

# HEAD OF INTERNAL AUDIT

## ANNUAL AUDIT OPINION

### 2016 / 2017

**ANNUAL REPORT**

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## 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 Strategic Director (Interim), 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. BACKGROUND

- 2.1 The 2016 / 2017 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards and the requirements of the Accounts and Audit Regulations 2015.
- 2.2 The Council is going through a period of significant change. The drives for change are both organisational (e.g. public sector reform and developing new ways of working) and financial (e.g. national austerity programme and the Council's savings commitments). During a period of change it is important that any increased business risks are identified and managed in an effective manner. Our 2016 / 2017 audit plan reflected these changes by concentrating on those areas of highest risk.

## 3. ASSURANCE

- 3.1 The audit plan is prepared to enable me to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). My opinion will inform the Annual Governance Statement which the Council is legally required to produce.
- 3.2 As my opinion is based upon professional judgement, backed up by sample testing, I can only provide at best a reasonable rather than an absolute assurance that the systems of internal control are adequate and effective in managing risk and meeting the Council's objectives. If serious issues are identified in the course of our work that have, or could have, prevented objectives to be met, then my opinion may be qualified.
- 3.3 Our work is carried out to assist in improving control. **However management is responsible for developing and maintaining an internal control framework.** This framework is designed to ensure that:

- The Council's resources are utilised efficiently and effectively;
- Risks to meeting service objectives are identified and properly managed; and
- Corporate policies, rules and procedures are adequate, effective and are being complied with.

3.4 Assurance is received from a number of sources. These include the work of Internal Audit; assurance from the work of the External Auditor; the Annual Governance Statement together with the Local Code of Corporate Governance and the Risk Management process. This enables a broader coverage of risks and ensures that the totality of the audit, inspection and control functions deployed across the organisation are properly considered in arriving at the overall opinion.

3.5 **Based on the above I am able to provide a reasonable assurance.** As in any large organisation, our work did identify some issues that require action. All significant issues have been reported to the appropriate Director during the year. A summary of these is included as **ANNEX A**.

#### 4. **ADDED VALUE SERVICES**

4.1 Although my primary responsibility is to give an annual assurance opinion I am also aware that for the Internal Audit service to be of value to the organisation it needs to do much more than that. There needs to be a firm focus on assisting the organisation to meet its aims and objectives and on working in an innovative and collaborative way with managers to help identify new ways of working that will bring about service improvements and deliver efficiencies. Examples of how we have done this during the year include advice and support to the Financial Management System project and input to key working groups, including the Capital Programme Board.

#### 5. **QUALITY, PERFORMANCE AND CUSTOMER FEEDBACK**

5.1 I am required to report through Civic Affairs Committee details into the quality and customer feedback issues. These are summarised below. The Head of Finance also draws upon this information to report on the adequacy and effectiveness of the systems of internal audit.

5.2 An annual self-assessment against the Public Sector Internal Audit Standards established that the service is compliant with these as well as meeting both professional and internal quality standards. As in previous years only minor areas of non-compliance were identified and actions have been taken to address these.

5.3 At the start of the financial year the section was made up of a complement of 4.49 FTE. This is represented by:

<b>TABLE 1: ANALYSIS OF AUDIT TEAM STRUCTURE</b>				
<b>Internal Audit Post</b>	<b>1-Apr-2016</b>	<b>Movement in Year</b>	<b>31-Mar-2017</b>	<b>Commentary</b>
Head of Internal Audit	0.40	-	0.40	
Principal Auditor	0.76	-	0.76	
Senior Auditor	2.57	-1.00	1.57	Vacant at end of February 2017
Audit Assistant	0.76	-	0.76	
	<b>4.49</b>		<b>3.49</b>	

5.4 The audit work that was completed for the year to 31 March 2016 is listed in **ANNEX B**, which summarises all the audits undertaken and their results in terms of the audit assurance levels provided and the number of actions agreed. It is difficult to make like with like comparisons between years as different audit are covered each year and our audits are focussed on those areas considered to be high risk.

5.5 Our reporting protocols have remained constant throughout the year with the following assurance ratings used: (Full; Significant; Limited and No). Similarly, the agreed actions are categorised in the following types, based on their severity: (Critical; High; Medium and Low).

5.6 In addition to the audits summarised in Annex B, 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 2016 / 2017.

5.7 During the year, it should be noted that:

- The continuation of shared management arrangements with Peterborough City Council (and South Cambridgeshire from July 2013). Discussions are currently in train as to how the service moves forward as this arrangement is due to be concluded in conjunction with the creation of the shared service between Cambridge and South Cambridgeshire; and
- Sickness levels remain below corporate levels.

5.8 Going forward in to 2017 / 2018, the existing resources will need to be addressed. Towards the end of the financial year, the Senior Auditor post became vacant. Despite undertaking a recruitment process we were unable to appoint following interviews in April. Furthermore, the Principal Auditor post became vacant at the end of April 2017. As part of the development of shared service with South Cambridgeshire as agreed between the Councils in January 2017, it was also agreed that the Council would recruit a permanent Head of Internal Audit allowing myself to return to my substantive post at Peterborough City Council to lead on the audit activities for the new combined authority. Again,

despite an exercise to recruit, the Council was unable to appoint to the Head of Service. Immediate action will be needed to ensure that appropriate resources are in place to cover the audit plan which is being reworked to take account of current changes. Interim solutions are being explored through our agency contract to ensure appropriate audit coverage.

6. **CORPORATE FRAUD**

- 6.1 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 Committee and a report elsewhere on this agenda covers fraud and whistleblowing.
- 6.2 It was reported in the Internal Audit business case for the shared service that the National Fraud Initiative would be removed from our remit, freeing up approx. 40 days to be utilised to undertake pure audit works and the Audit Plan for 2017 / 2018 was developed on this basis. Following receipt of the data matches in February 2017 it became apparent that this was no longer the case – citing no resource availability elsewhere in the organisation as we had been informed – and the decision was taken to refer back to Internal Audit. With Internal Audit resource already stretched (see 5.9), the Audit Plan will again have to be revisited to allow for this key activity being covered.
- 6.3 Seven investigations, of differing nature and context, were undertaken during the year.

7. **COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

- 7.1 With effect from 1 April 2013, new Public Sector Internal Audit Standards were introduced as mandatory guidance that constitutes the principles of the fundamental requirements for the professional practice of internal auditing within the public sector. These standards replaced CIPFA's Code of Practice for Internal Audit in Local Government.
- 7.2 The self-assessment identified the level of compliance with only minor changes necessary. The changes have all been actioned.

Steve Crabtree  
Head of Internal Audit  
May 2017

## ANNEX A

**SIGNIFICANT ISSUES ARISING FROM THE DELIVERY OF THE INTERNAL AUDIT PLAN DURING 2016 / 2017****A      Annual Governance Statement**

New best practice governance arrangements produced by CIPFA / SOLACE came into force from April 2016, resulting in a requirement to revisit the Local Code of Corporate Governance and the information published in the AGS. A separate working group has followed this through and the results are documented elsewhere on this Committees agenda.

Issues identified through the Internal Audit assurance work has been reflected in the Action Plan.

**B      Risk Management**

Improved monitoring and ownership of risk continues reflect well across the organisation. Further developments have seen the risk management approach adopted by South Cambridgeshire DC which has allowed a greater degree of risk monitoring for shared services which has provided additional levels of assurance.

**C      Key Financial Systems**

The focus of audit works has been on to ensure that Housing Benefits claims are processed and accurately recorded in line with guidelines. In addition, considerable time and effort has been put into the Financial Management System project. A number of stumbling blocks have been overcome to ensure that this critical project remains on track to deliver.

**D.      Key Messages from Other Audits**

A number of audits were identified as Limited Assurance during the year and commentary are identified in Annex A. These were:

- Planned Maintenance (s20 Works)
- Former Tenant Arrears
- Contaminated Land
- Home Improvement Agency tenders

## ANNEX B

## AUDIT PLAN COVERAGE

OBJECTIVE 1...DELIVERING SUSTAINABLE PROSPERITY FOR CAMBRIDGE AND FAIR SHARES FOR ALL	
Community Infrastructure Levy	<p><b>WORK IN PROGRESS</b></p> <p>Ongoing monitoring of this project continues. Further progress cannot be made until such time that the Local Plan is agreed.</p> <p>Audit Days (Estimate 8 / Actual 1.5).</p>

OBJECTIVE 2: TACKLING THE CITY'S HOUSING CRISIS AND DELIVERING OUR PLANNING OBJECTIVES							
Planned Maintenance (s.20 Works)  <i>Audit Days (Estimate 10 / Actual 21)</i>	Assurance:  <b>LIMITED</b>	Critical:  <b>0</b>	High:  <b>8</b>	Medium:  <b>5</b>	Low:  <b>0</b>	Total:  <b>13</b>	<p>The implementation of a comprehensive 5 year Planned Maintenance Programme represents a significant move forward in the S20 process, allowing for the effective identification and consultation on upcoming planned maintenance works. However, limited communication and information sharing between the Asset Management and Home Ownership Teams has had an impact on the Home Ownership Team's ability to maximise the recovery of costs of works from leaseholders and therefore a '<b>limited</b>' assurance rating has been given to Planned Maintenance (S20 Works) process.</p> <p>It is acknowledged that substantial efforts have already begun to increase the transparency of how the Planned Maintenance Programme is compiled, and officers have demonstrated a real commitment to improving communication and information sharing between the two teams through co-locating 2 days a week and holding formal meetings at key stages in the year.</p>

**OBJECTIVE 3: MAKING CAMBRIDGE SAFER AND MORE INCLUSIVE**Environmental Health:  
Enforcement**WORK IN PROGRESS***Audit Days (Est. 12 / Actual 5)*

Clay Farm Community Centre

**WORK IN PROGRESS**

Ongoing monitoring of the project works to deliver the Community Centre to meet the needs and aspirations of the stakeholders.

*Audit Days (Est. 10 / Actual 6)***OBJECTIVE 5: PROTECTING OUR CITY'S UNIQUE QUALITY OF LIFE**Ditchburn Place: Refurbishment  
Works**WORK IN PROGRESS**

Ongoing monitoring of the project to oversee the works needed to improve the environment at the residential establishment.

*Audit Days (Est. 10 / Actual 6)*

Cultural Trust

**WORK IN PROGRESS***Audit Days (Est. 10 / Actual 1.5)*



OBJECTIVE 6: PROTECTING ESSENTIAL SERVICES AND TRANSFORMING COUNCIL DELIVERY							
Shared Services	<b>WORK IN PROGRESS</b> Governance reports and monitoring information are being reviewed to ensure that expectations are being managed effectively and appropriate arrangements allow for service changes. <i>Audit Days (Est. 12 / Actual 7)</i>						
Financial Management System	<b>WORK IN PROGRESS</b> Initial preparatory works as part of the evaluation of key controls during the systems design stage. Internal Audit are members Of the Project Group and will be reviewing various aspects of the work Following a series of issues with the development and deliver y of this project, Internal Audits role has expanded to provide greater support and challenge. As a result, a member of the Internal Audit has taken on a role within the Project Board, and this has almost been full time. A number of difficulties have been identified and robust steps taken to address these. This is seen as business critical to all three Councils, and must be delivered on. As a result of this, the days allocated have far exceeded the original budget which has resulted in a number of audits being dropped / deferred from the plan. Regular discussions are in place to ensure that appropriate coverage can still be maintained. <i>Audit Days (Est.12 / Actual 102)</i>						
Programme Office	<b>ONGOING</b> Ongoing reviews of RAG reports reported in relation to each project as they progress through the formal stages.						
Procurement and Commissioning	<b>ONGOING</b> Assisting the Procurement Team in developing new arrangements to manage contracts and improving the exemption process so that it is fully compliant with Law.						
Sickness Absence	<b>DRAFT STAGE</b>						
Management of Elections	<b>FULL</b>	0	0	0	0	0	No issues identified in a well-managed service.

**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 Benefits

**COMPLETED**

Use of External Audit diagnostic templates to verify calculations in relation to the housing benefit grants.

Diagnostic tools (Modules 2 and 5) have been completed / submitted to Ernst & Young for verification / agreement.

*Audit Days (Estimate 12 / Actual 10)*

The audit in relation to budgetary control has been deferred due to the ongoing works on the Financial Management System which the time has been allocated to.

**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 audit work that specifically relates to the production of the Annual Governance Statement

Annual Audit Opinion	<p><b>COMPLETED</b></p> <p>The Annual Audit Opinion was submitted to Civic Affairs Committee in June 2016, highlighting all Internal Audit activity for the previous 12 months together with any areas of concern.</p> <p><i>Audit Days (Estimate 8 / Actual 5.5)</i></p>
Prevention of Fraud and Corruption	<p><b>COMPLETED</b></p> <p>The annual report on fraud and whistle-blowing was submitted to Civic Affairs Committee in June 2016. Furthermore, the Annual Fraud Survey was completed on behalf of the authority and submitted in June 2016.</p> <p><i>Audit Days (Est. 8 / Act. 3.5)</i></p>
Annual Governance Statement	<p><b>COMPLETED</b></p> <p>Internal Audit coordinated the working group set up to review and update the Annual Governance Statement. This was submitted to Civic Affairs in June 2016 for comment, challenge and endorsement.</p> <p>The draft Annual Governance Statement has then been provided to External Audit and subsequent inclusion in the final accounts (elsewhere on September 2016 agenda).</p> <p><i>Audit Days (Est. 8 / Act. 3.5)</i></p>
National Fraud Initiative	<p><b>WORK IN PROGRESS</b></p> <p>Finalisation of 2014 investigations and commencement of works for the 2016 data matching exercise with the Cabinet Office.</p> <p>Initial results for the 2016 exercise were received in February 2017. As part of the Internal Audit Business Case it was agreed that this would be transferred elsewhere within the Council. No one has taken this on board and it has reverted back to Internal Audit – resource pressure for the future elements of the plan.</p> <p><i>Audit Days: (Estimate 30 / Actual 28)</i></p>
Internal Audit Effectiveness	<p><b>COMPLETED</b></p> <p><i>Audit Days (Estimate 5 / Actual 3)</i></p>

CARRY FORWARD ACTIVITIES	
Project Delivery Processes (Streets and Open Spaces)	<p><b>COMPLETED</b></p> <p>This was reported on within the Annual Audit Opinion report submitted to Civic Affairs Committee in June 2016 as being in DRAFT STAGE with <b>NO</b> assurance</p> <p>No amendments were made and the report was issued in July 2016.</p> <p><i>Audit Days (Est.10 / Act. 35)</i></p>
Cambridge BID	<p><b>COMPLETED</b></p> <p>This was reported on within the Annual Audit Opinion report submitted to Civic Affairs Committee in June 2016 as being in DRAFT STAGE with <b>SIGNIFICANT</b> assurance.</p> <p>No amendments were made and the report was issued in July 2016.</p> <p><i>Audit Days (Est.8 / Act.7)</i></p>
Tender Evaluation	<p><b>COMPLETED</b></p> <p>This was reported on within the Annual Audit Opinion report submitted to Civic Affairs Committee in June 2016 as being in DRAFT STAGE with <b>LIMITED</b> assurance.</p> <p>No amendments were made and the report was issued in July 2016.</p> <p><i>Audit Days (Est. 12 / Act. 21)</i></p>
CCTv	<p><b>MEMO ISSUED</b></p> <p>Focus of the audit was on the use of non-public space CCTV cameras purchased and operated independently by services across the Council.</p> <p>Recommended actions to formalise as part of the shared service arrangements.</p> <p>Single point of contact access changes needed</p> <p>Improved reporting arrangements</p> <p><i>Audit Days (Est. 8 / Actual 10)</i></p>

PAYROLL <i>Days (Est 12 /Actual 14)</i>	<b>SIGNIFICANT</b>	0	0	5	0	5	Overall, the Council's Payroll system is well controlled and operating as intended. This audit has identified some recommended actions that need addressing, but these do not represent significant enough risks to fundamentally undermine the effectiveness of the Payroll system. Accordingly, a <b>significant</b> assurance rating has been given to the Council's Payroll function. Internal Audit advises that this rating is given on the existing processes and controls examined at the time of the audit and does not give future assurance.
Car Park Management System	<b>WORK IN PROGRESS</b> <i>Audit Days (Est. 12 / Act 14)</i> The systems used by the car parks are due for replacement, maintenance etc. Ongoing works have been in place to assist in the development and review of the specification, requirements and tender submission.						
Building Cleaning	<b>WORK IN PROGRESS</b> <i>Audit Days (Est. 5 / Act 3)</i> Post implementation review has been commissioned.						
Redevelopment of Park Street Car Park	<b>WORK IN PROGRESS</b> <i>Audit Days (Est 8 / Act 4)</i> Review of project plans						
Former Tenant Arrears <i>Audit days (Est 8 / Actual 15)</i>	<b>LIMITED</b>	0	8	2	0	10	The introduction of a formal FTA recovery procedure and a revised write-off policy has provided a foundation for an effective FTA recovery process. However, not all accounts are being processed in a timely manner in accordance with the new procedures, and there is a need for better communication between Housing Services and Housing Finance over write-off cases

ChYpPs Activities	<b>MEMO ISSUED</b> Review of adventures income generation Business planning processes Good commercial focus with balance between service provision and income generation <i>Audit Days (Est 6 / Act 9)</i>						
Hostels / Sheltered Accommodation	<b>WORK IN PROGRESS</b> <i>Audit Days (Est 10 / Actual 4)</i>						
Contaminated Land Final REPORT Audit Days (Est 8 / Act 15)	<b>LIMITED</b>	0	6	1	0	7	<p>Evaluate the effectiveness of the following:</p> <ul style="list-style-type: none"> <li>Procedures for consultation on applications, pre-applications and discharge of conditions between Environmental Health/ and Planning; and</li> <li>Contaminated Land Protocol developed between Planning and Environmental Health.</li> <li>Assess whether processes are now in place to mitigate the risks associated with contamination of land on growth sites</li> </ul> <p>Our review highlighted the following issues in respect of the discharge of planning conditions:</p> <ul style="list-style-type: none"> <li>Different approaches towards monitoring the discharge of planning conditions between New Neighbourhoods and City Development teams, with no pro-active monitoring of outstanding planning conditions being undertaken by City Development; and</li> <li>Concerns regarding the duplication of planning records within the City Development team, where new records are set up on Uniform in respect of requests to discharge planning conditions, and the impact on the accuracy of any reports from the system in respect of outstanding planning conditions.</li> </ul>

**UNPLANNED ACTIVITIES: PROJECT MANAGEMENT / GENERAL ADVICE / REQUESTED WORKS (ESTIMATE 30 DAYS / ACTUAL 88)**

Various pieces of ad-hoc advice have been provided to management during the year across the organisation. Members of the Internal Audit team also participate in the following internal working groups:

- Information Security Group
- Capital Programme Board

Other areas undertaken in the period include:

- Data security; Cashiers; Procurement Data analysis; GHG; Pay to Stay proposals.
- Home Improvement Agency tenders. (This represented the biggest call on audit resources as part of unplanned activity)

**UNPLANNED ACTIVITY: FRAUD / IRREGULARITY / SPECIAL INVESTIGATIONS – E.G. ALLEGATIONS OF BREACHES OF OFFICER CODE OF CONDUCT / WHISTLEBLOWING (ESTIMATE 30 DAYS / ACTUAL 131)**

Internal Audit have undertaken SEVEN separate special investigations within the Council as well as shared services.

**RISK MANAGEMENT (ESTIMATE 30 DAYS / ACTUAL 25)**

On-going work includes the review and monitoring of the Council's risks and implementation of actions agreed to mitigate these.

The following audit activities have been deferred to accommodate the special investigation activities, Home Improvement Agency works and the additional resources for the financial management system project:

- Use of council assets
- Contract management – maintenance programmes
- Safer communities
- Service continuity
- Premises security
- Flexible working arrangements
- Telephony
- Support services

**There is sufficient coverage across the rest of the organisation to enable Internal Audit to form an opinion on the internal control environment.**