

APPENDIX 1



**ANNUAL INTERNAL AUDIT OPINION
2018 / 2019**

ANNUAL REPORT

1. Introduction
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This report has been prepared for the use of Members and management of the Cambridgeshire and Peterborough Combined Authority (CPCA). 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 on the work undertaken as part of the agreed Internal Audit plan.

1. **INTRODUCTION**

- 1.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. On behalf of the Audit and Governance Committee, Internal Audit acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating the effectiveness in achieving the organisation's objectives. This report is the culmination of the work during the course of the year and seeks to provide an opinion on the adequacy of the control environment and report the incidence of any significant control failings or weaknesses.
- 1.2 Internal Audit services are provided by Peterborough City Council (PCC) to the CPCA via a Service Level Agreement. The UK Public Sector Internal Audit Standards (PSIAS) states that the Chief Audit Executive¹ (CAE) must produce an annual report that can be used to inform the Annual Governance Statement, which forms part of the Council's accounts. It must include an opinion on the overall adequacy of the governance, risk and control framework; a summary of the work from which the opinion is derived and a statement on conformance with the PSIAS. This report, the Annual Audit Opinion, fulfils these requirements.

2. **ARRIVING AT AN OPINION**

2.1 **Background**

- 2.1.1 The opinion is derived from work carried out during the year, as part of the agreed Internal Audit Plan for 2018 / 2019. The Plan was developed primarily to provide management with independent assurance on the adequacy and effectiveness of the system of internal control. We have conducted our work both in accordance with the mandatory standards and good practice within the Code of Practice and additionally from our own internal quality assurance systems. Our opinion is limited to the work carried out by Internal Audit but, where possible, we have considered the work of other assurance providers, such as External Audit; quality accreditation or other pieces of consultancy or third-party works designed to alert the CPCA to areas of improvement.

2.2 **Risk Based Planning**

- 2.2.1 A risk based approach is used to develop the Annual Plan, allowing us to direct resources at areas key to the organisation's success and to provide an opinion on the control environment as a whole. Examples include:
- Governance reviews, including a review of key assurance frameworks and the Annual Governance Statement;
 - Contract, procurement, performance and project and service delivery audits; and
 - Fraud risks

¹ The Chief Audit Executive at Peterborough City Council is the Chief Internal Auditor

2.3 The Audit Review

2.3.1 For each Internal Audit review:

- The control and risk 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 establish an opinion on the adequacy of the control framework in place and any control gaps.
- 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 operate in practice. This element of the review enables Internal Audit to form a view on the extent of compliance with the controls.

2.4 Reporting

2.4.1 Where appropriate, each report we issue during the year is given an overall opinion.

2.4.2 Certain pieces of work do not result in an audit report with an opinion – such as grant reviews. However the certification of grant work should indicate that at the point of approval, information being submitted to external organisations / government bodies meets required criteria. The assessment from each report, along with our consideration of other audit work, is used to formulate the overall Opinion.

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.

2.4.3 Based on the works undertaken, recommendations may be identified to improve the control environment.

Grade	Description
CRITICAL	Fundamental control weakness that jeopardises the complete operation of the service. TO BE IMPLEMENTED IMMEDIATELY.
HIGH	Major control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. To be implemented as a matter of priority.
MEDIUM	Moderate control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. To be implemented at the first opportunity.
LOW	Minor control weakness, which, if corrected, will enhance control procedures that are already relatively robust. To be implemented as soon as reasonably practical.

2.4.4 The Internal Audit team follows a prescribed format which is set out within its adopted Audit Charter which is reviewed annually by PCC's Audit Committee and was last reviewed in March 2019. This can be provided for Member information if required and is available on the Councils website.

3. **OPINION 2018 / 2019**

3.1 In line with PSIAS and prior best practice we are required to provide an opinion on the adequacy and effectiveness of the CPCA's governance, risk management and control processes. In giving our opinion, it should be noted that assurance can never be absolute. The most that Internal Audit can provide is reasonable assurance that there are no major weaknesses in the CPCA's governance, risk management and control processes. We have taken into account:

- Assessed the quantity and coverage of internal audit work against the 2018 / 2019 internal audit plan to allow a reasonable conclusion as to the adequacy and effectiveness of the CPCA's risk management control and governance processes;
- Reviewed the reports from the reviews undertaken during the year by Internal Audit and other assurance providers where appropriate;
- Any follow up action taken in respect of audits from previous periods;
- Considered any significant actions not accepted by management and the consequent risks;
- The extent to which any resource constraints may impinge on the ability to meet the full audit needs of the CPCA;
- Considered the effects of significant changes in the CPCAs objectives or systems and the requirement for Internal Audit involvement;
- Reviewed and considered matters arising from reports to CPCA committees and the Board; and
- Considered whether there were any limitations which may have been placed on the scope of Internal Audit.

3.2 Following consideration of the above I am able to provide the following opinion for 2018 / 2019:

I am satisfied that sufficient quantity and coverage of Internal Audit work and other independent assurance work has been undertaken to allow me to draw a reasonable conclusion on the adequacy and effectiveness of the Authority's risk management, control and governance processes. In my opinion the CPCA has adequate systems of internal control in place to manage the achievement of its objectives. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes.

Notwithstanding my overall opinion, Internal Audit's work identified a number of opportunities for improving control procedures which management has accepted and are documented in each individual audit report.

*Chief Internal Auditor
June 2019*

4. **DELIVERY OF THE ANNUAL PLAN**

4.1 **Scope**

- 4.1.1 The audit work that was completed for the year to 31 March 2019 is detailed below. As part of the audit work there could be areas of scope limitation or impairment.
- 4.1.2 PSIAS states that the CAE should disclose any impairments or restrictions to the scope of Internal Audit work. The Internal Audit Charter sets out our remit and authority to have full, free and unrestricted access to any of the records, assets and people. This includes access to organisations where data is processed as part of a contractual arrangement. It is also demonstrated in the Service Level Agreement with the CPCA.
- 4.1.3 In line with the PSIAS, we have a process for team members to declare any interests that may impact on the impartiality of our work. I can confirm that all declarations have been made as necessary, and no conflicts have occurred during 2018 / 2019 that have impaired the work carried out at CPCA.
- 4.1.4 Where the CAE has roles or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity. The CAE manages the Insurance and Investigations teams at Peterborough and acts as a reserve approver for payments from the CPCA and PCC's bank accounts. The Audit Charter states that, should we carry out an audit of these areas, the work will be quality assured independently from the CAE. The audit of Treasury Management for the CPCA fell into this category. I can confirm that the work was managed and reviewed by the Group Auditor.

4.2 **Service Provision**

- 4.2.1 Internal Audit has to comply with the UK Public Sector Internal Audit Standards and Local Government Application Note. An external assessment of the service was carried out in March 2018 and a final report was received in November 2018 setting out that the service was fully compliant.
- 4.2.2 Resources utilised during the year have included the Chief Internal Auditor, Group Auditors and the use of an agency auditor. The service is currently recruiting to a vacant Senior Auditor post so as to be able to factor in more resilience within the team to cover the plans.

4.3 **Audit Coverage**

- 4.3.1 The original plan approved in March 2018 highlighted coverage based upon 75 days. Following additional requests through Audit and Governance Committee at the meeting on 28 September 2018, this was increased to 105 days as reported on 30 November 2018.

4.3.2 In delivering the plan, the following issues are a breakdown of the works:

- As highlighted above, there was an increase in coverage following changes to the organisation in September 2018. This included the senior officer departures; additional areas in relation to corporate governance activities and a focus on recruitment;
- A series of grant claims have been completed for the CPCA which related to monies payable through to and expended by PCC, Cambridgeshire County Council (CCC) and the Business Board (following the closure of the Local Enterprise Partnership);
- An assessment of the governance arrangements in place for the LEP and its compliance with prescribed best practice;
- Increased devolution saw the CPCA take on the future responsibility for the coordination and payment of Adult Education Budgets and we provided a critical friend to the development of that project;
- A separate report was undertaken regarding the delivery of Treasury Management; and
- Follow up of previously agreed actions to establish compliance / non-compliance with timescales.

4.4 Corporate Governance

4.4.1 Governance is the combination of processes and structures implemented by the Board in order to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives. Since its creation in 2017, the CPCA has developed and changed as new areas have been devolved or amalgamated within its remit. This has resulted in changes being introduced such as the Business Board (picking up on the activities previously within the LEP) and the introduction of a new committee structure to pick up on the various portfolio business areas.

4.4.2 Furthermore, the previous audit review in 2017 identified a number of areas which were in the process of being developed and requiring embedding and these were to be followed up. However, in light of the new activities and the creation of a series of committees, it was considered appropriate to have a full audit review of the governance activities to ensure that the new arrangements are fit for purpose. As a separate exercise, following discussion and debate at Audit and Governance Committee the audit also was to review the Human Resources processes adopted by the CPCA in relation to recruitment and selection.

4.4.3 The review in 2017 / 2018 identified 16 agreed actions for implementation. Analysis highlighted that the CPCA had developed an Action Tracker to oversee the monitoring of progress throughout the year. Verification of this during the review identified no material weaknesses. Additional areas were reviewed as part of the audit to provide further scrutiny of the governance dynamics. Analysis highlighted:

Activity Area	Assurance	Critical	High	Medium	Low	Total
Budget Setting	Reasonable	-	-	-	1	1
Budget Management	Reasonable	-	-	4	2	6
Financial Resilience	Reasonable	-	-	5	3	8

Governance	Reasonable	-	-	1	-	1
Roles and Responsibilities	Reasonable	-	-	-	1	1
Code of Conduct	Substantial	-	-	-	-	0
Complaints	Substantial	-	-	-	-	0
Risk Management	Reasonable	-	-	1	1	2
Performance Management Framework	Reasonable	-	-	1	-	1
Project Management	Reasonable	-	-	-	1	1
Declarations of Interest	Reasonable	-	-	-	1	1
Gifts and Hospitality	Reasonable	-	-	-	1	1
Freedom of Information	Reasonable	-	-	1	-	1
Local Code of Governance	Reasonable	-	-	-	1	1
Human Resources: Recruitment and Selection	No	1	1	-	-	2

- 4.4.4 Following extending the review to other areas of governance the part of the business requiring most attention is that of Human Resources. While the audit focus was primarily to look at the recruitment process – which we were unable to place any reliance on – the audit also touched upon the performance management framework and similarly there was nothing in place in relation to employees. A detailed action plan has been put in place to take this forward and this was tabled at the Audit and Governance Committee meeting in May 2019. Work is scheduled for 2019 / 2020 to follow up this in detail.
- 4.4.5 A separate review was undertaken by the Interim Chief Executives in relation to the staffing structure and this has been reported on separately through Employment Committee, Overview and Scrutiny Committee and Audit and Governance Committee.
- 4.5 **Financial Governance**
- 4.5.1 As part of the audit plan we undertook a review of Treasury Management and the results are identified under Financial Resilience in the above table.
- 4.5.2 In addition, CPCA commissioned an independent assurance review relating to the production of their 2019 / 2020 budget which was provided by CIPFA. The review was presented to the Audit and Governance Committee at the March 2019 meeting and the conclusions were recorded in the minutes below:

Extract from Audit and Governance Committee Minutes

It was explained that the reporting process for the budget showed marked improvements between the draft and the final. Having reviewed the relevant documents and discussions with key officers, it was confirmed that CIPFA were satisfied that:

- The Authority had prepared and was in the process of signing off its 2019/20 Budget and Medium-Term Financial Plan (MTFP) in accordance with the policies and procedures outlined in the Constitution
- That the 2019/20 Budget's content including assumption and revenue/capital split were clear and appropriate
- That the Authority has in place robust and comprehensive budget monitoring and reporting process and procedures that will now include regular reporting to the Combined Authority Board

4.5.3 While we have not reviewed the works of the external review we have taken assurance from the independent assessment and subsequent challenge by officers and Members.

4.6 Local Enterprise Partnership Governance

4.6.1 The Local Enterprise Partnership (LEP) is a partnership between business and the public sector, predominantly in the Cambridgeshire and Peterborough area, but also covers a number of adjoining authorities and has been created to oversee expenditure on infrastructure and associated investments to deliver growth. The LEP was incorporated into the CPCA in April 2018. A separate Business Board has been created to fulfil this function and a shadow Board was in operation until September 2018 to allow for recruitment.

4.6.2 The CPCA is the Accountable Body for the Business Board (for both the financial arrangements and governance matters). As the LEP is a recipient of public funds – primarily the Local Growth Fund – the Government requires the LEP to fulfil various governance requirements. Following a national review of LEPs, Central Government has produced a paper which sets out requirements on governance and performance monitoring together with details of a revised National Local Growth Assurance Framework. This replaces the previous LEP National Assurance Framework; the Single Pot Assurance Framework under the Cambridgeshire and Peterborough Devolution Deal and funds added to the Single Pot since then, for example, Adult Education Budgets. The overarching document seeks to provide a common framework of understanding of the assurance required for local growth funding.

4.6.3 The framework should be completed by CPCA and submitted to MHCLG annually. There is a dedicated compliance team in the CLGU who undertake a series of in-depth checks to ensure that the frameworks meets requirements.

4.6.4 With the amalgamation of the LEP into the CPCA, we sought to review the LEPs compliance, or otherwise, with the requirements set out in the National Assurance Framework. This included that the LEP has a local assurance framework in place, as required by the Government's National Assurance Framework and that it was operating under a clear governance framework

4.6.5 Analysis highlighted:

Activity Area	Assurance	Critical	High	Medium	Low	Total
LEP Governance	Reasonable	-	1	7	-	8

4.6.6 There has been good progress in establishing a clear framework which brings together the previous arrangements. A number of areas have been identified which need to be addressed to ensure governance as effective. Those identified as requiring attention include:

- Increased transparency in relation to data available and how value for money is achieved;
- Development of a consistent brand identity; and
- Processes in place for the recovery of funds should any project be deemed to have misused public monies etc.

4.7 **Adult Education Budget**

4.7.1 Due to the further devolution of central government services to combined authorities, the responsibility for the Adult Education Funding Budget (AEB) is due to devolved to the CPCA from the Education and Skills Funding Agency (ESFA) in August 2019 in readiness for the new academic year. Audit activities undertaken have included the review of the project to:

- Undertake consultancy work - acting as a critical friend with regards to audit and assurance arrangements with the ESFA post Adult Education Budget devolution on proposed joint working processes;
- A review of the AEB Project 'pre devolution' to evaluate and test the self-assessment criteria detailed within the 'Readiness Agreement' framework is fit for purpose, deliverable and monitored to identify and mitigate risks.

4.7.2 Analysis highlighted:

Activity Area	Assurance	Critical	High	Medium	Low	Total
Adult Education: Devolution Programme	Substantial	-	-	-	3	3

4.7.3 Detailed quality monitoring information was found to provide transparency and clear indications of the risks exposed to the organisation and required mitigating actions. At the time of the audit review aspects of the programme were still to be concluded (e.g. finalisation of service provider contracts and Agresso go live) in line with the programme plan. Audit activities have been undertaken during the course of the year both in terms of consultancy, collaboration and programme compliance monitoring. Time has been allocated for Internal Audit to undertake

shadowing arrangements with the ESFA as appropriate and further activities are included in the first year of operation around service provider processes and payments.

4.8 **Projects – ECDC Trading Company Loan**

4.8.1 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:

- 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
- the project is monitored effectively throughout delivery

4.8.2 At this point in time, no drawdowns have occurred and the audit has focussed on the appraisals and due diligence carried out. This work has taken place over an extended period of time and is still underway for the MOD project. Once all documentation has been received, this review will be concluded.

4.9 **Grant Claims**

4.9.1 During the year, Internal Audit review and certify a number of grants for the CPCA. These have been in relation to monies payable through to the (former) LEP or CPCA in relation to highways activities coordinated by PCC or CCC.

Grant	Assurance Level
BEIS LEP Project Grants	Certified
Local Transport Capital Funding 2017 / 2018: <ul style="list-style-type: none"> • Capital Block Funding • Pothole Action Fund 	Certified

<ul style="list-style-type: none"> • National Productivity Investment Fund • Flood Resilience Fund • Challenge Fund 	
Local Transport Capital (Flood Resilience Fund)	Not certified

- 4.9.2 The Greater Cambridge and Greater Peterborough Local Enterprise Partnership (GCGP LEP) was a recipient of a grant from the Department for Business, Energy and Industry Strategy in relation to Growth Hub funding. When it ceased to operate as of 1 April 2018, its functions were transferred to the CPCA and was replaced by the Business Board. Internal Audit were commissioned to review the adequacy, or otherwise, of the financial records maintained and ensure that the grant sums claimed were in line with its conditions – this was an additional unplanned request from the original Audit Plan. The deadline for approval and return to BEIS was 25 June 2018. 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, and issued an Independent Accountant's Report in line with the timetable:

Growth Hub Funding to LEP in 2017 / 2018: GCGP LEP

We have examined the claim submitted by Cambridgeshire County Council (the Accountable Body) on behalf of the GCGP LEP. We have examined the records of the Accountable Body as necessary and obtained such explanations and carried out such tests as we consider necessary.

We note the following reservations which we draw attention to:

- The Accountable Body has transferred grant monies to the LEP in order for it to perform activities necessary to manage the Regional Growth Hub. As such, it is the LEP that has expended monies to cover eligible costs, and the LEP that has been subject to our independent examination.
- The LEP has stated that the European Regional Development Fund scheme referred to frequently in supporting documentation provided by the LEP relates to a separate scheme and no ERDF funding was directly received in the period April 2017 to March 2018 in respect of this claim.
- Maternity pay costs and credits have been included within the "Other Labour" figure. The LEP understands that maternity costs paid by the LEP was fully claimed against Statutory Maternity Pay making the net payment to the scheme zero.

We report that in our opinion, subject to any reservations set out in the preceding paragraph:

- The claim and previously submitted claims for payment are in accordance with the BEIS offer letter dated 13 March 2017 including the schedules thereto;
- The LEP has expended (as defined in Schedule 1 and claim form to the Grant Offer Letter) monies to cover those eligible costs incurred and defrayed during the period from 1 April 2017 and 31 March 2018 related to the project described in the offer letter amounting to £246,000;
- None of the costs were incurred before 1 April 2017;
- Overheads included in the expenditure are in respect of the LEP's own labour, not calculated to include any profit, appropriate to the project and not in excess of overhead rate applicable to similar work carried out by the LEP;
- The totals exclude Output Value Added Tax and interest and service charges arising from hire purchase, leasing and credit arrangements;

- The totals exclude any addition for profit by the LEP and profit earned by any company in the LEP group as a result of work relevant to the project undertaken by the Accountable Body or sub-contracted to such company by the LEP

- 4.9.3 Transport grants coordinated through the CPCA require a declaration to be sent to the Department for Transport. 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 and we were able to take assurance from their works. Similar arrangements were undertaken by PCC. Following review of claims and completed statements we confirmed to DfT that monies had been spent in line with the determination letters.
- 4.9.4 In relation to the Flood Resilience Fund grant, monies were not received until late in the financial year which prevented the Council the ability to spend the monies in that year. The grant was not certified and the Department of Transport informed that the monies had not been spent.
- 4.10 **Allegations of Fraud / Irregularity and Breaches of Code of Conduct**
- 4.10.1 Internal Audit is a key contact point for any issues of fraud and irregularity across the CPCA. No matters were brought to Internal Audit attention during the year.
- 4.11 **Significant Issues**
- 4.11.1 The PSIAS state that the Chief Audit Executive should report any issues considered particularly relevant to the preparation of the Annual Governance Statement which include consideration of any significant risk or governance issues and control failures which arise. While it is noted that agreed audit actions are included in the Annual Governance Statement, the following areas are noteworthy.
- **Human Resources** (Recruitment and Selection). As part of the governance review we were unable to provide any assurance on this activity. This has been included as part of this year's Audit Plan as a key area to follow up.