crabtree on extension 8181.

The author and contact officer for queries on the report is Steve Crabtree on extension 8181.

HEAD OF INTERNAL AUDIT ANNUAL AUDIT OPINION 2013 / 2014

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 Business Transformation, 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.
- 1.2 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 2013 / 2014. 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
Full	Controls are in place to ensure the achievement of service objectives and good corporate governance, and to protect the Authority against significant foreseeable risks.
Significant	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.
Limited	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.
No	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 / type of recommendations we make in each report. Individual action categories are as follows:

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

3. **OPINION 2013 / 2014**

In line with the Public Sector Internal Audit Standards and prior best practice, 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 2013 / 2014 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
June 2014

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

4.1 The audit work that was completed for the year to 31 March 2014 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 **83%** of the areas audited achieved an assurance level of significant or higher, compared to **65%** last year (and **62%** and **59%** in previous years).

AUDIT ASSURANCE								
Assurance	Issued				%			
	10/11	11/12	12/13	13/14	10/11	11/12	12/13	13/14
Full	5	4	2	0	18	14	6	0
Significant	11	14	20	20	41	48	59	83
Limited	10	10	11	4	37	34.5	32	17
No	1	1	1	0	4	3.5	3	0
Total	27	29	34	24	100	100	100	100
N/A	-	-	7	3	-	-	-	-

4.2 In addition to the audits summarised in the above table, further audit work was carried out including consultancy work and other specific activities such as special investigations. These works do not usually warrant an assurance rating, but there may be actions arising from the work undertaken to address the issues identified. At the year-end a number of audits were in various stages of completion and audit opinions relating to these will be reported during 2014 / 2015.

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.

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
2012 / 2013	140	107	4	4	25
2013 / 2014	57	11	12	0	34

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 used by the authority's external auditors 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 adequate, but a number of actions have been identified to rectify any system weaknesses identified.

4.6 **Summary Activities**

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

- Preparations for the introductions of Individual Electoral Registration;
- Compliance with the requirements of the Equalities Act;
- Receivables and VAT; and
- The new Home Improvement Agency.

In addition, the Section was involved in two whistleblowing investigations and provided advice on a number of key Council projects/procurements, including the ICT FM contract re-let, Clay Farm Community Centre and land disposal, the new Box Office Ticketing software and the Leisure Management contract.

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 for Civic Affairs and a report earlier on this agenda covers fraud and whistleblowing.

5. **RESOURCING AND PERFORMANCE**

5.1 **Resourcing**

At the start of 2013 / 2014 the in-house team comprised 6.03 fte approved posts including the HIA, and a number of changes were made in the year reducing the headcount to 4.29 fte. Due to its size, the section is not structured around client / service based teams or Council directorates. This has allowed the opportunity for auditors to develop a depth of knowledge / relationships with customers in relation to the work of a number of services rather than specific areas. However, a number of officers have specific technical attributes that provide the organisation with a "first point of contact". This provides some continuity to the customer who can regularly deal with the same auditor over a period of time.

5.2 Performance

During the year, it should be noted that:

- Customer feedback remains positive;
- The continuation of the shared service arrangement with Peterborough City Council which is delivering cost efficiency savings and improved performance. This has now been extended to include South Cambridgeshire District Council from July 2013;
- 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: 31 May 2014				
			Critical	High	Med	Low	Total	Complete	Overdue	Not Yet Due		
CORE SYSTEM ASSURANCE WORK	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.											
Housing Benefit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Complete Work for External Audit.
Budget Setting Process	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	On-going works reported to Civic Affairs
Accounts Payable											Draft Report	
Accounts Receivable	13/14 - 31	Significant	0	2	4	2	8	1	0	7	Complete	
VAT	13/14 - 29	Significant	0	0	1	1	2	1	0	1	Complete	

AUDIT ACTIVITY	Report No.	ASSURANCE LEVEL	ACTIONS								COMMENTARY
			AGREED					Action status: 31 May 2014			
			Critical	High	Med	Low	Total	Complete	Overdue	Not Yet Due	
ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK	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										
Annual Governance Statement	Completed – report to Civic Affairs June 2013									Complete	
Annual Audit Opinion	Completed – report to Civic Affairs June 2013									Complete	
Internal Audit Effectiveness	Completed – report to Civic Affairs June 2013									Complete	
Prevention of Fraud and Corruption Policy	Completed – report to Civic Affairs June 2013									Complete	
National Fraud Initiative	2012/13 Investigation work complete									Complete	

AUDIT ACTIVITY	Report No.	ASSURANCE LEVEL	ACTIONS								COMMENTARY
			AGREED					Action status: 31 May 2014			
			Critical	High	Med	Low	Total	Complete	Overdue	Not Yet Due	
CORPORATE / CROSS CUTTING AUDITS	Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks.										
Health and Safety											Fieldwork
Achievement of Income and Savings Targets											Draft Report
Safeguarding											Fieldwork
Data Security & Data Sharing Protocols											Postponed until 2014-15
IT Infrastructure											Fieldwork
Security of On-Line Transactions											Draft Report
Corporate Governance											Planning
Compliance with the requirements of the Equalities Act	13/14 - 25	Significant	0	0	4	4	8	4	3	1	Complete
Tackling fuel poverty	13/14 - 06	Significant	0	0	1	0	1	0	1	0	Complete
Preparations for Growth Sites	13/14 - 02	Significant	0	0	1	0	1	0	0	2	Complete
Use of Consultants	13/14 - 19	Significant	0	0	2	0	2	0	0	2	Complete

AUDIT ACTIVITY	Report No.	ASSURANCE LEVEL	ACTIONS								COMMENTARY
			AGREED					Action status: 31 May 2014			
			Critical	High	Med	Low	Total	Complete	Overdue	Not Yet Due	
CONTRACTS AND PROJECTS	Dependent on risk, we review a sample of projects and contracts each year to test whether the Councils governance arrangements are being followed and that contracts provide value for money										
Planned Maintenance	13/14 - 13	Significant	0	4	0	0	4	1	3	0	Complete
ICT FM Contract Re-let	Complete – advice provided during contracting process										Complete
Leisure Management Contract Re-let	Complete – advice provided during contracting process										Complete
Tour de France	Watching Brief – Project Advice – Gateway review undertaken in 2014/15										Watching Brief
District Heating Project	Watching Brief – Project Advice										Watching Brief
Clay Farm – Community Centre	On-going monitoring. Project continues in current financial year and works have been picked up in the plan										Watching Brief
Clay Farm – Land Disposal	On-going monitoring. Project continues in current financial year and works have been picked up in the plan										Watching Brief
Clay Farm – Review of Developer agreements											Planning
Green Deal	Cancelled – County Council has taken over the running of this project										Cancelled
Box Office Ticketing Software	Complete – advice provided during contracting process										Complete
Building Cleaning Contract	Watching Brief – Project Advice – Ongoing into 2014/15										Watching Brief
Park Street Car Park	Watching Brief – Project Advice										Watching Brief
Grafton West Car Park Refurbishment											Watching Brief

AUDIT ACTIVITY	Report No.	ASSURANCE LEVEL	ACTIONS								COMMENTARY
			AGREED					Action status: 31 May 2014			
			Critical	High	Med	Low	Total	Complete	Overdue	Not Yet Due	
DEPARTMENT	CHIEF EXECUTIVES										
Elections/Electoral Register	13/14 - 26	Significant	0	2	2	1	3	0	2	1	Complete
DEPARTMENT	CUSTOMER AND COMMUNITY										
Folk Festival											Ongoing advice
Implementation of Local Taxation Scheme											Planning
Homelessness											Two reports drafted
PREVENT Funding											Planning
Corn Exchange Box Office											Planning

AUDIT ACTIVITY	Report No.	ASSURANCE LEVEL	ACTIONS								COMMENTARY	
			AGREED					Action status: 31 May 2014				
			Critical	High	Med	Low	Total	Complete	Overdue	Not Yet Due		
DEPARTMENT	ENVIRONMENT											
Delivery of Developer Contribution Projects	13/14 - 01	Significant	0	0	0	0	0	0	0	0	0	Complete
Planning PI	13/14 - 11	Significant	0	0	0	0	0	0	0	0	0	Complete
Leaseholder Charges (Grounds Maintenance)	13/14 - 20	No assurance rating given as no information available to audit – postponed until 2014/15									Complete	
Building Control											Planning	
Managing Events on Open Spaces											Report drafted	
Carbon Reduction Management	13/14 - 12	Significant	0	0	0	0	0	0	0	0	0	Complete
Enforcement											Initial advice provided	
Community Infrastructure Levy (CIL)											Deferred until 2014 / 2015	
Licences											Planning	
Land Charges											Fieldwork	
DEPARTMENT	RESOURCES											
Admin Building Management											Report Drafted	
Compliance with HR Policies											Fieldwork	
ICT Licensing Arrangements											Fieldwork	

AUDIT ACTIVITY	Report No.	ASSURANCE LEVEL	ACTIONS								COMMENTARY
			AGREED					Action status: 31 May 2014			
			Critical	High	Med	Low	Total	Complete	Overdue	Not Yet Due	
COMPLETION OF ACTIVITIES BROUGHT FORWARD FROM PREVIOUS YEAR											
Implementation of the outcomes from the Business and Support Services Review	13/14 - 10	Significant	0	4	5	1	10	1	8	2	Complete
Purchase Orders											Report drafted
Fees and Charges											Report drafted
Mercury Abatement	13/14 - 21	Limited	0	1	2	0	3	1	1	1	Complete
Orchard Upgrade											Planning
Homelessness Assessment Centre											Report Drafted
Ditchburn Place Care Contract	13/14 - 24	Significant	0	1	0	0	1	1	0	0	Complete
Right to Buy											Draft Report
Home Improvement Agency	13/14 - 28	Limited	0	2	7	1	10	0	8	2	Complete
Officer Consultation on Planning Applications											Report drafted
Council Tax	13/14 - 07	Significant	0	1	1	0	2	0	2	0	Complete
Treasury Management	13/14 - 03	Significant	0	2	0	0	2	2	0	0	Complete
Tree Management	13/14 - 27	Limited	0	3	1	0	4	0	0	4	Complete

UNPLANNED ACTIVITIES: PROJECT MANAGEMENT / GENERAL ADVICE											
Various pieces of ad-hoc contracts advice have been provided. These covered all stages of the contracts process. Key activities covered:											
<ul style="list-style-type: none"> Planned maintenance Responsive repairs 											
UNPLANNED ACTIVITIES: REQUESTS											
Key activities covered:											
<ul style="list-style-type: none"> Information Security Group Review of Contract Procedure Rules 											
UNPLANNED ACTIVITY: SPECIAL INVESTIGATIONS – E.G. ALLEGATIONS OF BREACHES OF OFFICER CODE OF CONDUCT / WHISTLEBLOWING											
S.I. – Customer and Community	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Whistleblowing
S.I.- Environment	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Whistleblowing
RISK MANAGEMENT											
On-going work includes the review and monitoring of Council's risks and implementation of actions agreed to mitigate these.											