

APPENDIX 1



INTERNAL AUDIT PLAN 2019 / 2020 PROGRESS REPORT

1. Introduction
2. Audit Protocols
3. Progress on Audit Reviews
4. Emerging Issues / Future Plans

This report has been prepared for the use of Members and management of the Cambridgeshire and Peterborough Combined Authority. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed Internal Audit plan.

1 **INTRODUCTION**

- 1.1 The purpose of this report is to bring the Audit and Governance Committee up to date with the progress made against the delivery of the 2019 / 2020 Internal Audit Plan. The Audit Plan was agreed by this committee in March 2019.
- 1.2 The Committee has a responsibility to review the effectiveness of the system of internal controls and to monitor arrangements in place relating to corporate governance and risk management arrangements. Internal Audit is an assurance function which provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance. This work update provides the Committee with information on recent audit work that has been carried out to assist them in discharging their responsibility by giving the necessary assurances on the system of internal control.
- 1.3 The information included in this progress report will feed into, and inform our overall opinion in our Internal Audit Annual Report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

ASSURANCE RATINGS	
Opinion / Assurance	Description
SUBSTANTIAL	The internal control system is well designed to meet objectives and address relevant risks, and key controls are consistently applied. There is some scope to improve the design of, or compliance with, the control framework in order to increase efficiency and effectiveness.
REASONABLE	The internal control system is generally sound but there are some weaknesses in the design of controls and / or the inconsistent application of controls. Opportunities exist to strengthen the control framework and mitigate further against potential risks.
LIMITED	The internal control system is poorly designed and / or there is significant non-compliance with controls, 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	There are significant weaknesses in the design of the internal control system, and there is consistent non-compliance with those controls that exist. 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.

2. **AUDIT PROTOCOLS**

- 2.1 The original Internal Audit Plan for 2019 / 2020 was agreed by the Committee in March 2019.
- 2.2 The Audit Plan can be re-profiled throughout the year when the risks profile of the Combined Authority changes and to react to emerging issues, management requests or Audit and Governance Committee requests. Internal Audit operate in line with defined best practice as outlined within the Public Sector Internal Audit Standards. As part of these standards, our working arrangements and protocols are set out within an Internal Audit Charter which is reviewed annually (by Peterborough City Councils Audit Committee as our employing organisation) in conjunction with approving the following years Audit Plan. Separate reference is laid out within the Audit Charter in relation to us providing services to external customers. For information we have attached the latest approved Audit Charter (**Appendix 2**).
- 2.3 The Audit Charter includes details in relation to:
- Risk assessing the organisation and the initial build of the audit plan;
 - Agreement of the initial plans and approval by Committee;
 - Ongoing review of the plan and any agreement to change. This could be new risk areas seen as a high priority requiring immediate coverage; deleting or deferring audits from the plan to cover those new areas; or requesting additional resources to cover any extra days). At the last Audit and Governance Committee it was confirmed that any changes would be agreed with the Head of Finance and Committee chair and then referenced to Audit and Governance Committee for information for expediency; and
 - How audit assignments are agreed and delivered.
- 2.4 There have been no changes requested for approval at this time.

3. **PROGRESS OF AUDIT REVIEWS**

3.1 Progress against the works to date are set out in the following tables:

AUDIT PLAN PROGRESS (2018 / 2019 WORKS CARRIED OVER)		
AUDITED AREAS COMPLETED	OPINION	DAYS
<p>PROJECTS: EAST CAMBRIDGE TRADING COMPANY LOAN</p> <p>The Audit Plan included a review of the loan of £6.5m to ECTC, approved at the March 2018 board meeting. This was later extended to include the loan of £24.4m, which was approved in November 2018, at the request of the Audit and Governance Committee. Both loans are for housing projects (at Haddenham and Ministry of Defence land at Ely) falling under the Affordable Homes Programme. The purpose of the audit was to evaluate the processes that ensure:</p> <ul style="list-style-type: none"> • monies have been awarded in line with the aims of the Affordable Homes Programme, Housing Strategy and any central funding requirements • the governance outlined in the Assurance Framework has been applied (in terms of awarding, monitoring and evaluating the outcomes of the funding) • Appropriate financial / legal due diligence, risk assessment and business case appraisal has been undertaken, including compliance with state-aid regulations • Appropriate legal agreements are in place • Draw-downs are verified and payments are accurate and valid; and • the project is monitored effectively throughout delivery 	<p>A key finding relates to how projects are appraised against relevant criteria to ensure that they meet with the aims of the Combined Authority (CA), and also how this appraisal is communicated to those approving the award of loans. Whilst considerable thought has been given to this aspect, there is not a quantitative methodology in place that can be used to determine the fit of a project against such criteria. There has been increasing transparency in the presentation of information (such as business cases) to the CA Board, but this in itself does not provide a standardised rationale to support the decision making process for the use of a substantial proportion of the £40m revolving fund.</p> <p>Another area that would benefit from more detailed documentary support is the decision in relation to interest rates and compliance with State Aid regulations, particularly as this is an area that could be open to challenge. Whilst the method used to calculate the interest is a recognised approach and the rates being used represent no detriment to the authority, given that the loans are the first of their kind, it may have been appropriate to commission some formal, independent advice on the aspect of State Aid compliance.</p> <p>The audit rating provided is REASONABLE assurance. Actions / wording are to be established for each recommendation (5).</p>	11
<p>GOVERNANCE REVIEWS</p> <p>Completion and agreement of governance reviews discussed at Audit and Governance Committee in May 2019.</p>	<p>Various assurance levels provided in relation to corporate governance processes and the LEP.</p>	8

AUDIT PLAN PROGRESS (2019 / 2020 COVERAGE)		
AUDITED AREAS COMPLETED	OPINION	DAYS
<p>BUSINESS, ENERGY AND INDUSTRY STRATEGY: GROWTH HUB FUNDING</p> <p>Internal Audit undertook a review of the adequacy, or otherwise, of the financial records maintained for growth hub funding for the year ended 31 March 2019. This was to establish / ensure that the grant sums claimed were in line with the specific conditions.</p> <p>The deadline for approval and return to BEIS was 30 June 2019.</p>	<p>Following review of the financial records maintained, supporting documentation and the grant conditions imposed, we were able to confirm that the monies claimed were appropriate.</p> <p>The grant letter was signed and issued on 13 June 2019.</p>	5
<p>TRANSPORT GRANTS</p> <p>Four grants coordinated through the CPCA require a declaration to be sent to the Department for Transport, these being Capital Block Funding; Challenge Fund Tranche 2A; Local Transport Grant and Pothole Action Fund.</p> <p>Based on the determination letters, monies are spent separately by PCC and CCC. Where monies are spent directly by County they undertake a review of the appropriateness of spending and provided statement returns to that effect. Similar arrangements were undertaken by PCC.</p> <p>As Chief Internal Auditor for the CPCA, I have looked to place reliance on their works.</p>	<p>Following review of claims and completed statements we confirmed to DfT that monies had been spent in line with the determination letters.</p> <p>The grant letter was issued in line with prescribed deadlines to the CPCA and external agencies.</p>	10
<p>HUMAN RESOURCES (RECRUITMENT AND SELECTION)</p> <p>2018/2019 coverage as part of the Governance review identified this as an area of concern and produced a no assurance rating. As a result this was seen as a high priority area to revisit.</p> <p>Initial walk through tests were undertaken in September 2019 to gauge whether sufficient improvements had been made to the general control arrangements.</p>	<p>Major improvements have been made in this area. At the time of producing this committee report, the audit report is in draft.</p> <p>From our work the key message identified is that it is proposed that REASONABLE assurance is provided. A closure meeting has been held with the HR Manager and matters arising discussed which include a number of improvements.</p>	15

<p>In November 2019 the full review of the processes were undertaken. The objective of the audit was to evaluate the adequacy of the control framework in place to effectively manage and maintain the recruitment control framework. The key areas reviewed covered:</p> <ul style="list-style-type: none"> • Up to date and approved policy, regulations and supporting procedures, in line with employment legislation to support the recruitment process and achieve value for money • Vacancies are adequately identified and advertised with appropriate job and person descriptions which are fair, accurate and complete • Each stage of the recruitment process is carried out in a timely manner by suitably trained staff • All appointments are made in a timely manner with appropriate reference checks undertaken and terms and conditions are stated clearly in employment contracts that meet legislative requirements <p>We undertook a 100% check of all staff records held in relation to the full establishment and sample checked a series of new appointments made between April 2019 and October 2019.</p>		
<p>ATTEMPTED FRAUD</p> <p>During August 2019, a CPCA email account was hacked.</p> <p>Persons unknown logged into the email account via a web browser and made changes which allowed them to move and delete messages. This was used to permanently delete an email and invoice seeking payment from a CPCA contractor. A fraudulent email / invoice was then substituted in its place with differing bank account details. In addition, all audit trail activity was cleansed.</p> <p>The invoice was processed through the normal channels. It was queried by the receiving bank due to the change in sort code which came to light in September 2019.</p>	<p>A number of immediate actions were put in place and a series of recommendations made covering:</p> <ul style="list-style-type: none"> • Bank account details verification with all suppliers • Police liaison • Consider how supplier data is to be dealt with in new Agresso financial management system <p>Additional actions arising relate to a technical solution in relation to access authentication.</p>	5

WORK IN PROGRESS / FUTURE COMMITMENTS		DAYS
Adult Education Budget	<p>Verification of works undertaken last year to ensure payments can be made following devolution.</p> <p>Provision of ad-hoc advice in relation to the new arrangements.</p> <p>Shadowing arrangements with the Education and Skills Funding Agency.</p>	6
Performance Management	Review of data collection arrangements to ensure the CPCA is reporting on accurate information for its indicators	4
Fraud Risks Assessment	Collation of potential areas of fraud which could impact on the CPCA.	2
Programme Management	<p>All projects are expected to follow the guidelines set out within the Project Management Toolkit. Initial assessment that this document is fit for purpose and then a series of project reviews will follow in relation to Housing and Transport.</p> <p>A similar assessment will cover Growth Fund projects through the Business Board.</p>	5
Budget Management	Plans to look at implementation phase in relation to Agresso	Commence Jan 2020
Follow Up	Confirmation, or otherwise, that previous audit recommendations have been implemented	Commence Feb 2020
Ad Hoc	Miscellaneous activities – audit planning; advice and consultancy; committee report writing and attendance (ongoing)	6

4. **EMERGING ISSUES / FUTURE PLANS**

- 4.1 As part of our ongoing reviews of the audit coverage, research continues to build up detailed knowledge of the CPCA to determine possible themes and areas for audit work. This is undertaken in a variety of means – reviewing committee papers, risk registers, projects etc. and any legislative or devolution changes.
- 4.2 From initial works to date, potential activity can be split into the following categories:

AUDIT ACTIVITY	
AREA	POSSIBLE COVERAGE
Financial Governance	Capital Spend Controls
Information Governance	IT Systems
Corporate Governance	Service Level Agreements Performance Management (Employees) Trading Company (Angle Holdings Ltd and Angle Development (East) Limited) Grant Certification Arrangements
Business Board	Local Growth Fund Projects (Focus on outcomes / spend)
CPCA	Schemes / Projects
Grants	Verification of spend in line with conditions

- 4.3 Over the ensuing months, the audit plan will be developed and submitted to CPCA senior management prior to referral to Audit and Governance Committee at the next meeting (27 March 2020 at Fenland District Council).