

ANNUAL INTERNAL AUDIT REPORT 2014-15

To: Audit and Accounts Committee

Date: 9th June 2015

From: LGSS Head of Internal Audit

Electoral Division(s): All

Forward Plan Ref: N/A **Key decision: No**

Purpose: The Public Sector Internal Audit Standards require that the Head of Internal Audit presents an annual report to the Authority's Audit and Accounts Committee. This is reflected fully in the terms of reference of the Authority's Audit and Accounts Committee.

The purpose is for the Audit and Accounts Committee to consider the Annual Internal Audit Report for 2014 - 15 and therefore be made aware of the Head of Internal Audit's opinion on the state of the Internal Control Framework within Cambridgeshire County Council.

Key issues: The Annual Internal Audit Report forms part of the evidence that supports the Authority's Annual Governance Statement 2014 - 15.

Recommendation: The Audit and Accounts Committee is asked to consider and approve the Annual Internal Audit Report.

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2.0 SIGNIFICANT IMPLICATIONS

2.1 Financial, Equality and Diversity Implications

There are no financial, equality and diversity implications from this report.

2.2 Statutory, Risk and Legal Implications

The requirement for local authorities to have an internal audit function is determined by Section 151 of the Local Government Act 1972, which requires that authorities 'make arrangements for the proper administration of their financial affairs'.

All Internal Audit staff must comply with the requirements of the Public Sector Internal Audit Standards, the Code of Ethics and the professional standards of their own professional organisations.

3.0 APPENDIX 1

Appendix 1: Internal Audit Report 2014-15

Source Documents	Location
Internal Audit Plan 2014-15	Box OCT1108 Shire Hall Cambridge CB3 0AP

INTERNAL AUDIT REPORT 2014-15

1. HEAD OF INTERNAL AUDIT OPINION

- 1.1 This report gives a summary of the work carried out by Internal Audit in the financial year 2014-15 and the results of that work. From the work undertaken during the year, my overall opinion on the Council's system of internal control is that:

Substantial / Moderate assurance can be given that there is generally a sound system of internal control which is designed to meet the organisation's objectives, and that controls are generally being applied consistently. The level of assurance therefore remains at a similar level from 2013/14. However no system of control can give absolute assurance against material misstatement or loss, nor can internal audit give that assurance.

Controls relating to key financial systems were concluded to be generally at a "Substantial Assurance" level. The majority of non-schools audits were generally assigned "Substantial" or "Moderate" classifications, with the exception of three audits, which were given "Limited Assurance".

The basis for my opinion is derived from an assessment of the range of individual opinions arising from assignments contained within the risk-based Internal Audit Plan that have been undertaken throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses. A summary of Audit opinions is shown in Table 1:

Table 1 – Summary of Audit Opinions 2014-15:

Area	Full	Substantial	Moderate	Limited
Corporate	0	1	0	0
Customer Service and Transformation	0	0	2	0
Economy, Transport and Environment	0	3	0	1
Children, Families & Adults	0	2	3	0
Schools	0	3	4	1
Public Health	0	2	0	1
Council Wide	0	1	1	0
LGSS	0	1	0	0
Financial Systems	0	2	0	0
Total	0	15	10	3
Total Percentage	0%	53%	36%	11%
Comparison 13/14	2%	53%	40%	5%

2. REVIEW OF AUDIT COVERAGE

2.1 Audit Opinion on Individual Audits

The Committee is reminded that the following assurance opinions can be assigned for an audit:

Table 2 – Assurance Categories:

Level of Assurance	Definition
Full	There is a sound system of control designed to address the relevant risks with controls being consistently applied.
Substantial	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	Whilst there is basically a sound system of control, designed to address the relevant risks, there are weaknesses in the system, that leave some risks not addressed and there is evidence of non-compliance with some of the controls.
Limited	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	There is no system of internal control. Risks are not being managed.

Audit reports issued in 2014-15 include one of the above audit opinions, other than those relating to investigations, projects or mini-reviews.

The 'embedded assurance' approach applies to projects/audits where auditors attended Project Boards and/or gave independent advice and support, with periodic reporting as appropriate.

Unless otherwise stated, all individual reports represented in this Annual Report are final reports and have been agreed with management, together with the accompanying action plans.

2.2 Summary of Audit Work

- 2.2.1 Table 3 below details the assurance levels, or other description where an assurance opinion was not appropriate, of all audits undertaken in 2014-15, with the exception of the managed audits, which are reported at paragraph 2.4, and IT Audits, which are reported at paragraph 2.4.

Table 3 – Summary of Audit Opinions 2014-15

Directorate / Audit	Audit Opinion / Description	Follow Up
Corporate		
Governance - Ethics	Substantial	
Customer Service and Transformation		
Information Governance	Moderate	
Economy, Transport and Environment		
Coroners Service Review	N/A	
Carbon Reduction Commitment	Substantial	
Highways Service Contract	Substantial	
Street Lighting – Energy Management	Limited	All recommendations implemented
City Deal (Embedded Assurance)	Substantial	
Public Health		
Commissioning and Contracting	Substantial	
Information Governance in Public Health	Substantial	
Public Health Grant	Limited	To be re - audited 2015/16
Grant Certification		
Ecoop	2 Certifications Provided	
Bike Friendly Cities	2 Certifications Provided	
Troubled Families	4 Certifications provided	
Seniors Network Support	2 Certifications Provided	
Flood Damage Roads Funding	Certification Provided	
Local Transport Capital Block Funding	Certification Provided	
Ecoop	Certification Provided	
Great War	2 Certifications Provided	
Better Bus Area Fund	Certification Provided	
Local Sustainable Transport Fund	Certification Provided	

LGSS			
Workforce Retention and Knowledge Management	Substantial		
LGSS - Finance			
Budgetary Control	Substantial		
Capital programme	Substantial		
Children, Families and Adults			
Early Help Project (Embedded Assurance)	Moderate		
Delayed Discharges	Moderate		
Safer Recruitment Follow up (Individual School)	Moderate		
Personal Budgets for Children	Substantial		
Adoption Services Partnership(Embedded Assurance)	Substantial		
Schools			
Financial Governance in Schools/Schools Financial Value Standards (1 Individual School)	Moderate		
Pupil Premium – (2 individual Schools)	Substantial		
Financial Governance in Schools/Schools Financial Value Standard	Moderate		
Pupil Premium – (2 Individual Schools)	Moderate		
Pupil Premium – (1 Individual School)	Substantial		
Pupil Premium – (1 Individual School)	Limited	To be followed up in 2015/16 (Report issued 24/03/2015)	
Customer Service and Transformation			
Business Continuity	Moderate		
Council Wide			
Programme and project Management	Moderate		
Delivery of 2014/15 Business Plans Savings	Substantial		

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2.3 Outlined below is a summary of audits that have been finalised since the last Audit and Accounts Committee:

2.3.1 Adoption Services Partnership – Substantial Assurance

A review of the Adoption Service Partnership project was completed, using the embedded assurance approach. The key risks tested, which were aligned to the Council's Corporate Risk Register were:

- Failure of the Council's arrangements for safeguarding vulnerable children and adults;
- Lack of capacity to resource future demand for services in respect of children and adults; and
- Non-compliance with legislative and regulatory requirements.

Based on the completion of our fieldwork, substantial assurance was provided that the project has been delivered with sufficient consideration of key project management requirements.

2.3.2 Schools – Pupil Premium

A review has been undertaken of a sample of schools' management of Pupil Premium and Pupil Premium Plus in 2013/14 and 2014/15. The Pupil Premium is additional funding given to publicly-funded schools in England to raise the attainment of disadvantaged pupils and close the gap between them and their peers.

To date six schools have been finalised and a summary of the results are recorded below:

Area	Full	Substantial	Moderate	Limited
Pupil Premium	0	3	2	1

An action plan has been agreed with the school where limited assurance has been given. This will include the publication of the Pupil Premium funding and improvements in Governing Body documentary evidence.

This is not considered to be a material risk issue and the action plan agreed will ensure that improved assurance can be given.

2.4 Managed Audits

- 2.4.1 These are the 2014-15 suite of annually performed core systems reviews undertaken in order to meet the level of coverage required by the Council's External Auditors for their final accounts audit. They are also used to inform the Head of Internal Audit's overall opinion on the adequacy of the Control Environment for the organisation, which supports the Annual Governance Statement.

The audits sought to provide assurance to management and External Audit that expected controls are in place for key financial systems, and that such controls are adequate in design and function appropriately in practice. Additionally, the audits assist in providing assurance to External Audit that transactions falling within the financial year 2014-15 are free from material misstatement.

This year the audits were joint reviews of Northamptonshire County Council (NCC) and Cambridgeshire County Council (CCC) LGSS systems.

Table 4 below details the assurance levels of all managed audits undertaken in 2014-15 compared to the assurance levels in 2013-14.

Table 4 – Managed Audits 2014-15

Managed Audit	Audit Opinion 2014-15	Audit Opinion 2013-14
Budget Monitoring	Substantial	Substantial
Purchase to Pay	Substantial	Substantial
Accounts Receivable, including Cashiers	Substantial	Substantial
Payroll	Substantial	Moderate
General Ledger	Substantial	Substantial
Treasury Management	Substantial	Substantial
Bank Reconciliation	Substantial	Substantial
IT Controls	Substantial	Moderate

- 2.4.2 The Committee should be reassured that all 8 managed audits were assigned substantial assurance.

2.5 Investigations

Details of specific and including ongoing cases have been reported to the Audit and Accounts Committee throughout the year. These have included investigations into allegations relating to:

- The administration of a service user's financial affairs by a residential care provider. – Awaiting financial information for analysis (financial review completed April 2015 and decision to be taken on further action).
- The theft of monies by an employee – currently awaiting trial.
- Five allegations of financial irregularities – no further action required following audit investigations.

- NFI - The results of the National Fraud Initiative (NFI) data-matching exercise were received by the Council in February 2015. Those matches with the Department of Work & Pensions (DWP) deceased database were reviewed as a priority and have been assigned to the appropriate staff for further investigation and action. The results of these matches, together with the outcomes of other match investigations, will be reported to Committee in 2015/16.

2.6 Implementation of Internal Audit Recommendations

- 2.6.1 Internal Audit followed up our significant recommendations to ensure that they have been implemented. Internal Audit follow up actions on a quarterly basis which is related to the actual date the control improvement should have taken place. Internal Audit produced tables of the status of outstanding audit recommendations to the Committee, which is summarised in Table 5:

Table 5: Implementation of Audit Recommendations 2014-15:

	Category 'Red' recommendations	Category 'Amber' recommendations	Total
Agreed and Implemented.	26	33	59
Agreed and Due within last 3 months, but not implemented.	1	17	18
Agreed and Due over 3 months ago, but not implemented.	0	11	11
TOTAL	27	61	88

*Please note that the total reflects the number of recommendations required to be implemented within 2014/15, and includes recommendations made in 2013/14.

2.6.2 A summary of outstanding recommendations is shown below in Table 6:

Table 6: Summary of Outstanding Recommendations as at 31.03. 2015

Audit Title	Red		Amber	
	Over 3 months	Under 3 months	Over 3 months	Under 3 months
Coroners Review		1		4
St Lukes Investigation				9
Project Management			2	2
Older Peoples Transfer			2	
Information Governance			1	
Business Continuity				2
Knowledge Management			2	
Delayed Discharges			1	
Democratic Services			1	
Public Health Commissioning and Contracting			1	
Public Health Information Governance			1	
		1	11	17

2.6.3 The level of implementation is reported to the Audit and Accounts Committee throughout the year.

2.6.4 The outstanding red recommendation related to a review of the Coroners Service and is as follows:

“A fundamental review should be completed on the Coroner allowance schemes to determine whether such allowances are genuinely required, based on the role and support provided by the Registrar and Coroner Services Function.”

Although this is seen as a key action for the service, this is not a material area that would reduce the Committee’s assurance on the wider control environment. The total additional allowance paid in 2014/15 was approximately £25,500.

3. INTERNAL AUDIT CONTRIBUTION

3.1 It is important that Internal Audit demonstrates its value to the organisation. The service provides assurance to management and members via its programme of work and also offers support and advice to support the Council in new areas of work.

3.2 Delivery of 2014/15 Audit Plan

The original Audit Plan for 2014-15 was for 1849 days to be available for areas identified for audit activity. The actual days spent in each area of the Audit Plan, analysed by the major categories of our work, in terms of resource input, is set out in Table 7:

Table 7 – Internal Audit Contribution

Audit Area	Planned Days	Actual Days	Variance
CCC Wide	55	34	21
Customer Service and Transformation	40	31	9
Children, Families and Adults	335	295	40
Economy, Transport and Environment	70	48	22
Public Health	45	39	6
Grant Certification	47	59	-12
Governance	45	25	20
Audit IT	86	0	86
LGSS	200	123	77
External	8	277	-269
Other Chargeable Activity	230	152	78

Total Audit Days	1161	1083	78
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3.3 Our Contribution in Other Areas

Key additional areas of Internal Audit contribution to the Council in 2013/14 are set out in Table 8:

Table 8 – Internal Audit Contribution

Area of Activity	Benefit to the Council
Refinement of the Assurance Framework and process for reporting on external sources of assurance to Audit and Accounts Committee.	Audit and Accounts Committee have an enhance view of risk and governance matters.
Maintaining good working relationships with External Audit so that our work can be relied upon for the purposes of assisting them in forming their opinion on the Annual Accounts.	Reduce audit burden, saving costs.
Working proactively to counter fraud and corruption by leading on the National Fraud Initiative exercise and delivering actions in the Council's Anti- Fraud Strategy.	Preventing and Detecting fraud and corruption, helping promoting high standards of probity and integrity throughout the Council.
Support for managers, HR and the police in investigation work in relation to fraud.	Ensures an effective response to fraud. Allows the Council to maintain capacity to respond to undertake investigations in response to allegations made.

4. PERFORMANCE INDICATORS

- 4.1 Internal Audit maintains several KPI's to enable ongoing monitoring and in compliance with the service specification LGSS has with the Council. Outturns against indicators are shown in Table 9:

Table 9 – Internal Audit KPI's 2014-15

P.I. Description	Target	Actual
Delivery of the agreed annual Internal Audit Plan – Audit Days	95%	Audit Days – 86%
Delivery of the agreed annual Internal Audit Plan – Audit Reports	95%	Audit Reports – 81%
Customer Feedback – rating on a scale of 1 to 5	4.25	3.39