

APPENDIX 1



INTERNAL AUDIT PLAN 2019 / 2020 PROGRESS REPORT

ANNUAL REPORT

1. Introduction
2. Summary of Audit Reviews

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.
- 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. **SUMMARY OF AUDIT REVIEWS COMPLETED**

- 2.1 The original Internal Audit Plan for 2019 / 2020 was agreed by this Committee in March 2019 for 150 days coverage across the CPCA and is detailed below.

AUDIT PLAN 2019 / 2020		
FINANCIAL ARRANGEMENTS		
Budget Management	Review of delivery of financial information across the CPCA, including: <ul style="list-style-type: none"> • Cost centre management responsibilities • Monthly returns / forecasting; and • Overheads charges 	25
CORPORATE GOVERNANCE		
Human Resources	As part of the corporate governance review, it was not possible to review the HR service at that time and a no assurance rating recorded. The review will cover the activities of (1) Recruitment and Selection and (2) Staff appraisal and performance management	20
Performance Management	As part of the corporate governance review, it was not that the CPCA had begun quarterly reporting on key performance indicators. The review will verify the accuracy of the data collection and reporting.	10
PROGRAMMES, PROJECTS, AND CONTRACTING		
Housing	Review of a selection of housing scheme projects at all stages, including project initiation, robustness of business cases through to delivery and post implementation review).	25
Transport	Review of a selection of transport scheme projects at all stages including project initiation, robustness of business cases through to delivery and post implementation review).	20
Adult Education Budget	Review of payments / verification processes with education providers following devolution of new arrangements for the provision of adult education	15

GRANT CLAIMS		
Grant Certification	<p>Verification of grants receivable from Department for Transport. This will also include a review of the assurance provided by Cambridgeshire County Council for monies associated with their expenditure. At present this will include, but not restricted to:</p> <ul style="list-style-type: none"> • Integrated Transport Block • Highways Maintenance • Pothole Action Fund • National Productivity Investment Fund • Drought Damage • Recruitment and Selection <p>Separate grant works will also cover the BEIS Growth Hub Funding</p>	15
OTHER ACTIVITIES		
Follow Up Provision	Revisit of 2018 / 2019 to monitor the implementation of recommendations	5
Advice and Consultancy	Provision of risk and control advice to officers, senior management and Members	5
Fraud Assessment	Review of the potential fraud risk across the CPCA and associated mitigating actions	5
Annual Audit Planning / Opinion	<p>Production of risk assessed annual audit plan along with reporting on progress of the plan during the year.</p> <p>Production of report detailing work carried out and Head of Audit Opinion on governance, risk and controls in accordance with Public Sector Internal Audit Standards.</p>	5
TOTAL DAYS ALLOCATED		150

2.2 The Audit Plan is 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. Further commentary will be provided within the December 2019 committee report which will demonstrate the protocols within the audit process. This will include:

- Risk assessing the organisation and the initial build of the audit plan;
- Agreement of the initial plans by management and then Committee;
- Ongoing review of the plan and agreement to change (whether new risk areas are seen as a high priority requiring immediate coverage; deleting or deferring audits from the plan to cover new areas; and resource agreement to cover any extra days); and
- How audit assignments are agreed and delivered.

2.3 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
<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. 5 recommendations have been established and agreed.</p>

AUDIT PLAN PROGRESS (2019 / 2020 COVERAGE)	
AUDITED AREAS COMPLETED	OPINION
<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>
WORK IN PROGRESS	
<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>HUMAN RESOURCES</p> <p>Initial discussions were held earlier this month with the Human Resources section to understand what progress / procedures had been implemented in relation to both the recruitment and selection process as well as the staff performance appraisal framework. From the initial fact finding meeting which included a walk-through of the approaches adopted, it would suggest that there has been significant progress made in putting appropriate processes in place for recruitment and selection. It has been agreed that a detailed compliance assessment can now be undertaken and is scheduled for late October. With regard to staff performance appraisals, a current workstream is developing this around an IT based solution and this is expected to go live in April 2020. A further evaluation will be covered during the scheduled visit above.</p>	

- 2.4 Since the last Audit and Governance Committee in July 2019 we were made aware of issues in relation to the payment process at the CPCA in early September 2019. We have been liaising with the Head of Finance to look to provide advice and to worthwhile improvements prior to the implementation of Agresso. This work is ongoing.