

**APPENDIX A**



**ANNUAL AUDIT OPINION  
PROGRESS REPORT 2015 / 2016**

## 1. **INTRODUCTION**

- 1.1 The purpose of this report is to bring the Audit Committee up to date with progress made against the delivery of the 2015 / 2016 Internal Audit Plan as at 30 September 2015. This report aims to:
- Summarise the process used in setting and delivering the plan;
  - Provide an update on performance indicators comparing actual performance against planned where measurable at this stage;
  - Advise of any planned changes to reviews, slippage or deletions to that originally agreed on 16 March 2015;
  - Advise the Committee of significant issues where controls need to improve to effectively manage risks; and
  - Track progress on the delivery of agreed actions which will be reported as part of the annual reporting process.
- 1.2 The information included in this progress report will feed into, and inform our overall opinion in the Annual Head of Internal Audit Report issued at the year-end. This opinion will in turn be used to inform the Annual Governance Statement (AGS) included in the Statement of Accounts and signed by the Chief Executive and Leader of the Council.

## 2. **INTERNAL AUDIT ROLE AND DETERMINING THE ANNUAL PLAN**

- 2.1 The provision of assurance is the key role for Internal Audit and this requires the Chief Internal Auditor to provide an annual Internal Audit Opinion based on an assessment of the framework of governance, control and risk management. The role of Internal Audit, therefore, is to understand the key risks to the Council's objectives and to evaluate the adequacy and effectiveness of management's response to those risks.
- 2.2 In order to achieve this, Internal Audit conducts an annual risk-based audit planning process to determine the audit coverage required across all Council operations. This is designed to align audit effort with those areas assessed as posing the greatest risk to the Council. We use various sources of information, such as the Council's strategic and operational risk registers and the Medium Term Financial Strategy, as well as consulting with directors and their management teams, the council's external auditor and the Audit Committee. A copy of the Annual Plan, as agreed by Audit Committee on 16 March 2015, is attached at appendix B for information.

## 3. **DELIVERING THE PLAN**

- 3.1 Audits are conducted using a risk based approach to ensure effort is focused in the most appropriate areas. Once the audit is complete, a report is issued giving an overall opinion using the definitions below. The audit opinion is based upon the number and type of recommendations we make in each report. Certain pieces of work do not result in an audit report with an opinion (such as consultancy work, involvement in working groups, grant certification 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.

<b>AUDIT ASSURANCE OPINIONS</b>	
<b>Assurance</b>	<b>Definitions</b>
Full	The system is designed to meet objectives/controls are consistently applied that protect the Authority from foreseeable risks.
Significant	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks.
Limited	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.
No	Controls are weak and / or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.

<b>RECOMMENDATION RATINGS</b>		
<b>Status</b>	<b>Definitions</b>	<b>Implementation</b>
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

3.3 It is managers' responsibility to ensure that effective controls operate within their service areas. However, we undertake follow up work to provide independent assurance that agreed actions arising from audit reviews are implemented in a timely manner.

#### 4 **RESOURCING AND PERFORMANCE**

4.1 The staffing position in Internal Audit is as reported when the Annual Internal Audit Plan was agreed. This is made up of:

• Head of Internal Audit	0.40	Post shared with Cambridge City and South Cambs DC
• Group Auditor	1.46	
• Principal Auditor	0.50	
• Senior Auditor	1.80	
• Auditor	1.00	
Total in post	5.16 FTE	

Since the audit plan was approved resources have reduced slightly as a result of a Senior Auditor temporarily reducing their hours to 0.8fte. The impact of this is the reduction in approximately 30 available audit days, 2-3 reviews. Any audits that may not be delivered as a result of the reduced resources will be risk assessed and prioritised during the next six months.

4.2 100% of recommendations (41) finalised in 2015 have been agreed.

4.3 The level of sickness within the team is very low with 0.58 days sickness per person to September 2015 compared to a corporate target of 2.5 days at the mid-year stage.

4.4 As part of Internal Audit's strategic plan to increase working efficiencies we are continuing to develop our use of audit automation and business processes. A client survey is being developed and will be circulated during the second part of the year. This will be used to inform the internal audit self-assessment against professional standards, which is due to be undertaken over the same period, along with any resultant management action plan.

5 **PROGRESS AGAINST AGREED AUDIT PLAN**

Where audits are "shaded", these represent those jobs not started at 30 September 2015.

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<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 s.151 officer to make his statement included in the authority's Annual Statement of Accounts. The External Auditor also places reliance on the work undertaken by Internal Audit on core systems.</b>							
Budgetary Control	All							A risk based review concentrating on budget management within one or more directorates. – <b>TO COMMENCE QTR 3</b>
Payroll	Serco / Resources							A cyclical review of key controls. – <b>TO COMMENCE QTR 3</b>
Fixed Asset Accounting	Serco / Resources							A cyclical review of key controls. – <b>TO COMMENCE QTR 4</b>
HR IT System	Serco / Resources							A review of the control framework during the design and implementation of a new HR IT system designed to enable self-serve processes. – <b>IN PROGRESS.</b>  A further post implementation review to test key controls in relation to starters, Leavers, exit processes and expense claims will be determined once the system is operational
Cash and Banking	Serco / Resources	Significant	0	1	4	6	11	Review of key controls – <b>IN DRAFT</b>
Financial System Project Implementation (Agresso)	Serco / Resources							A review of the control framework during the design and implementation of a new Finance system, including Accounts Payable, Accounts Receivable and General Ledger. <b>IN PROGRESS.</b>

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<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 audit work that specifically relates to the production of the Annual Governance Statement, as well as high level governance reviews.</b>							
Annual Governance Statement Review	All	<b>COMPLETED.</b> Presented as draft to Audit Committee on 29 June 2015 and final agreed by Audit Committee on 21 September 2015						
Annual Audit Opinion / Progress Report	All	<b>COMPLETED.</b> Presented to Audit Committee on 29 June 2015. Progress report due to be presented to Audit Committee on 9 November 2015						
Internal Audit Effectiveness / Audit Committee Effectiveness	All	<b>COMPLETED.</b> Presented to Audit Committee on 29 June 2015						
Investigations Team Annual Report	All	<b>COMPLETED.</b> Presented to Audit Committee on 29 June 2015						
Annual Audit Plan	All	<b>TO COMMENCE QTR 3 FOR 2016 / 2017</b>						
Anti-Fraud Culture	All	NFI Initiative – on-going review of data matches and liaison with 3 <sup>rd</sup> parties where appropriate. Further data matches will be released during the year for investigation – <b>IN PROGRESS</b>  Liaison with the Investigations Team and evaluation of controls resulting from frauds ongoing						
Information Governance	All	Liaison and strategic overview as part of the Strategic Governance Board, Information Governance Group and liaison with the Compliance Team, Governance - <b>ONGOING</b>						
Risk Management	All	Attendance at Risk Working Group. <b>ONGOING</b>						
Assurance Framework	All	<b>TO COMMENCE IN QTR 4</b>						
Corporate Fraud Strategy and Development	All	Anti-Fraud and Corruption Strategy, Fraud Response Plan, Prosecutions and Sanctions Policy. <b>IN PROGRESS</b>						
Partnership Governance	Serco / Resources	<b>TO COMMENCE IN QTR 4</b>						

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>STRATEGIC AND OPERATIONAL RISKS</b>	<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks</b>							
Connecting Families-Phase 2	People							A review of the Connecting Families Outcome Plan as part of the phase 2 of the programme. – <b>IN PROGRESS</b>
Carbon Reduction	Growth and Regeneration	Significant	0	0	1	4	5	Review the arrangements for CRC reporting as a result of legislative changes and data validity. <b>FINAL</b>
Clare Lodge	People and Communities							A review of income arrangements to ensure that processes maximise receipts. – <b>TO COMMENCE IN QTR 3</b>
Commissioning and Procurement	People and Communities							Review new commissioning procedures, to include a look at whether all aspects of financial accountability / procurement have been appropriately incorporated into the new people and communities directorate. – <b>IN PROGRESS</b>
Better Care Fund	People and Communities							Review governance and risk management arrangements for the Better Care Fund pooled budgets. – <b>TO COMMENCE QTR 3</b>
Care Act Compliance	People and Communities							Review of policy arrangements to ensure they are Care Act compliant and reflect working arrangements. – <b>TO COMMENCE QTR 3</b>

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>STRATEGIC AND OPERATIONAL RISKS</b>	<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks</b>							
Regulatory Services	Governance							A review of governance and process arrangements within Regulatory Services following reorganisation, Including outcomes for the customer experience. <b>TO COMMENCE QTR 4</b>
Coroner's Office	Governance							Review of support services processes as a result of proposed centralisation of coroner's services. To also include a general review of allowances. – <b>TO COMMENCE QTR 4</b>
Schools	People and Communities	<b>Review of financial and governance arrangements in a selection of schools</b>						Remaining schools to be undertaken during <b>QTRS 3 / 4</b>
Castor Primary – payroll f/up	People and Communities	Significant	0	0	1	2	3	Most recommendations had been implemented with a good demonstration of segregation of duties. <b>FINAL</b>
Schools - Health and Safety Statutory Testing	Resources							A themed review across school establishments to ensure robust processes are in place to ensure that statutory requirements are met. <b>IN PROGRESS</b>
Schools – Gifts and Hospitality	People and Communities							Review the effectiveness and implementation of the recently introduced schools gifts and hospitality policy. A themed review across school establishments. – <b>IN PROGRESS</b>



AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>STRATEGIC AND OPERATIONAL RISKS</b>	<b>Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks</b>							
Resources - RECAP	Resources							Review the project management of the expanding Material Recycling Facility. Possibility for a joint audit with our shared service partners. <b>TO COMMENCE IN QTR 4 subject to discussion with other authorities.</b>
Data Security – Mobile / Technology	Resources							Review the control of data security on mobile/remote technology and the proposed move to cloud based servers. <b>TO COMMENCE IN QTR 4</b>
IT Strategy	Resources							A review of selected projects which support and form part of the overall IT Digital Strategy - <b>TO COMMENCE IN QTR 4</b>
Pensions	Governance							A review to ensure that tier bandings have been applied appropriately following pension changes in April 2014. <b>– IN PROGRESS</b>
Strategic Housing	People and Communities							A review of governance and process arrangements within Strategic Housing to include consideration for outcomes such as the customer experience. - <b>TO COMMENCE IN QTR 4</b>

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
Contracts:		A review of contract letting and management control processes for some specific contracts					TO COMMENCE IN QTR 3 / 4	
Projects	All	Reviews of project framework or specific projects, either across the life of a project or concentrating on particular stages such as governance, feasibility, delivery or post-implementation review						
Capital Project Management	Resources						Act as a critical friend during the implementation of a project management governance framework. – <b>IN PROGRESS</b>	
Value For Money Reviews	All						To be undertaken subject to resources	

EXTERNAL WORKS	Work which generates income for the council
Vivacity	4 rolled forward reviews completed 5 reviews in progress

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>GRANT CLAIM CERTIFICATION</b>	<b>Certification of claims in relation to UK and European funding requirements</b>							
Bus Service Operators 2014/15	Growth and Regeneration	<b>Certified</b>	A grant to support bus services, including community transport services.					
Local Transport Funding Grant 2014/15.	Growth and Regeneration	<b>Certified</b>	This grant is used by local authorities for small transport improvement schemes costing less than £5 million and also for planning and managing the road networks.					
Local Transport Funding – Additional Highways Grant	Growth and Regeneration	<b>Certified</b>	A grant to support local authorities in funding capital costs for integrated transport measures and highway maintenance schemes.					
Pinch Point Grant 2014/15	Growth and Regeneration	<b>Certified</b>	A fund to help local authorities keep traffic moving and remove bottlenecks on the local highways network.					
Severe Weather Grant 2014/15	Growth and Regeneration	<b>Certified</b>	A scheme to support local authorities with costs in dealing with pothole repairs.					
Local Sustainable Transport Grant	Growth and Regeneration	<b>Certified</b>	A scheme to help local authorities to cut carbon emissions and create local growth.					
Heritage Woodland in Action	Growth and Regeneration	<b>No further action</b>	A grant to support the restoration of ancient urban woodland. – Confirmation that Internal Audit certification is no longer required. No further action					
Disabled Facilities Grant 2014/15	People and Communities	<b>Certified</b>	Non ring-fenced capital funding towards Disabled Facilities grants that PCC can award to disabled clients for necessary housing alterations.					
Troubled Families	People and Communities		Results based funding to support families meeting certain criteria. – <b>TO COMMENCE QTR 3</b>					

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>OTHER RESOURCE PROVISION</b>	<b>Throughout the year audit activities will include reviews that have not been specified within the plan and may include management requests as a result of changing risks. In addition there will be a number of follow ups of previous audit activities. Finally, a number of jobs will overlap between financial years and require some time to complete.</b>							
<b>Carry Forward Provision</b>	<b>Provision for the completion of 2014-15 audits</b>							
Budgetary Control	People and Communities	Significant	0	0	3	0	3	<b>FINAL</b> - An overall assurance can be given on the processes in place to manage Adult Social Care and Health & Wellbeing budgets, including the monitoring of savings.
Liquid Logic IT system	Governance	Significant	0	0	1	1	2	<b>FINAL</b> - The granting of access and change of access for staff/users to either LCS or EHM is considered to be well controlled.
Payroll Overpayments follow up	Serco / Resources	Significant	0	0	3	1	4	<b>DRAFT ISSUED</b>
Travel and Subsistence follow up	Serco / Resources	N/A	N/A	N/A	N/A	N/A	N/A	<b>MEMO ISSUED</b> – All previous recommendations had been implemented
Translation Services	People and Communities							<b>IN PROGRESS</b>
Petty Cash – St Georges	People and Communities	Limited	0	3	3	3	9	<b>DRAFT ISSUED</b> awaiting response
Petty Cash – Childrens Services	People and Communities	Limited	0	9	7	8	24	<b>DRAFT ISSUED</b> awaiting response
Fuel Cards	Serco / Resources	Limited	0	1	6	2	9	<b>DRAFT ISSUED</b> awaiting response

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>OTHER RESOURCE PROVISION</b>	<b>Throughout the year audit activities will include reviews that have not been specified within the plan and may include management requests as a result of changing risks. In addition there will be a number of follow ups of previous audit activities. Finally, a number of jobs will overlap between financial years and require some time to complete.</b>							
<b>Carry Forward Provision</b>	<b>Provision for the completion of 2014-15 audits</b>							
School C	People and Communities	No Assurance	0	14	10	4	28	<b>FINAL</b> – See Executive Summary in Section 4
Statutory Compliance Testing	Resources							A review across establishments to ensure robust processes are in place to ensure that statutory requirements are met – <b>IN PROGRESS</b>
Mobile Phones – Value For Money Review`	All	Limited	0	6	9	3	18	<b>DRAFT REPORT AND MEMOS</b> issued awaiting response

AUDIT ACTIVITY	Department	ASSURANCE LEVEL	RECOMMENDATIONS IMPLEMENTED					COMMENTARY
			Critical	High	Medium	Low	Total	
<b>OTHER RESOURCE PROVISION</b>	<b>Throughout the year audit activities will include reviews that have not been specified within the plan and may include management requests as a result of changing risks. In addition there will be a number of follow ups of previous audit activities. Finally, a number of jobs will overlap between financial years and require some time to complete.</b>							
<b>Follow-up Provision:</b>	<b>Revisiting audits after 6 months to monitor the implementation of recommendations</b>							
Frameworki – follow up	People and Communities							<b>IN PROGRESS</b>
Electronic Call monitoring follow up	People and Communities	N/A	N/A	N/A	N/A	N/A	N/A	<b>MEMO ISSUED</b> - A change in focus since the original report was issued to outcome based monitoring of care services delivery means that use of the ECM system is no longer considered mandatory.
Direct Payments follow up	People and Communities							<b>IN PROGRESS</b>

AUDIT ACTIVITY	Department	COMMENTARY
<b>Provision for unplanned activities:</b>		<b>Internal Audit provides control and risk advice to officers/management/members as a result of changing risks. This audit activity covers review work that is additional and was not specified as part of the original audit plan</b>
The Beeches Primary School	People and Communities	Control advice in relation to procedures for purchasing cards. <b>COMPLETE</b>
Care Services Complaint	People and Communities / Governance	A joint exercise undertaken. Audit activities included review of electronic call monitoring information, invoicing along with information within the care management system for a specific supplier and service user. <b>COMPLETE</b>
School A	People and Communities / Resources	Investigation into allegations of inappropriate spending. Undertaken jointly with fraud team. <b>ON-GOING</b>
School B	People and Communities / Resources	Assistance provided to an external organisation as a result of internal audit activities historically undertaken. <b>COMPLETE</b>
Parking Charges PCN's	Governance	Management request – A review of cancellation processes. <b>COMPLETE</b>
Cash Handling	People and Communities / Resources	Investigation into cash handling and establishment procedures. Undertaken jointly with fraud team. <b>ON-GOING</b>
Mobile Phone Usage	People and Communities	Management request for data analysis in relation to specific users. <b>COMPLETE</b>
Mobile Phone - FOI	Governance	Management request for data analysis in relation to a FOI in relation to Councillors mobile phone usage and expenditure. <b>COMPLETE</b>
Mobile Phone Invoicing and Portal Information	Governance	Consultancy advice regarding mobile phone data and reporting information via the telephone supplier portal. <b>COMPLETE</b>

**6 AUDIT REPORTS ISSUED: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE**

<b>AUDIT ACTIVITY</b>		<b>ASSURANCE RATING</b>	<b>DATE TO AUDIT COMMITTEE</b>
1.	School C	Limited	9 November 2015



## School C: Executive Summary

### Introduction

The school recently identified concerns relating to delays in paying its invoices, and to its failure to produce accounts for its private funds (also known as the School Fund). Invoice payment delays had resulted in warning letters threatening discontinuation of services, and in one case legal action. Although the school has undertaken its own investigation, an unplanned audit was requested to identify the extent of issues.

### Objectives and Scope

The purpose of the audit was to:

- Establish whether satisfactory controls exist within, and the extent of compliance with, the school's finance processes relating to procurement and voluntary funds.
- Assess compliance with PCC's Scheme for Financial Management for Schools, including the Supplementary Financial Regulations.

The findings detailed in this report are based mainly on discussions with officers who were present during the visits, evidence seen during the audit visits, and discussion at the subsequent exit meeting with the Headteacher and School Leader.

The scope covered ordering and payments, with particular focus on purchasing methods and timeliness of payment; examination of the school's bank accounts; and examination of the School Fund.

### Main Findings

The two main findings from the audit were:

- The school's financial procedures document does not adequately describe the school's financial processes, and the financial scheme of delegation set by the Governing Body is not accurately reflected in the document. At least one high value payment appears not to have received the necessary approval from the Finance, Premises & Personnel Committee (FPPC), and the procedures document may have been a contributory factor in this.
- Some procurement practices were noted which will undermine the school's attempts to control its budget. Examples include purchase orders (POs) being raised retrospectively; non-compliance with the requisition form process; significant delays in paying invoices; expenditure where value for money may not have been obtained, and shared access to, and usage of, the school's Government Procurement Card (GPC)

## Conclusion and Opinion

It was not possible, in the absence of the Finance Manager and an appropriate financial procedures document, to establish exactly what the school's financial processes should have been, and whether these had actually been applied. The Financial Administration Document (FAD) was adopted from a council template. However it is intended that schools adopting the FAD tailor it to detail their own procedures. The school has not done this, and the current version of the FAD would be of limited use to any officer covering the Finance Manager role. It is understood that the Finance Manager has now resigned, and the school is currently advertising for a School Business Manager, which demonstrates the need for a detailed procedures document.

The purpose of a PO is to record the financial commitment from a purchase against the budget, until the invoice is paid. Failure to raise POs at the time that goods/services are ordered, presents a risk that the funds earmarked for them are used elsewhere, leading to overspent budget. There is little or no benefit to be gained from raising POs retrospectively. Testing found no evidence to suggest that the Finance Manager was aware of purchases before the invoice was received, which may have had some impact on the time taken to pay the invoices. However the Finance Manager could not be asked about this.

Very few controls appear to apply to the school's GPC, and as several officers appear to have used the GPC, there is no protection for the named cardholder who must be accountable for all transactions. Similarly any officer with access to the GPC will not be protected from suspicion if an inappropriate transaction is made.

The school has been delegated authority to spend its budget how it sees fit, providing it adheres to the City Council's Scheme for Financial Management for Schools, and associated Supplementary Financial Regulations. Examples of expenditure were identified which did not appear to demonstrate value for money for the school. It is not clear whether procurement of first class rail and overseas travel, and staff rewards, were consistent with approved school policies. There was no evidence in GB and FPPC minutes that these items had been discussed, but budget pressures were reported to FPPC at these times.

Internal Audit shares the school's concerns relating to the School Fund accounts. It was noted that the accounts had been constructed to cover the previous four years, but not all transactions could be accounted for. The school's concerns about delays in payment of invoices were substantiated by audit testing which found that only a third of the invoices examined had been paid within 30 days. If management examine invoices before they sign the related cheque, then routine payment delays ought to have become obvious, and the reasons for them investigated. It is important that sufficient managerial oversight is provided to financial matters.

The audit opinion is **No Assurance**, in relation to the areas examined.

It should be noted that since the audit review was conducted a new Finance Manager has been appointed. The findings from this report will be followed up during November 2015 to establish if recommendations have been implemented effectively.