INTERNAL AUDIT PROGRESS REPORT TO 31st OCTOBER 2015

To:	**Audit and Accounts Committee**
Date:	**24th November 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 September to 31st October 2015 and the key control issues arising.**
Key Issues:	**N/A**
Recommendation:	**The Audit and Accounts Committee is asked:**

a) to note and comment on the progress being made against the approved Internal Audit Plan

b) Comments on and approves the in-year changes to the Audit Plan as set out in Appendix A

c) to note the material findings and themes identified by Internal Audit reviews completed in the period.
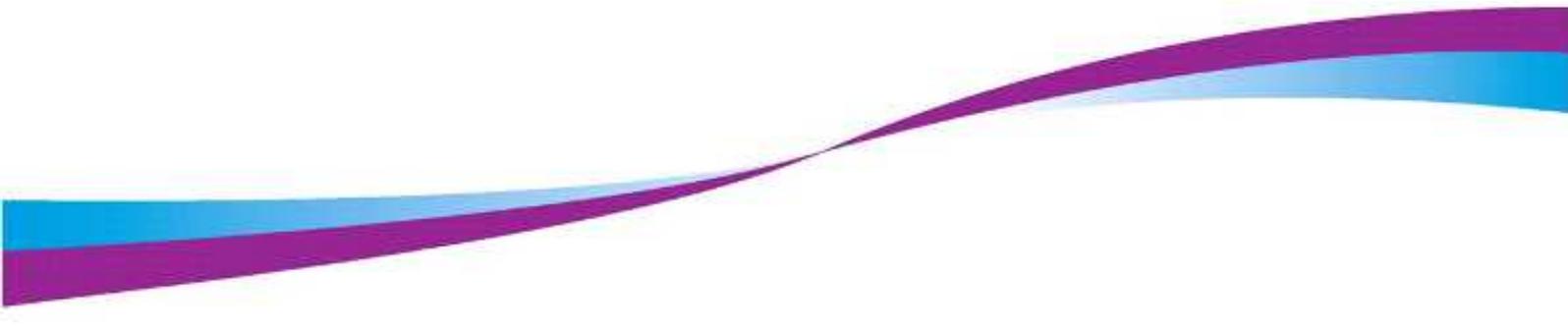
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By the public sector, for the public sector

LGSS Internal Audit & Risk Management

Cambridgeshire County Council

Quarterly update report

Q3

1. INTRODUCTION AND SUMMARY OF ACTIVITY

1.1 THE REPORTING PROCESS

This quarterly report provides stakeholders, including Strategic Management Team (SMT) and the Audit & Accounts Committee, with a summary of internal audit activity for the third quarter 2015/16 and the proposed coverage for the rest of the year.

1.2 BACKGROUND

The changing public sector environment increasingly necessitates an ongoing re-evaluation of the type and level of coverage required to give stakeholders the appropriate level of assurance on the control environment of the Council.

The Head of Audit must provide an annual internal audit opinion on the entire internal control environment based on an objective assessment of the framework of governance, risk management and control. This includes an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems. To support this, internal audit must develop and deliver a risk-based plan which takes into account the organisation's risk management framework and includes an appropriate and comprehensive range of work, which is sufficiently robust to confirm that all assurances provided as part of the system of internal audit can be relied upon by stakeholders.

To develop this plan, there must be a sound understanding of the risks facing the Council. The Corporate Risk Register is used as a key source of information, as is the Internal Audit risk assessment of the organisation, and these are used to form the basis of the Internal Audit plan.

The audit plan should be reviewed and robustly challenged by the Senior Management Team, the S151 Officer and the Audit & Accounts Committee.

In the last quarter the audit plan has been re-assessed in line with current risks facing the organisation and updated accordingly. The planning process has necessitated a thorough evaluation of the appropriate level and scope of coverage required to give stakeholders an appropriate level of assurance on the control environment. More importantly it should be noted that an on-going re-evaluation of this will be required throughout the year and, on a quarterly basis, the audit plan will be formally re-assessed and resources re-prioritised towards the areas of highest risk.

This plan is based on *assurance blocks* that each give an opinion on the key control environment elements, targeted towards in-year risks, rather than a more traditional cyclical approach that looks at each system over a number of years. For each *assurance block*, the most appropriate level of coverage necessary to provide the most effective annual assurance opinion and added value to the organisation has been developed. The Audit Plan reflects the environment in which public sector audit operates, recognising that this has changed considerably over the past few years with more focus on, for example, better assurance, safeguarding and *making every penny count*.

1.3   HOW INTERNAL CONTROL IS REVIEWED

There are three elements to each internal audit review. Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables internal audit to give an assurance on the control environment.

However, controls are not always complied with, which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.

Finally, where there are significant control environment weaknesses or where the controls are not being complied with and only limited assurance can be given, internal audit undertakes further substantive testing to ascertain the impact of these control weaknesses.

At the conclusion of each audit, internal audit assigns three opinions. The opinions will be:

- Control Environment Assurance
- Compliance Assurance
- Organisational Impact

The following updated definitions are now in use:

Control Environment Assurance	
Level	Definitions
Substantial	There are minimal control weaknesses that present very low risk to the control environment

Good	There are minor control weaknesses that present low risk to the control environment
Moderate	There are some control weaknesses that present a medium risk to the control environment
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment

Compliance Assurance	
Level	Definitions
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected
Moderate	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational impact is reported as major, moderate or minor. All reports with major organisation impacts are reported to SMT, along with the appropriate Directorate's agreed action plan.

Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Specifically for the compliance reviews undertaken, the following definitions are used to assess the level of compliance in each individual review:

Opinion for Compliance Audits – Levels of Compliance	
Level	Definitions
High	There was significant compliance with agreed policy and/or procedure with only minor errors identified.
Medium	There was general compliance with the agreed policy and/or procedure. Although errors have been identified there are not considered to be material.
Low	There was limited compliance with agreed policy and/or procedure. The errors identified are placing system objectives at risk.

Section 2

2.   *FINALISED ASSIGNMENTS*

2.1   Since the previous Progress Report to the Audit and Accounts Committee in September 2015, the following audit assignments have reached completion as set out below in table 2:

Table 1: Finalised Assignments

No.	Directorate / Description	Assignment	Assurance Opinion
1	LGSS	Health & Safety	Substantial
2	Public Health	Public Health Grant	Good
3	Economy, Transport & Environment	Highways Additional Maintenance Grant	N/A
4	Economy, Transport & Environment	Local Transport Capital Grant Funding	N/A
5	Children, Families & Adults	Community & Capacity Grant	N/A
6	Children, Families & Adults	Think Autism Grant	N/A
7	Children, Families & Adults	Safer Recruitment in Schools Consolidated Report	Moderate

2.2   Summaries of the finalised reports with moderate or less assurance are provided in Section 6.

Section 3

3.   AUDIT PLAN 2015/16

The current audit plan is attached at **Appendix A** to this report. The audit plan remains at the same number of previously agreed days, i.e. 1819, however it is anticipated that there will be less days actually delivered in 2015/16. As can be seen, 242 days have currently been earmarked as unallocated.

3.1   RESOURCE ALLOCATION BY DIRECTORATE

This is a high level summary of the allocation of those resources:

Directorate	Audit Days	%
Children, Families & Adults (CFA)	208	11%
Schools audits (CFA)	215	12%
Economy, Transport & Environment (ETE)	102	6%
Customer Service & Transformation (CST)	14	1%
LGSS	149	8%
Public Health (PH)	49	3%
Cross-Cutting reviews	839	46%
Unallocated audit days	242	13%
	1819	100%

The allocation of resources by assurance block is summarised below:

Assurance Area	Risk Area	% Coverage
Safeguarding	Safeguarding	21%
Legal	Legislative non-compliance	31%
Value for Money	Financial Management	35%
	Assets & Capital	13%
	Procurement	23%
	Fraud & Corruption	43%
Strategic Planning	Staff Resources	20%
	Business Planning	17%
	Business Disruption	5%
	Project Management	11%
Information	Information Management	14%

	Information Systems	12%
	Performance Management	14%
Stakeholders	External Partnerships & Co-Working	13%
	Customers & Community	17%
Key Financial Systems	Key Financial Systems reviews	6%

3.2   ADJUSTMENTS TO THE AUDIT PLAN

As LGSS Internal Audit seeks to continually adapt and respond to business need and emerging risks, a number of minor changes have been made to the Audit Plan since it was last presented to Committee in September 2015.

Section 4

4. FRAUD AND CORRUPTION UPDATE

4.1 SCHOOLS CHARITY:

During the school summer holidays the counter fraud service assisted the schools team to conduct a detailed review of a charity relating to a school. Concerns had been raised about fund raising on behalf of the school by the charity, but the school was not receiving the benefits of the funds. After extensive reviews of documentation made available the allegations were not substantiated. The counter fraud service provided advice and guidance around the set up of private funds for a school. The service also offered on guidance on how to support future allegations of the same nature to the school auditors.

4.2 LIBRARY SERVICE THEFT:

An ongoing investigation regarding the library service of two areas within CCC has now concluded. A small value of cash had been allegedly misplaced. In both cases it was recommended that the Police should be informed as it appeared to be theft. The counter fraud service continued to be involved and provided the libraries in question guidance on security measures that had to be implemented within the buildings. Two counter fraud team members also attended a meeting to discuss key controls that would be required to mitigate risks of such events happening. From the meeting it was agreed that the counter fraud service would attend the next management meeting to discuss the key reasons behind the recommendations being made, and to give some basic awareness around counter fraud.

4.3 CRIMINAL PROSECUTION:

Internal Audit has been working with Cambridgeshire Constabulary and the Crown Prosecution Service on a case of suspected fraud by Sarah Lees, the former Children's Workforce Development Manager, which was progressed to prosecution. After Ms Lees moved to a relief contract in October 2013, suspicions were raised and an investigation by LGSS Internal Audit identified that she had been submitting and approving invoices to her own companies over a number of years, for training which should have been delivered as part of her day job, or in some cases was not delivered at all.

On the 16th November 2015, Ms Lees plead guilty to the charges against her at Peterborough Crown Court, having already been dismissed from her contract with the Council after an internal disciplinary hearing. Sentencing is due to take place on

the 10th December. The Council will be seeking to recoup the full amount of the money which was defrauded, and will also be submitting an estimate of the cost of staff time spent on the investigation, with the aim of recovering these costs as well.

4.4   FRAUD MANAGEMENT SYSTEM:

A procurement exercise has commenced and we are hopeful for support from IT for go-live before Christmas. The system will enable all fraud cases to be monitored, maintained and completed to criminal investigations standard (CPIA 1996). This system will ensure the service is compliant with the Criminal Procedure and Investigations Act (CPIA) 1996, and ensure the service complies with the Data Protection Act.

Section 5

5   IMPLEMENTATION OF MANAGEMENT ACTIONS

5.1   The outstanding management actions as at November 2015 are summarised in Table 3, it includes a comparison with the percentage implementation reported at the previous Committee (bracketed figures).

Table 2: Outstanding Management Actions

	Category 'Fundamental' recommendations		Category 'Significant' recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total
Implemented	27	100% (100%)	58	95% (70%)	85	97% (80%)
Actions due within last 3 months, but not implemented	0	0% (0%)	0	0% (7%)	0	0% (5%)
Actions due over 3 months ago, but not implemented	0	0% (0%)	3	5% (23%)	3	3% (16%)
Totals	27		61		88	

5.2   There are currently no outstanding fundamental recommendations. Provisionally 3 significant recommendations have not been implemented when reporting to SMT, these are being followed up and an update will be reported to the Audit and Accounts Committee. Recommendations are continually being reviewed by Internal Audit to determine if they are still relevant and merit their significant categorisation. Directors will be consulted as to their status and any revisions to implementation dates.

5.3   At SMT on the 16th November, assurances were given that the three outstanding recommendations will be urgently addressed.
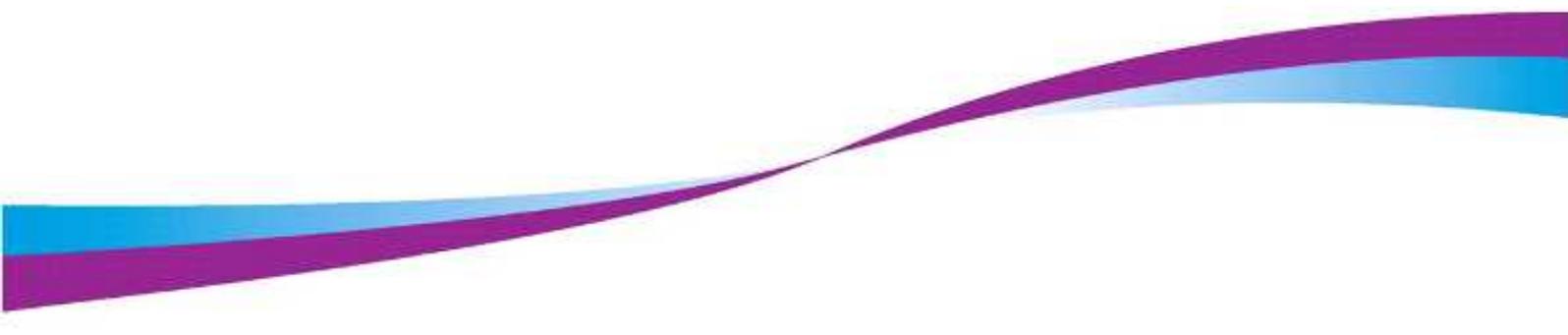
6. SUMMARIES OF COMPLETED AUDITS WITH MODERATE OR LESS ASSURANCE

6.1   SAFE RECRUITMENT IN SCHOOLS CONSOLIDATED REPORT

Internal Audit has issued an opinion of moderate assurance in relation to their review of Safe Recruitment in Cambridgeshire Schools in 2014/15. The review was completed across a sample of fifteen schools from both the maintained and the academy sector, including Nursery, Primary and Secondary schools. Up to five recent appointments at each school were tested, and where possible the testing encompassed a range of posts including both teaching and non-teaching staff; in total, 62 employee files were reviewed as part of this work.

There was an improvement of 7% in the number of schools given substantial assurance, and no school received the lowest assurance rating.

Where control weaknesses were identified in individual schools, actions have been agreed with the Headteacher which will address these weaknesses. Some of the common themes which were identified by the audit included issues with the quality of recording on some schools' Single Central Record; weaknesses in the initial stages of reviewing applications and shortlisting candidates; and incomplete retention of interview and pre-employment check records. Schools would also benefit from increasing clarity around safeguarding responsibilities in job descriptions/person specifications.

In addition to the actions which have been put in place for individual schools, it has also been agreed that a number of actions will be carried out in the Council's Children, Families and Adults directorate, with the aim of raising schools' awareness of procedures and requirements around safe recruitment. A letter has been sent to the headteachers and governors of all schools and academies by the Executive Director, setting out clearly the actions all schools should take; Education Advisers are carrying out Safeguarding Audits in all maintained schools; and a model Single Central Record has also been sent to all maintained schools and academies. The Service Director for Learning will also remind headteachers of these procedures and requirements at the autumn term Headteacher Representative meetings and the Primary Headteacher Area meetings.

7. OTHER AUDIT ACTIVITY

In addition to completing ongoing audit reviews, the Internal Audit team is conducting work in the following areas.

7.1 PROFESSIONAL DEVELOPMENT

Three new trainees started work in the Internal Audit section at the start of September. They have now completed their induction into the team, including a series of bespoke training sessions delivered in-house, covering topics from risk-based auditing to ethical dilemmas, audit testing and controls. Trainees will continue to receive further professional development sessions as needed.

7.2 TRANSITION TO SHAREPOINT

The Internal Audit team is currently preparing to use the Microsoft SharePoint 2013 electronic document storage system, rather than the CCC network drives. By enabling instant document sharing and collaboration between team members based at different sites across LGSS, Cambridgeshire's Audit team will have access to a much greater range of professional resources to support their work.

7.3 NATIONAL FRAUD INITIATIVE

Through Internal Audit work on the National Fraud Initiative, it has been identified that two members of staff appear to have been paid for overtime work by invoice, rather than via the Payroll system. This creates a potential liability for the Council in terms of National Insurance and Pensions contributions, and is being investigated further prior to referral to HR/Finance for resolution.

7.4 PROFILE RAISING & AWARENESS

Work is ongoing to raise the profile of Internal Audit and ensure greater awareness of audit review findings, with the aim of improving staff compliance with controls and ensuring that staff refer issues or concerns to the Internal Audit team as appropriate. To date, this has included articles in the LGSS newsletter and posts on the CamWeb Daily Blog.

7.5 SOCIAL CARE RECRUITMENT & RETENTION

At September's Audit & Accounts Committee meeting, there was discussion about

the risk of the Council being unable to recruit staff with the right skills and experience. Internal Audit have identified good practice taking place in addressing this risk across the Children, Families and Adults Directorate, where the recruitment and retention of qualified and unqualified social care staff has been a known issue for some time. As of June 2015, the social work workforce was experiencing a vacancy rate of 15%, with the issue being managed through use of costly agency workers.

To overcome the challenges of recruitment and retention of staff, Children's Social Care (CSC), Older People and Mental Health (OPMH) and Adult Social Care (ASC) services are taking a joint approach in the development of a Social Care Recruitment and Retention Strategy. The strategy is under development, but seeks to ensure that CSC, OPMH and ASC work together on recruitment across all CFA social care services. Improved marketing of social work job opportunities; a new training and workforce development model; and an employee recognition scheme are also proposed. A re-grading exercise of all qualified social work posts has been undertaken by HR, which has resulted in an uplift in grade and salary for each role, as CCC's comparatively low rates of pay for all levels of social workers compared to other local authorities in the Eastern Region have been a key reason that the Council has struggled to recruit and retain staff.

To take forward the strategy and proactively address the issue of recruitment and retention, a cross directorate Strategic Recruitment and Workforce Development Board and Social Work Recruitment and Retention Task and Finish Group have been established.

Although an audit on social care recruitment was included in the 2015/16 Internal Audit Plan, this audit has now been removed from the Plan as assurance can be taken from the programme of work currently being undertaken in this area.

8. CENTRAL LIBRARY ENTERPRISE CENTRE REVIEW

8.1   BACKGROUND:

On the 21st July 2015, Full Council passed a motion proposing that the Audit and Accounts Committee undertake a review of the process by which proposals to develop a Cambridge Library Enterprise Centre (CLEC) emerged and were developed, to identify recommendations on how the process could be improved.

Internal Audit were invited by the Chair of the Audit and Accounts Committee to undertake this review, and were requested to bring a report to the Audit and Accounts Committee meeting on the 22nd September, to then be presented to Full Council on the 13th October. Consequently, the timescales for the review were extremely tight.

As well as holding discussions with relevant officers and reviewing paperwork and emails relating to the development of the proposals, Internal Audit reviewed submissions from 17 Councillors and 11 local residents and met with Members who wished to discuss concerns.

8.2   REPORT:

A number of key recommendations to improve processes were identified as part of this review. These recommendations were incorporated into the report and action plan which were presented to Full Council on the 13th October. The review and action plan were extremely well-received by Councillors, and the report was unanimously approved.

The report, including the updated action plan, is attached as **Appendix B**.

8.3   PROGRESS TO DATE:

The Chair of the Audit & Accounts Committee has requested that an update on progress with implementing the actions from the CLEC review be included as a standing item on the agenda for Audit & Accounts Committee meetings going forwards.

The final report and action plan are being presented to the Senior Management Team (SMT) meeting on the 16th November. SMT sign-off and backing will be important to the subsequent delivery of the actions, particularly actions where

responsibility ultimately lies with the Senior Responsible Officer (SRO) for each project or programme.

Progress with delivering actions is already underway, with CLEC review actions on the agenda for the meeting of the Member Working Group on Consultation on the 3rd November.

With regards to the planned seminar for Members on the 13th November, which aimed to update Member understanding of the legal requirements around consultation, this has been postponed as the proposed date of the seminar has now been earmarked for Business Planning purposes. However, the Research and Performance team are seeking to re-arrange the seminar, and are also including a session on the legal requirements around consultation at the next session of General Purposes Committee training, on the 24th November.

The Member Development Panel on the 26th November will be presented with initial work on developing additional training and resources for Members on key processes for challenge and the roles and responsibilities of each Committee post.

Democratic Services officers have been tasked with conducting a review of the past six years of Cabinet reports/minutes to identify any remaining projects and proposals which were initiated under the old governance system. This information with then be shared with services, to confirm that all such projects have now submitted a report to the appropriate Committee or Spokes meeting.

Internal Audit will provide a full itemised update against each individual action in the CLEC Action Plan for the next Audit & Accounts Committee.