

INTERNAL AUDIT PROGRESS REPORT TO 31st DECEMBER 2014

To: **Audit and Accounts Committee**

Date: **20th January 2015**

From: **Head of Internal Audit and Risk Management**

Electoral Division(s): **All**

Forward Plan Ref: **N/A**

Key decision: **No**

Purpose: **To report on the main areas of audit coverage for the period 1st November to 31st December 2014 and the key control issues arising.**

Key Issues: **N/A**

Recommendation: **The Audit and Accounts Committee notes the progress being made against the approved Internal Audit Plan, approves the in-year changes to the Audit Plan and notes the material findings and themes identified by Internal Audit reviews completed in the period.**

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1. BACKGROUND

- 1.1 The role of the Internal Audit Team is to provide Members and managers with independent assurance on the effectiveness of the controls that are in place to ensure that the Council's objectives are achieved. The work of the Team is directed to those areas and risks which will most impact upon the Council's ability to achieve these objectives.
- 1.2 Upon completion of an audit, an assurance opinion is given on the soundness of the controls in place. The results of the entire programme of work are then summarised in an opinion in the Annual Internal Audit Report on the effectiveness of internal control within the organisation.
- 1.3 This Progress Report provides members of the Audit and Accounts Committee with a summary of the core Internal Audit work undertaken since the meeting in November 2014. It summarises the assurance opinions for the audits reported during the period 1st November and 31st December 2014. The final reports for these audit reviews are available to members of the Committee on the Sharepoint page.
- 1.4 The report also provides the assurance summaries from each report in order to show how the overall assurance level has been determined. Where control weaknesses have been identified, actions will have been agreed with auditee management to address the control weakness. Explanations of the 5 levels of assurance are given in Appendix 1. Members will be aware that officers can be asked to attend the Committee where the overall assurance opinion given is of limited or no assurance.

2. PROGRESS AGAINST THE 2014-15 AUDIT PLAN

- 2.1 Progress against the plan is set out in Appendix 2, which records the status of each planned review.
- 2.2 In lieu of changed circumstances appertaining to some planned audits and reviews of planned coverage with senior management, the following amendments to the Plan are proposed:

Table 1: Proposed Changes to the Audit Plan

Directorate / Description	Assignment	Addition	Deletion	Amendment
Contingency	Assurance on Major Projects	√		
Council Wide	New Governance Model		√	

3. COMPLETED REVIEWS

- 3.1 Since the previous Progress Report to the Audit and Accounts Committee in November 2014, the following audit assignments have reached completion:

Table 2: Finalised Assignments

No.	Directorate / Description	Assignment	Assurance Opinion
1	Children, Families and Adults	Financial Governance in Schools / Schools Financial Value Standard (SFVS)	Moderate
2	Economy, Transport and Environment	City Deal (Embedded Assurance)	Substantial
3	Public Health	Public Health Grant	Limited
4	Council Wide	Delivery of 2014/15 Business Plan Savings	Substantial
4	Grant Certification	Great War	2 Certifications Provided
5	Grant Certification	Better Bus Area Fund	Certification Provided
6	Grant Certification	Bike Friendly Cities	Certification Provided

- 3.2 Summaries of the finalised reports issued are provided in Appendix 3.
- 3.3 Audit assignments, which are either at planning stage, work in progress or at draft report stage are summarised in Table 3. overleaf

Table 3: Work In Progress

Directorate / Assignment	Initial Planning	Work in Progress	Draft Report
Customer Service & Transformation			
Business Continuity			√
Children, Families & Adults			
Traded Services		√	
Vulnerable Client Monies Management		√	
Personal Budgets for Children			√
Adoption Services Partnership			√
Early Help Project		√	
Better Care Fund		√	
Schools			
Schools Financial Value Standard / Financial Governance within Schools		√(1)	√ (1)
Safer Recruitment n Schools		√	
Purchasing and Payments Thematic		√	
Pupil Premium		√ (10)	
Economy, Transport and Environment			
Waste PFI		√	
Section 106		√	
Public Health			
Health Checks		√	
Information Governance in Public Health		√	
Council Wide			
Programme and Project Management			√
Assurance on Major Projects	√		
Grant Certification			
ECOOP (Digital Co-Operatives)		√	
Local Sustainable Transport Fund		√	
LGSS Finance			
Capital Programme			√
LGSS People, Performance & Transactions			
Debt Recovery		√	
Payroll		√	
General Ledger		√	
Cash Management		√	
Accounts Receivable		√	
User Access		√	
Pensions		√	

4 FRAUD AND CORRUPTION UPDATE

Police Referral Outcomes

- 4.1 Feedback was received from the Police in that they intended to take 'No action' on the case referred to them by Internal Audit in respect of an external provider's care manager who was accused of taking approximately £3,000 of service users' money.
- 4.2 The Adult Safeguarding Operational Manager has confirmed that they intend to arrange a 'learning meeting' with the Police to discuss this outcome.
- 4.3 A separate case is currently being progressed by the Crown Prosecution Service.

Current Referrals

- 4.4 The team has almost concluded its investigation into the financial management of service users' monies at one of the Council's supported living establishments. In conjunction with the Head of Service and Human Resources, interviews have been held with all the current staff connected to the discrepancies identified by the review of the service users' financial records.
- 4.5 A number of the discrepancies were attributable to staff who no longer work for the Council and the investigation team have requested that they voluntarily attend an interview and are currently awaiting their responses. The review is therefore still ongoing and further details will be provided on its conclusion.

Proactive Work

- 4.6 The team attended a Direct Payment Monitoring Officers team meeting to discuss the support and advice that Audit can provide where suspicions of fraud have been identified.

Counter Fraud Fund

- 4.7 In July 2014, the DCLG invited English Local Authorities to submit proposals for a Counter Fraud Fund, which in total amounted to £16m over 2014/15 and 2015/16. The Department set out that they were keen to fund innovative joint proposals / partnership bids.
- 4.8 LGSS Internal Audit submitted a bid in September 2014, the theme of which was "*The Development of a Regional Multi-Organisational Counter –Fraud Operation*" from a current base of Cambridgeshire and Northamptonshire County Councils, Norwich City Council and Northamptonshire Partnerships Homes / Northampton Borough Council.
- 4.9 The intention of the proposal was to enable LGSS to enhance its existing capacity and capability to offer Counter Fraud and Investigative Services to Councils throughout East Anglia and the East Midlands.
- 4.10 Since the previous Audit and Accounts Committee in November 2014, it has been announced that LGSS Internal Audit have been successful and an award of £329,000 has been made.
- 4.11 In December 2014, the Communities Minister, Lord Ahmad visited Cambridgeshire County Council to be briefed in detail about how the funds will be utilised and this meeting was attended by the Chief Executive, the Director of Law, Property and Governance and the Vice Chairman of the Audit and Accounts Committee. An extract relating to the meeting, from the LGSS website is attached, in Appendix 4.
- 4.12 The various strands of the proposal are now at the initial stages of being project managed and governance and monitoring responsibilities to the DCLG have been established. Internal governance responsibilities will also include regular updates on progress to the Audit and Accounts Committee.

5 IMPLEMENTATION OF MANAGEMENT ACTIONS

5.1 The outstanding management actions as at January 2015 are summarised in Table 4:

Table 4: Outstanding Management Actions

	Category 'Fundamental' recommendations		Category 'Significant' recommendations		Total	
	Number	%age of total	Number	%age of total	Number	%age of total
Implemented	27	100% (100%)	50	82% (80%)	77	87% (86%)
Actions due within last 3 months, but not implemented	0	0% (0%)	4	7% (8%)	4	5% (6%)
Actions due over 3 months ago, but not implemented	0	0% (0%)	7	11% (12%)	7	8% (8%)
Totals	27		61		88	

5.2 Table 4 includes a comparison with the percentage implementation reported at the previous Committee (bracketed figures). This highlights a continued improved position with the overall implementation rate moving from 86% to 87% and compares favourably to the 2013/14 implementation rate of 62%.

DEFINITIONS OF LEVELS OF AUDIT ASSURANCE

Level	Definitions
Full Assurance	There is a sound system of control designed to address the relevant risks with controls being consistently applied.
Substantial Assurance	There is a sound system of control, designed to address the relevant risks, but there is evidence of non-compliance with some of the controls.
Moderate Assurance	Whilst there is a basically a sound system of control, designed to address the relevant risks, there are weaknesses in the system, that leaves some risks not addressed and there is evidence of non-compliance with some of the controls.
Limited Assurance	The system of control is weak and there is evidence of non-compliance with the controls that do exist which may result in the relevant risks not being managed.
No Assurance	There is no system of internal control. Risks are not being managed.

Appendix 3

SUMMARIES OF COMPLETED AUDITS

A. CHILDREN, FAMILIES AND ADULTS

A1 Financial Governance in Schools / Schools Financial Value Standard (SFVS)

The SFVS was introduced by the Department for Education in September 2011. Governing bodies have formal responsibility for the financial management of their schools and consequently the Standard is primarily aimed at governors. The main purpose of the Standard is to:

- Help schools manage their finances;
- Support them in securing value for money across all of their spending and;
- Give assurance that secure financial management arrangements are in place.

Internal Audit visited a sample of 10 schools from within the Primary, Special and Nursery Sectors and individual reports were provided for each school. The assurance rating from the consolidation of the findings from the sampled schools was of **Moderate Assurance**. The breakdown of assurance assigned per school was:

- Substantial - 2 schools
- Moderate - 6 schools
- Limited - 2 schools.

Schools are required to complete and submit an annual return against the Standard. Submitted returns from each school suggested that virtually all aspects of the Standard had been met. Compliance testing and discussions with governors and relevant school staff identified the following good practice:

- All schools had engaged with the SFVS process and most had submitted their completed SFVS within the required timescale;
- Most schools had given adequate consideration to their responses;
- Most schools responded well to our recommendations for improvement and;
- All schools had a clear plan for using money held in balances at year end and worked to improve value for money and provide for an effective use of resources.

Audit testing, however, highlighted some areas of concern where supporting evidence was not sufficient to address specific aspects of the Standard or support the school self-assessment. A significant proportion of schools do not appear to understand the requirements of SFVS or what constitutes appropriate evidence. The key areas for improvements included:

- A lack of documentary evidence in minutes that governors have reviewed and approved key financial documents, some of which are statutory requirements (90% of the sample);
- Absence of a local scheme of financial delegation (70%);
- Insufficient evidence of budgetary control reports being reviewed by governors at least termly (50%) coupled with lack of evidence that the annual budget had been approved by governors (40%);
- Incomplete or out of date register of business interests and failure to invite declarations of interest in specific agenda items at finance meetings (60%) and;
- The need for improvements in independent reconciliations and separation of duties.

Additionally, resource pressures within the Authority prevent any detailed review or challenge of the SFVS responses provided.

All actions for the consolidated report have been agreed.

Assurance Summary – Financial Governance in Schools / SFVS

<i>Process Area</i>	<i>No</i>	<i>Limited</i>	<i>Moderate</i>	<i>Substantial</i>	<i>Full</i>
School Self-Assessment					
Compliance with Key Financial Policies and Procedures					
Overall					

B. ECONOMY, TRANSPORT AND ENVIRONMENT

B1 City Deal

The Greater Cambridge City Deal (the “City Deal”) is an agreement between Greater Cambridge Councils (comprising Cambridgeshire County Council, Cambridge City Council, South Cambridgeshire District Council) plus The University of Cambridge and the Greater Cambridge Greater Peterborough Enterprise Partnership. The City Deal aims to provide up to £500 million over the next 15-20 years to deliver transformative transport infrastructure supporting economic and housing growth.

At the time of this initial review, the project was in its initiation phase with managing arrangements being developed and implemented over the coming months prior to the first tranche of £20m being drawn down in April 2015.

An Embedded Assurance approach was utilised to review key risk areas. Based on the completion of fieldwork, **Substantial Assurance** was assigned. The City Deal has been planned with sufficient consideration of key project management requirements. The opinion reflects our observations that whilst the majority of areas reviewed allow for substantial assurance, the project is still in its preliminary stages and the areas of resources and procurement do not currently have agreed arrangements in place.

The current governance structure (a steering committee known as the Shadow Board) has demonstrated appropriate leadership through the initial phase of the project. The forthcoming governance structure, when established, will consist of an Executive Board and a Joint Assembly providing advice and recommendations. Both have draft terms of reference which detail their structure, roles and responsibilities.

Future governance is intended to be delivered by a Combined Authority. In structure it will be similar to the forthcoming arrangements but would have its own separate identity and hold powers devolved from each of the Councils. The creation of this requires adjustments to be made to constitutions of the constituent Councils as well as legislation to be passed. The forthcoming arrangements are expected to remain in place until 2017 at the earliest.

The City Deal agreement sets out high level benefits which are expected to be realised. Locally determined triggers based on scheme completions and benefits realised during the first 4 years are being discussed with the Cabinet Office. These triggers need to be met to unlock funding in further years. There is a significant focus on benefits realisation throughout the City Deal process.

The City Deal has an adequate Risk and Issue Log in place which is kept up to date and circulated to relevant Officers. A Communication Strategy is planned to be agreed by Members before the end of the calendar year which identifies stakeholders and potential communications channels to be used.

Project tasks have currently been met and future milestones leading to the first tranche of money being drawn down have been aligned to meet deadlines agreed with Government. It should be noted that if decisions by Councils/Committees are deferred or delayed there is unlikely to be a margin to absorb this slippage.

Areas for improvement identified during this review are described in more detail below:

- The framework to be used for procurement has not been finalised and the risk that current frameworks will not have sufficient capacity for the extent and pace of the building works involved in the City Deal has not been formally identified in the Risk Log.
- Preliminary tendering has not yet commenced as this needs to await a decision on infrastructure priorities by the Board. Procurement will need to commence as soon as possible after these decisions are taken.
- Whilst the need for increased staffing resources has been identified, no provisions have been made for earmarking Officers required to fulfil this need.
- No mechanism for cost sharing has been produced for the Deal partners to agree upon.

Assurance Summary – City Deal

<i>Process Area</i>	<i>No</i>	<i>Limited</i>	<i>Moderate</i>	<i>Substantial</i>	<i>Full</i>
Governance					
Benefits Realisation					
Resources					
Risk and Issue Management					
Procurement					
Time Management					
Cost Management					
Communication					
Overall					

C. PUBLIC HEALTH

C1 Public Health Grant

The Council was required to provide a Statement of Assurance to Public Health England for the use of the ring-fenced Public Health Grant for 2013/14. This was to demonstrate that the grant had been spent as per the purposes intended by Parliament with specific reference to “*eligible expenditure*.”

In August 2014, Public Health England communicated to Local Authorities that the responsibility for signing the Statement of Assurance lies with the Chief Executive or Section 151 Officer and the Director of Public Health. Internal Audit was requested on an urgent basis in early September 2014 to review the Council’s evidence to support the Statement of Assurance prior to its submission to Public Health England on 30th September 2014.

The audit involved scrutiny of primary supporting evidence to verify the eligibility of expenditure allocated from the Public Health Grant (total grant £21.2m), specifically the £1.8m Public Health Growth funding, which was allocated to services outside the Public Health Directorate. It was emphasised to Audit that this funding was announced just a few days before the Council’s Business Plan was published for Cabinet. Consequently, the proposals for the £1.8m growth funding were developed rapidly, and did not go through the same level of review by SMT and Cabinet as other proposals.

The work undertaken as part of this audit review was necessarily constrained by the short time available, and consequently the decision was taken to focus on the areas of Public Health Grant expenditure which were considered to be most at risk of breaching grant conditions; namely, the grant which was allocated to services outside the Public Health Directorate via the Cambridgeshire County Council 2013/14 Business Plan Memorandum of Understanding, and the £380k in-year transfers of funding between the Public Health Directorate and other Council services.

Governance arrangements were reviewed by assessing the procedures in place to ensure that accurate and timely performance data is collected, recorded and reported on a regular basis, with emphasis upon:

- The reliability, accuracy and timeliness of performance information;
- The clear and appropriate designation and definition of roles and responsibilities associated with the monitoring and reporting of performance and;
- The intended outcomes from the use of the ring-fenced Public Health grant are reported appropriately within the Council.

Based on the information from fieldwork, Internal Audit provided **Limited** assurance over the controls in place relating to the £1.8m ring-fenced Public Health grant allocated across Directorates. Internal Audit acknowledge that the Director of Public Health has obtained sufficient levels of professional assurance relating to the allocation of Public Health Grant funding in the Memorandum of Understanding to justify sign-off all but £170k of the £1.8m.

Equally, it should be highlighted that this report focuses on the treatment of the grant in 2013/14, and Internal Audit acknowledge that work has already been undertaken to address the recommendations and to improve the systems for monitoring and reporting on Public Health grant expenditure in 2014/15. Furthermore, it was communicated to Audit that a corporate approach was adopted in the determination of the allocation of the extra public health growth funding of £1.8m within a very short timescale prior to the completion of the Council's Business Plan.

The key findings related to the need for improvements in:

- The audit trail on the quarterly Revenue Outturn forms;
- Awareness of Public Health grant allocation and its differentiation from the base budget;
- Supporting documentation in the allocation of overhead costs; and
- Roles and responsibilities associated with the governance of the grant and the monitoring and reporting of performance.

COUNCIL WIDE

D1 Delivery of Business Plan Savings

Substantial Assurance was assigned to the review of Business Plan Savings. This review is complemented by an Internal Audit review of Budgetary Control in the Council, conducted in October 2014, that also assigned Substantial Assurance over the reporting and governance processes in place at a corporate and service level to monitor financial performance within the Council.

The level of savings stated in the Business Plan for 2014-15 was £38.3m, comprised of a reduction in expenditure of £35.9m and an increase in income of £3.4m. This review was conducted on information compiled to the end of September 2014 and the situation at this stage was that the overall revenue budget position was showing a forecast year end overspend of £0.7m (0.2%). Uncertainty remained during the second half of the financial year, over whether the identified savings will be achieved or not and the level of assurance has to be based on that projected outcome.

A random sample of identified savings across services was reviewed, from the initial methodology of how the savings were to be achieved to the current and forecasted levels. Satisfactory explanations for variances and re-profiles were obtained.

The review identified that services have naturally developed their own means of monitoring and reporting the identified savings due to the differing complexities of the service provision involved. In each of the sample savings reviewed, the service manager and the appointed service accountant produced evidence of ongoing dialogue and reports to verify regular communication. By engaging in this level of contact there are examples where the identified savings, as part of the budget variances, are not forecasted to be achieved but the reporting process is ensuring that senior management have as much notice as possible that other savings need to be made to mitigate the shortfall.

Other key factors in the savings process are:

- Formal reviews by SMT which may pick up the combined impact of proposals;
- Proposals and ongoing reports undergo member challenge;
- Where there are significant variances against savings targets these are highlighted within the monthly Finance & Performance Reports and the Corporate Integrated Finance & Performance Report; and
- The pro-active process of Business Planning, with an emphasis on the monitoring of identified savings, is constantly evolving within Finance and services with processes changing year on year as new ideas are adopted or refined.

Following discussions with Finance officers, there were been minor corrections to some reports and Finance guidance notes have been updated, but not significant enough to warrant inclusion as a formal management action.

Assurance Summary – Delivery of Business Plan Savings

<i>Risk Area</i>	<i>No</i>	<i>Limited</i>	<i>Moderate</i>	<i>Substantial</i>	<i>Full</i>
2014/15 business plan savings targets are monitored and potential areas of underperformance are challenged in the 2015/16 plan.					
Overall					

LGSS WEBSITE EXTRACT – COUNTER FRAUD FUND

Communities Minister Lord Ahmad, visits shared Council counter fraud centre

Communities Minister Lord (Tariq) Ahmad today (10 December 2014) saw first hand how government funding is helping a shared council project based in Cambridge claw back taxpayers' money lost through fraud. In November, the Department for Communities and Local Government (DCLG) announced extra funding for a range of council-led projects to draw back billions of pounds of taxpayers' money lost each year to fraud.

The department provided [£16 million](#) to councils who are raising their game through a range of innovative projects across the country to tackle fraud. This clamp down on money wasted, nationally, will tackle social housing tenancy cheats, business rates evasion, procurement fraud and social care and health tourism.

As part of November's announcement, LGSS, a Joint Committee between Cambridgeshire County Council and Northamptonshire County Council with their partners Northampton Borough Council and Norwich City Council received a grant of £329,000 to develop a regional counter fraud centre of excellence. This counter fraud centre is designed to make savings for the taxpayer over the next five years.

The new funding will give the ability to catch criminals by enhancing LGSS' specialist investigation service and develop a range of anti-fraud, corruption, bribery and money laundering e-learning packages to highlight tell-tale signs and increase awareness. LGSS will also offer counter fraud and investigative services to councils throughout East Anglia and the East Midlands.

John Kane LGSS Managing Director said:

"The securing of this funding will enable LGSS to expand its existing capability to provide Counter Fraud and Investigative shared services on a multi-council basis. This development is an exciting and innovative opportunity for LGSS to tackle fraud against public services."

Lord Ahmad, who is leading the DCLG push against local government fraud, said:

“This Government will not tolerate fraudsters who rip off councils and hardworking taxpayers. The funding that we’ve awarded LGSS will enable it to catch these thieves and claw back taxpayers’ money to protect frontline services and free up homes for families that really need them. We’re committed to clamping down hard on fraud and I would encourage all councils to pursue prosecutions so that they may act as a deterrent to others.”



From left to right: Quentin Baker, Director of LGSS Law, Property and Governance, Jonathan Idle, Head of LGSS Internal Audit, Lord Tariq Ahmad, Mark Lloyd, Chief Executive of Cambridgeshire County Council and Cambridgeshire County Councillor Peter Topping.