INTERNAL AUDIT & RISK MANAGEMENT

ANNUAL REPORT

2022/23

HEAD OF INTERNAL AUDIT & RISK MANAGEMENT   May 2023

Internal Audit & Risk Management
Annual Report 2022/23

Contents:

1. INTRODUCTION

1.1 The Annual Reporting Process

1.1.1 The Public Sector Internal Audit Standards (PSIAS) (Performance Standard 2450) state that the Chief Audit Executive (CAE) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its annual governance statement (AGS) that forms part of the Council's official accounts. Cambridgeshire County Council's Chief Audit Executive is the Head of Internal Audit & Risk Management.

1.1.2 The annual report is required to incorporate: the opinion; a summary of the work that supports the opinion; and a statement on conformance with the Public Sector Internal Audit Standards.

2.   *CHIEF AUDIT EXECUTIVE OPINION 2022/23*

2.1   *Chief Audit Executive Opinion*

2.1.1   The annual opinion of the Chief Audit Executive (CAE) must be based on an objective assessment of the framework of governance, risk management and control and include an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.

2.1.2   This opinion is derived from an assessment of the range of individual opinions arising from assignments contained within the risk-based Internal Audit Plan. This assessment has taken account of the relative materiality of these areas, and management's progress in addressing control weaknesses.

2.1.3   Internal Audit operates independent of the organisation, as per the Internal Audit Charter, and there have been no compromises of Internal Audit's independence in its operation this year. The service was compliant with Public Sector Internal Audit Standards (PSIAS) requirements and undertook an external assessment against PSIAS during the course of the year (see Section 7.2, below, for more detail).

On the basis of the audit work undertaken by Cambridgeshire's Internal Audit team during the 2022/23 financial year, it is the Head of Internal Audit's opinion that overall Internal Audit can provide moderate assurance over the system of internal control in place at Cambridgeshire County Council for the financial year ended 31st March 2023.[1]

This opinion is derived from an assessment of the range of individual opinions arising from work completed in 2022/23 by the Cambridgeshire Internal Audit team, taking account of the relative materiality of each area under review, and considering management's progress in addressing control weaknesses. Full details of the work completed by Internal Audit in-year are set out in the remainder of this report and at Annex A.

I would particularly highlight the following key pieces of evidence on which my opinion is based:

- *Assurance opinions from Internal Audit reviews in 2022/23 showing a predominance of 'moderate' audit opinions. No instances were*

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[1] The opinion of 'moderate' assurance reflects the service's standard definitions for assurance opinions, indicating that audit work has identified that there are control weaknesses that present a medium risk to the control environment; and that the control environment has mainly operated as intended, although errors have been detected. For more detail please see Section 3.2.4, below.

identified in-year where audit findings were deemed to have a 'major' organisational impact, and one action was recommended which was risk assessed as being 'essential' to avoid exposure to a significant organisational risk. See Section 4.1 for more details.

- *Reviews of Key Financial Systems for which Cambridgeshire County Council is the Lead Authority consistently demonstrating a good or moderate assurance across all systems. A prior-year issue around payroll control accounts is being addressed and will be reviewed in detail in a future audit undertaken by West Northamptonshire colleagues. See Section 4.2 for more details.*

- *Procurement and contract management remains a key area of risk and focus for Cambridgeshire County Council, and this has been reflected in the Internal Audit plan and work completed throughout the year. See Section 4.5 for details.*

- *Review of the organisation's Code of Corporate Governance and the evidence supporting the Council's Annual Governance Statement, including Director's Assurance Statements. These documents demonstrate a sound core of organisational governance. There are some areas within the corporate policy framework which require further development, particularly with regards to project management and partnerships governance. There have been significant planned and actual changes in organisational structure at the Council in 2022/23 coupled with changes in senior management, and work to manage and embed these changes will continue into the new financial year. Organisational change of this nature may increase governance risk in the short term.*

- *62% of agreed audit actions due for implementation in 2022/23 have been completed by the organisation. This is broadly similar to the implementation rate of 64% for 2021/22. See Section 4.1.6 for more details.*

During 2022/23, the Council's Internal Audit service:

- *Had unrestricted access to all areas and systems in the authority.*
- *Received appropriate co-operation from officers and Members.*
- *Had only just sufficient resources to enable it to provide adequate coverage of the authority's control environment. See Section 7.3.3 for more details.*

As a result, there are no qualifications to the 2022/23 Head of Internal Audit position statement. It should be noted that no systems of control can

provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

  - *Mairead Claydon, Head of Internal Audit & Risk Management*

3. REVIEW OF INTERNAL CONTROL

3.1 The Basis of Assurance

3.1.1 In order to support the annual Internal Audit opinion on the internal control environment, Internal Audit continually updates a risk-based Audit Plan. This Plan includes a comprehensive range of work that is prioritised and completed to confirm that all assurances provided as part of the system of internal audit can be relied upon by stakeholders.

3.1.2 The findings and assurance levels provided by the reviews undertaken throughout 2022/23 by Internal Audit form the basis of the annual opinion on the adequacy and effectiveness of the control environment.

3.1.3 At Cambridgeshire County Council, it is recognised that the Annual Internal Audit Plan essentially comprises two key elements:

> *The "Core" Audits:* This is the part of the Plan which remains largely unchanged from year-to-year. It comprises key areas of assurance which are reviewed every year, such as Key Financial Systems, grant compliance audits, strategic risk management, and core governance reviews, as well as allowances of time for ongoing areas of work including reporting to the Audit Committee and senior management, and following-up on the implementation of agreed actions from previous audit reviews. However, it must be recognised that completion of these core audits alone would not give sufficient assurance to fully inform the Chief Audit Executive's annual opinion.

> *The "Flexible" Audits*: This is the part of the Plan which varies significantly from one year to the next, comprising audits of areas which are identified as being high-risk through the Internal Audit risk assessment process. Equally, the broader themes within the flexible audits remain largely consistent; for example, each year it is expected that a significant resource would be directed towards audits to provide assurance over financial governance arrangements, although the specific areas under review varies according to the risk assessment.

3.1.4 In practice, this means that the 'core' element of the Plan is set annually, while the 'flexible' element of the Plan is presented as a series of rolling quarterly Audit Plans, based on current risk assessments.

3.1.5 Quarterly risk assessments ensure that the timing of planned audits is always actively informed by an up-to-date assessment of the areas of highest risk, and that the flexible plan is subject to regular challenge and comment by both CLT and the Audit and Accounts Committee. This ensures the Audit Plan consistently reflects the changing public sector environment and emergence of new risks throughout the year, and that the work completed by Internal Audit is sufficient to give an evidence-based opinion over the control environment for the year.

3.2   How Internal Control is Reviewed

3.2.1 Every Internal Audit review has three key elements. 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.

3.2.2 However, controls are not always complied with, which will in itself 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 enables Internal Audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.

3.2.3 Finally, where there are significant control environment weaknesses or where key controls are not being complied with, further substantive testing is undertaken to ascertain the impact these control weaknesses are likely to have on the organisation's control environment as a whole.

3.2.4 Three assurance opinions are therefore given at the conclusion of each audit: control environment assurance, compliance assurance, and organisational impact. To ensure consistency in reporting, the following definitions of audit assurance are used:

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 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.

3.2.5 Organisational impact is reported as major, moderate or minor (as defined below). Any reports with major organisational impact are reported to CLT, along with the 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.

3.3 Internal Audit Coverage in 2022 - 23

3.3.1 The Council's Internal Audit Plan 2022/23 sought to provide assurance across the Council's control environment, with reviews targeted towards key areas of high risk, as identified through consultation with senior management, review of risk registers, and the Internal Audit risk assessment of the organisation. 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, contract management, safeguarding and achieving value for money.

3.3.2 In order to give a sense of the breadth of coverage provided by Internal Audit reviews this year, Section 4 of this report provides more detailed information on the audit reviews carried out in 2022-23, by 'assurance block'. These

assurance blocks are aligned to key risk areas for the Council, such as financial governance, procurement, or ICT and information governance risk.

3.3.3   The chart below seeks to demonstrate how Internal Audit time has been split across these different areas of assurance in practice during 2022/23:

Chart 1: Internal Audit Coverage in 2022/23, by Assurance Block:

INTERNAL AUDIT COVERAGE 2022/23

Value for Money & Financial Governance 28%

Advice & Guidance 6%

Fraud & Corruption 11%

Governance 2%

Grants 9%

ICT and Information Governance 7%

Key Financial Systems 7%

Schools 9%

Safeguarding & Health and Safety 2%

Risk Management 2%

Reporting 3%

Procurement & Commissioning 14%
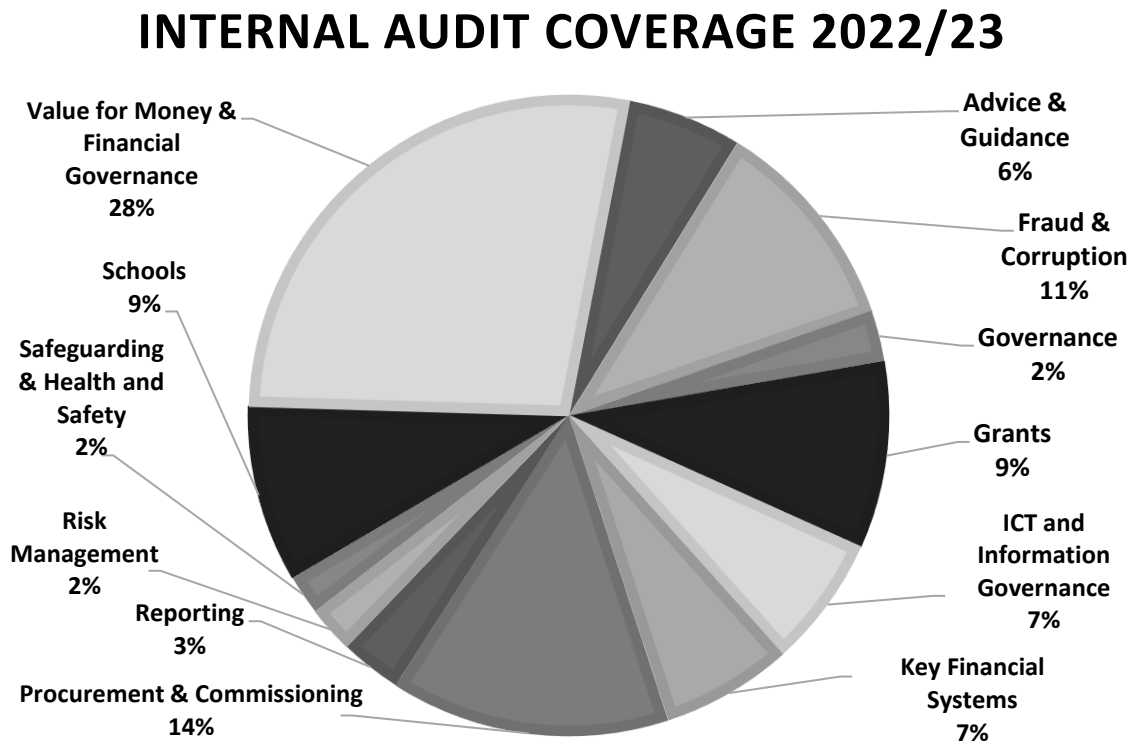
3.3.4   It should be noted however that only the primary risk assurance area for the audit has been used to calculate this chart. Some audits will provide coverage of multiple risk areas; for example, the reviews of fostering payments was primarily focused on the financial governance of the fostering service but also considered an element of how the Council's contracts seek to manage safeguarding risk. The true risk coverage of the audits delivered in 2022/23 will therefore be broader than that shown in the chart above.

4.   INTERNAL AUDIT IN 2022/23

4.1   Overview and Key Findings

4.1.1   The charts below summarise the range of audit assurance opinions from internal audit reviews delivered in 2022/23, compared to the opinions issued in the previous financial year.[2] This demonstrates the predominance of 'moderate' assurance opinions in 2022/23, indicating that audit reviews have identified areas of medium risk to the control environment, and/or errors and non-compliance with controls. This underpins the overall 'moderate' assurance on the control environment.

Chart 2: Internal Audit Assurance Opinions 2022/23 vs. 2021/22:

System of Control Assurance Opinions

Compliance Assurance Opinions
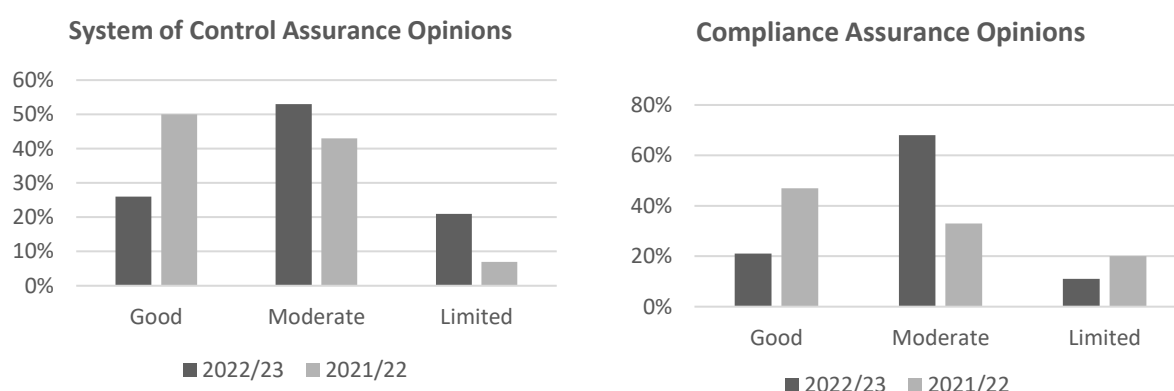
4.1.2   As the charts indicate, overall levels of assurance from reviews conducted in 2022/23 have reduced to some extent when compared to the assurance opinions in 2021/22. However, in both financial years only a single audit report with a 'moderate' organisational impact was issued, and no areas were identified where it was considered that, if the risks highlighted materialised, it would have a major impact on the organisation as a whole. This is an important indicator from the internal audit work, and again underpins the overall moderate assurance on the control environment.

4.1.3   In each instance where it has been identified that the control environment was not strong enough, or was not complied with sufficiently to prevent risks to the organisation, Internal Audit has issued recommended actions to further improve the system of control and compliance. All agreed actions from Internal Audit reviews are assigned a risk rating as follows:

- **Essential** - Action is imperative to avoid exposure to a significant organisational risk.

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[2] Excluding individual schools audits.

- **High** - Action is imperative to avoid exposure to a significant risk to the service area.
- **Medium** - Action is required to avoid exposure to a risk to the service area.
- **Advisory** - Consultancy recommendations which are intended to improve operational efficiency or enhance value.

4.1.4 In 2022/23, one recommended action has been issued that was rated 'essential'. This action is owned by the Head of IT Operations and is not yet due for implementation, with a target date of 30th June 2023.

4.1.5 It is recognised that management has the responsibility to manage risk and that recommendations may or not be accepted, or an alternative control may be agreed that achieves the same improved governance. Where the agreed actions arising from recommendations are considered to have a significant impact on the system of internal control, the implementation of those actions is followed-up by Internal Audit and is reported to Audit and Accounts Committee on a quarterly basis.

4.1.6 An overview of the implementation of actions as at 31st March 2023 is summarised in Table 1, below[3]:

Table 1: Implementation of Audit Actions 2022-23

Recommendation Category	Essential	High	Medium	Total
Agreed and implemented.	0 0%	18 12.24%	74 50.34%	92 62.59%
Agreed and due within the last 3 months, but not yet implemented.	0 0%	8 5.44%	9 6.12%	17 11.56%
Agreed and due over 3 months ago, but not yet implemented.	1 0.68%	4 2.72%	33 22.44%	38 25.85%
TOTAL	1	29	115	147

Table 1a: Audit Actions Agreed but not due by 31/03/2023

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[3] Please note that the total reflects the number of recommendations required to be implemented within 2022-23, and therefore includes recommendations made in 2021-22.

Recommendation Category	Essential	High	Medium
Agreed but not due until after 31 March 2023.	1	12	56

4.1.7 Details of all actions which are overdue for implementation are provided at Annex B to this report.

4.1.8 There is one outstanding 'essential' recommendation. This relates to the Light Touch ICT Security Healthcheck review issued in May 2021, which identified that the Council's Public Sector Network (PSN) Certification had lapsed. The Council's ICT Service has been preparing to apply for re-certification throughout 2022/23, with regular updates provided to the Audit & Accounts Committee. The service are planning to undertake an external IT Health Check (required for certification) in May 2023, with the application for PSN following shortly afterwards.

4.1.9 Of the outstanding actions, 23 relate to a single audit review of capital project management within Place & Sustainability. Internal Audit is currently conducting a full follow-up audit to assess the implementation of the 26 recommendations agreed as an outcome of the original audit work completed in 2020/21. Audit fieldwork completed to date has led to the closure of 3 actions, primarily due to the updates made to the project gateway framework process and its supporting policies and guidance.

4.1.10 Details of outstanding recommendations, with explanations and updates, are regularly reported to the Audit & Accounts Committee as part of the Internal Audit Progress Reports.

4.2 Financial and Other Key Systems

4.2.1 This is the 2022/23 suite of annual core systems reviews, undertaken to provide assurance to management and other stakeholders, including external audit, that expected controls are in place for key financial systems and that these controls are adequately designed and are routinely complied with in practice. The work is focused on the systems that have the highest financial risk. These reviews also give an opinion as to the effectiveness of financial management procedures and the arrangements to ensure the integrity of accounts.

4.2.2 With the agreement of the Chief Finance Officer, during 2022/23 the audits were again undertaken as joint reviews of Cambridgeshire County Council, Milton Keynes, North Northamptonshire Council and West Northamptonshire Council financial systems. The Cambridgeshire Internal Audit team deliver audits of the Accounts Payable, Income Processing, and Debt Recovery systems to the other partners, and receive reports on the Payroll and Pensions systems as well as ERP IT controls.

4.2.3 Table 2 below details the assurance levels of all key systems audits undertaken in 2022/23, compared to the assurance levels in 2021/22.

Table 2: Key Financial Systems Audits 2022/23

Key Financial Systems:	Audit Opinion 2022-2023		Audit Opinion 2021-2022	
	Environment	Compliance	Environment	Compliance
Accounts Payable	Good	Good	Good	Good
Income Processing	Good	Moderate	Good	Good
Debt Recovery	Moderate	Good	Moderate	Good
Bank Reconciliation	Good	Good	N/A	N/A
ERP IT General Controls	(TBC)	(TBC)	N/A	N/A
Payroll Transactions	(TBC)	(TBC)	Good	Good
Pensions	(TBC)	(TBC)	Substantial	Good

4.2.4 In 2021/22, Internal Audit became aware of an issue with payroll control accounts, where there was a high number and value of unreconciled items in CCC's payroll control accounts. High balances of unreconciled items pose a risk that debtors and creditors balances may be overstated, debts may be missed and payroll fraud may go undetected.

4.2.5 Payroll audits are conducted by West Northamptonshire as the Lead Authority for this system, and a Payroll Transactions audit report for the financial year 2021/22 was supplied to Cambridgeshire in October 2022; this did not provide coverage of payroll control accounts. Coverage will be provided by the 2022/23 Payroll audit by West Northamptonshire, however this report has not yet been received.

4.2.6 In the absence of a direct assurance provided by the Lead Authority over the full payroll system including payroll control accounts, the Cambridgeshire Internal Audit team has undertaken a light touch review of progress with resolving the high balances in payroll control accounts.

4.2.7 An action plan setting out how CCC payroll control accounts is in place, which includes specific issues that need to be addressed and a number of actions have been completed. Corporate Finance colleagues have confirmed that some process issues have been resolved, meaning that while backlogs still need to be cleared the situation is stabilised. Finance are meeting with Payroll officers on

a monthly basis and are provided with Payroll's monthly reconciliations of each control account.

4.2.7 Progress to clear items relating to prior financial years is being made. Corporate Finance analysis shows that items older than March 2022 (historic items) across all payroll control accounts have reduced by 1,324 from March 2022 to February 2023 from 7,385 to 6,061. Seven of the ten payroll control accounts have less than 50 historic items and only four have historic balances in excess of £15k. There are still substantial aged items and balances in relation to the teachers pensions control account, but again there is evidence that this has significantly reduced over the course of the past year.

4.2.8 Finance colleagues have confirmed that the backlogs will take significant amounts of time to clear; this is partly because the strategy Payroll are taking is to prioritise reconciliation of in-year items on an ongoing basis to ensure that backlogs do not increase. They are then addressing the historical items.

4.2.9 Finance colleagues confirmed in May 2022 that this issue had been considered by External Audit, and they were content that the unreconciled items did not represent a risk of material misstatement of the Council's accounts. Analysis undertaken by Corporate Finance shows (as noted above) that the value and volume of historic items is now significantly less and therefore there is little risk that current balances will adversely affect External Audit's opinion on the 22/23 accounts.

4.3   Value for Money & Financial Governance

4.3.1 This assurance block provides assurance over the control systems in place to ensure robust financial governance at Cambridgeshire County Council, as well as ensuring that value for money. Each audit we undertake includes consideration of value for money at its core. As well as a range of contract reviews, discussed below at 4.5, Internal Audit conducted work in the following areas to provide assurance over value for money and financial governance:

- Budgetary Control
- Aged Debt & Income Raising
- VAT
- Purchase Cards
- In-house and External Fostering Payments (draft)
- Accuracy of Coding on the General Ledger (draft)

4.4   Safeguarding and Health & Safety

4.4.1 Some of Cambridgeshire's key organisational risks relate to the need to safeguard our local citizens, service users, tenants, officers and Members. The Internal Audit team therefore consider safeguarding and health and safety risks

as part of our rolling risk-based Audit Plan, both as stand-alone audit reviews with a focus on these risks, and as an element of reviews which cover a range of different risk types.

4.4.2 Risk-based reviews completed in 2022/23 which either focused on safeguarding/health and safety risk, or provided some assurance over these risks as part of a wider review, were as follows:

- Fire Safety Checks
- In-house Fostering Payments (draft)
- External Fostering Payments (draft)

4.5   Procurement, Contracts and Commissioning

4.5.1 For the Council to achieve value for money from its contracts and commissioning, it is important that officers comply with legislation, policy and best practice when procuring and managing contracts. The Internal Audit team therefore conduct an annual review of Procurement Compliance, with the report in April 2022 giving an audit opinion of moderate compliance with the key procurement controls in the Council's Contract Procedure Rules.

4.5.2 Additionally, in 2022/23, Internal Audit has conducted reviews of the following major Council contracts and contract frameworks, with a total annual value of £35.1m, to provide assurance over this key risk area:

- Integrated Drug and Alcohol Treatment Contract (annual value £5.48m)
- Healthy Child Programme Section 75 Agreement (annual value £8.98m)
- External Fostering Payments (annual commitment across external fostering placements was £20.65m in 2021/22) (draft)

4.5.3 As part of the team's new process to provide assurance over the Council's Corporate Risk Register, Internal Audit also conducted a Risk Assurance Review of Risk 8 "Failure of key partnerships or contracts".

4.5.4 During the course of 2022/23, a wide range of audit actions have been implemented across the Council to strengthen controls around procurement, contracting and commissioning. This has included:

- Implementation of a new process for approval of consultancy procurement and associated internal communications campaign.
- Corporate reporting on procurement waivers and direct awards.
- Various updates to procurement guidance documents and the Terms of Reference of the Council's Procurement Governance Board.

- Amendment to the Council's Business Continuity Planning template, to prompt services to consider the risk of provider/contract failure as part of their business continuity plans.

4.6 ICT and Information Governance

4.6.1 Increasingly, the Council's operations are run through digital platforms which store and process large quantities of confidential data. As the Council is also subject to extensive legislation regarding its responsibilities in handling, storing and sharing data, this is a key risk area for the organisation. In 2022/23, Internal Audit has provided reviews of the following areas across ICT and Information Governance:

- Transparency Code Policy & Compliance
- ICT Change Management

4.6.2 Additionally, as part of the team's new process to provide assurance over the Council's Corporate Risk Register, Internal Audit conducted a Risk Assurance Review of Risk 9 "The Council is a victim of Cyber Crime". Representatives from Internal Audit also attend regular meetings of the Council's Information Management Board.

4.6.3 As outlined above at Section 4.1.6, a key outstanding action for the Council is re-obtaining its Public Services Network (PSN) certification.

4.7 Grants and Other Head of Audit Assurances

4.7.1 In 2022/23, there has been an increase in the number of grants issued by central government requiring sign-off by the Chief Internal Auditor to verify that funds have been spent in line with grant conditions. Internal Audit testing confirmed that the following grants received by Cambridgeshire County Council requiring review and certification by Internal Audit have been spent in accordance with grant conditions:

- Supporting Families
- Disabled Facilities Grant
- Adult Weight Management Grant
- Universal Drug Treatment Grant
- Biodiversity Net Gain Grant

4.7.2 Internal Audit also provides assurance over expenditure made by Cambridgeshire County Council on behalf of the Cambridgeshire and Peterborough Combined Authority (CPCA). These reviews provide assurance to the CPCA that central government grants passed to the Council from the CPCA have been spent in accordance with the relevant terms and conditions. The CPCA can then place reliance on Internal Audit's work to support their returns

to central government. In 2022/23, Internal Audit completed two grant reviews for the CPCA:

- Local Transport Capital Block Funding (Highways Maintenance);
- Pothole & Challenge Fund.

4.7.3   Internal Audit has continued to support review of grants distributed to support the local response to Covid in 2022/23. The team completed audit testing and certification for the following grants:

- Test Track & Trace Grant
- Contain Outbreak Management Fund

4.8   Schools Audits

4.8.1   Internal Audit undertake an annual programme of Schools Financial Governance reviews of individual schools. These reviews focus on purchasing and payroll controls, and are targeted towards schools which had been identified as higher-risk via the Schools Finance team or Schools Improvement Service processes, or where there had been recent changes of leadership at the school.
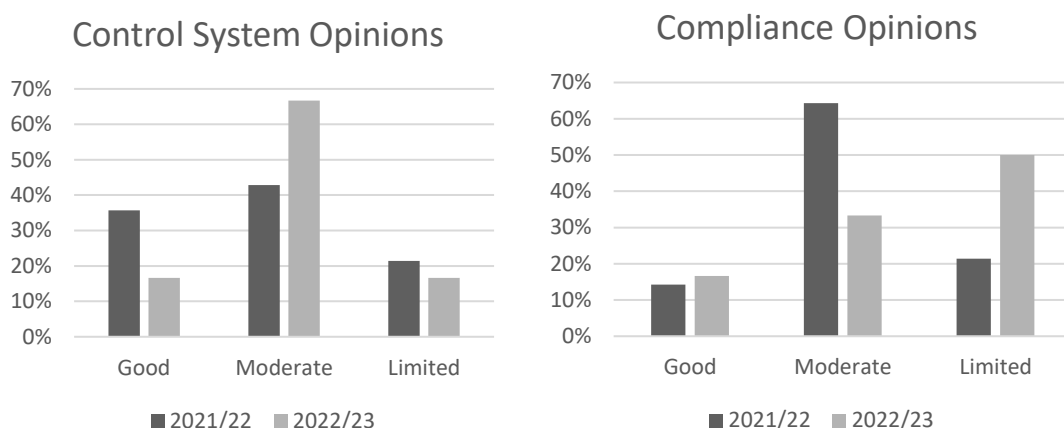
4.8.2   Internal Audit undertook 12 schools visits between September 2022 and December 2022 and issued reports to the schools. Headteachers were required to provide management responses and agree recommended actions, and return the report to Internal Audit. A final copy was then issued to the Headteacher and Chair of Governors.

4.8.3   A consolidated schools report has also been produced by Internal Audit, bringing together the findings across the various school visits. This includes identifying good practice as well as more common areas of weakness to be shared with schools, and some recommendations to improve financial policies and governance.

4.8.4   The consolidated report gave a 'moderate' level of assurance over schools' financial governance, equivalent to the audit opinion provided in 2021/22. Several actions from the 2021/22 audit remain outstanding (see Annex B for details), largely in relation to the need to make updates to Schools Financial Regulations.

4.8.5   The individual assurance opinions from each of these reviews are detailed in Annex A to this report. A comparison of the assurance opinions awarded in 2022/23 with those given in 2021/22 is provided below for reference. This shows a slight reduction in the level of assurance provided for schools financial governance in 2022/23, particularly in respect of compliance with key controls:

Chart 3: Outcomes of Schools Finance Governance Audits:

Control System Opinions

A bar chart titled "Control System Opinions" showing percentages for Good, Moderate, and Limited categories comparing 2021/22 and 2022/23:
- Good: 2021/22 ≈ 36%, 2022/23 ≈ 17%
- Moderate: 2021/22 ≈ 42%, 2022/23 ≈ 67%
- Limited: 2021/22 ≈ 21%, 2022/23 ≈ 17%

Compliance Opinions

A bar chart titled "Compliance Opinions" showing percentages for Good, Moderate, and Limited categories comparing 2021/22 and 2022/23:
- Good: 2021/22 ≈ 14%, 2022/23 ≈ 17%
- Moderate: 2021/22 ≈ 64%, 2022/23 ≈ 33%
- Limited: 2021/22 ≈ 21%, 2022/23 ≈ 50%

Legend: ■ 2021/22 ■ 2022/23

4.8.6   The implementation of actions to update Schools Financial Regulations should help address outstanding risks in this area.   The report containing these recommendations was issued to the School's Finance Team in June 2022 and management responses targeted implementation dates in September 2022. However, these recommendations have yet to be implemented, with June 2023 now set as the target date. This may have contributed to the fact that schools audited in the 2022/23 programme were found to have many of the same thematic issues identified in 2021/22, including weaknesses around payroll and purchasing controls.

4.9   Other Work

4.9.1   Internal Audit continues to provide advice and guidance to officers on a wide range of issues, including the interpretation of Council policies and procedures, risks and controls within systems or processes, and ad-hoc guidance on queries relating to projects or transformation. Internal Audit aims to provide clear advice and risk-based recommendations with a view to reducing bureaucracy whilst maintaining a robust control environment. Where appropriate, we also refer queries or concerns on to specialist services such as Information Governance or IT Security.

4.9.2   In 2022/23, Internal Audit was consulted for advice and guidance on a range of projects and issues across the Council. This included:

- CCC Payment Card Industry (PCI) Compliance project
- Proposals for adjustments to the Insight/Symology system in Highways
- A payment issue within the Commissioning team
- Council tax refund for care leavers

4.9.3   The team also provided feedback on proposed new or updated policies and systems while they were in draft. This has included:

- Contract Management Toolkit

- Policy Framework and Policy Library
- Financial processes within In-house Provider Services
- Social Fund Administration

4.9.4   In addition to the consultancy work outlined above, the Internal Audit team is also involved in responding to statutory returns and requests for information. In 2022/23, this has included responding to a range of Freedom of Information requests; an ombudsman complaint; and requests for information from the Department for Education.

4.10   Summary of Completed Reviews

4.10.1 A summary of all audit reports issued in 2022/23 is attached at Annex A.

5.   ANTI-FRAUD & WHISTLEBLOWING

5.1   Overview of Whistleblowing Cases

5.1.1   The Internal Audit service maintains a log of all whistleblowing referrals received by the team, including those which are subsequently passed to other services (such as HR or safeguarding) and the outcomes.

5.1.2   In 2022/23, a total of 28 whistleblowing referrals were received and processed by the Internal Audit Team at CCC. Table 3, below, shows the breakdown of these cases by the type of concern raised.

Table 3: Whistleblowing Referrals Received by Internal Audit in 2022/23:

Whistleblowing Cases reported to Internal Audit in 2022/23		Open	Closed	Total
Fraud	Third Party Fraud	1	4	5
	Bank Mandate Fraud (attempted)	0	1	1
	Phishing Fraud (attempted)	0	1	1
	Officer Fraud	0	1	1
	Direct Payments Fraud	1	1	2
	Client Funds Fraud	1	2	3
	Total Alleged/Attempted Fraud	**3**	**10**	**13**
Governance	Conflict of Interest	1	2	3
	Internal Governance Allegation	0	2	2
	School Governance Allegation	0	2	2
	Total Governance Allegations	**1**	**6**	**7**
Safeguarding	Safeguarding Concerns	0	1	1
	Health & Safety	0	1	1
	Total Safeguarding Allegations	**0**	**2**	**2**
HR	Grievance / Respect at Work concerns (inc. schools)	0	2	2
Theft	Theft	0	1	1
Non-CCC	Cases not within the Council's jurisdiction but referred to other agencies outside CCC	0	3	3
Total		**4**	**24**	**28**

5.1.3   This represents a slight increase in the number of whistleblowing referrals received compared to recent years.

Chart 4: Whistleblowing Referrals by Year:

Whistleblowing Referral Cases
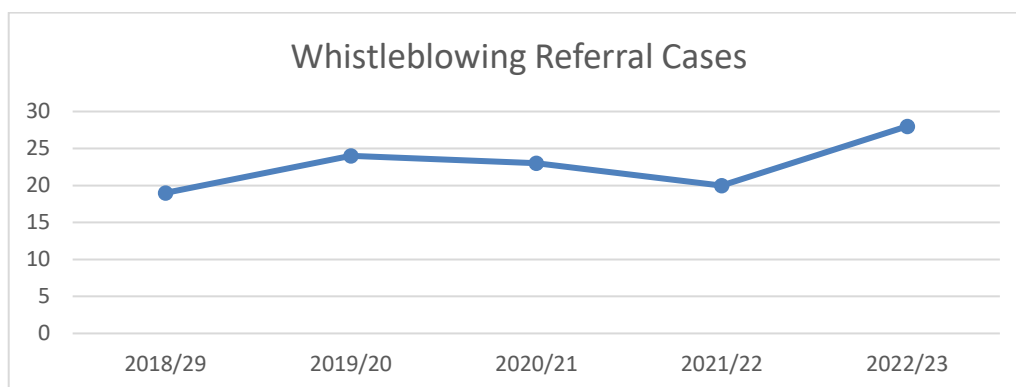
5.1.4 A formal process of risk assessment is undertaken on all referrals, to identify the appropriate action to be undertaken. In the majority of cases, either:

- The initial review finds no investigation is required, for instance if the issue has already been dealt with internally; should be addressed through other procedures (such as the Respect At Work Policy); or is not serious enough to warrant a full investigation; or
- An investigation is initiated, but subsequently finds the allegation is not substantiated or only minor issues are found.

5.1.4 An overview of the outcomes of referrals received in 2022/23 is set out at Table 4, below, for the 24 cases which have been closed to date:

Table 4: Outcomes of Whistleblowing Referrals Received in 2022/23:

Outcome of Case	No. Cases
No action required (*Initial review of the referral finds no investigation is required e.g. the issue has already been dealt with or is not serious enough to warrant a full investigation*)	5 (21%)
Referred to relevant process (*Where initial review identifies that this should be dealt with through another corporate process rather than whistleblowing e.g. as a formal complaint or grievance, or safeguarding referral, and this is referred into the relevant process.*)	7 (29%)
No powers to investigate. (*Where concerns raised are not within the Council's powers to investigate, for example if they relate to an academy school or District Council services. Where possible the referral is passed on to the relevant organisation.*)	1 (4%)
Informal Audit advice & recommendations. (*Where a full investigation is not required but informal advice or guidance is issued to the relevant service on improving the control environment.*)	3 (12%)
Investigation indicates no serious concerns. (*An investigation has been initiated but subsequently finds the allegation is not substantiated or only minor issues are found*)	2 (8%)
Full audit investigation and recommendations.	2 (8%)

Police Referral / Taken to court	3 (12%)
Recovery action (*Recovery action is taken to recoup losses including setting up a payment plan, recouping overspends etc.*)	1 (4%)
Resolved within service. (*The issue is resolved within the relevant service without requiring a full investigation or onward referrals*).	0 (0%)
2022/23 Totals	**24**

5.2   Fraud & Governance Investigations

5.2.1   Where Internal Audit investigations into whistleblowing referrals are completed, Internal Audit issue recommendations to address any areas of weakness that the investigation identifies in the Council's systems of governance. Implementation of these recommendations is then followed-up by Internal Audit in the normal way and reported to Audit & Accounts Committee as part of the follow-ups process.

5.3   Proactive Anti-Fraud Work

5.3.1   During 2022/23 the Internal Audit team undertook a range of pro-active counter-fraud activities.

Policy Reviews and Updates:

5.3.2   Following the review of the Whistleblowing Policy in 2021, Internal Audit reviewed and updated the Anti-Fraud and Corruption Policy and the Anti-Money Laundering Policy, in order to make them more concise and easier for staff to understand. The updated policies were reviewed by the Audit & Accounts Committee on the 29th September 2022, and then approved by the Strategy & Resources Committee on the 20th October 2022.

5.3.3   To support the aims of these new policies, new E-learning modules are being developed by Internal Audit to communicate the key messages of the policies in a way that is easy to digest. In addition, communications campaigns have been undertaken utilising the staff intranet, Friday Focus emails and email cascade via Service Directors as to highlight these new, more user-friendly policies to staff.

Money Laundering Risk Assessment:

5.3.4   In accordance with CIPFA recommended best practice, Internal Audit undertook a Money Laundering Risk Assessment (MLRA) and issued a report in November 2022. The MLRA considered areas of Council operations which are particularly at risk of money laundering, and appraised the controls in place to prevent, identify and report issues relating to money laundering via Council systems. The report gave 'good' assurance that there are appropriate and proportionate

controls in place to prevent and detect money laundering in Cambridgeshire County Council systems.

5.3.5 The MLRA was undertaken alongside the drafting of the new Anti-Money Laundering Policy, so control gaps that were identified in the previous policy were subsequently addressed in the new Anti-Money Laundering Policy. Some control gaps were also identified regarding Council-owned or partner firms such as This Land and the Pension Fund for which formal recommendations have been made to those entities which will strengthen the Council's overall control environment.

Direct Payments:

5.3.6 There were five instances of suspected fraud relating to Direct Payments which were raised via CCC's Whistleblowing Service in the two-year period up to September 2022. In light of this, Internal Audit wrote a consolidated Direct Payments Audit report which considered the common themes and control gaps between these cases.

5.3.7 The report identified that it was often the same failures or gaps in the control environment which allowed these frauds to go undetected at first, and highlighted the possibility that there could be other similar cases of fraud which are currently going undetected. Consequently, the report made a number of recommendations to strengthen the service, including the ratification of a new Direct Payments Fraud and Misuse Policy, a draft of which was proposed by Internal Audit. As well as outlining the control environment surrounding Direct Payments, this policy aims to make all relevant staff aware of what to look out for to identify fraud and how they should report it, which was identified by the audit review as an area which needs improvement.

Council Tax NFI Project:

5.3.8 Throughout 2022/23, Internal Audit have been providing support and advice to a project run in conjunction with the District Councils, to reduce Council Tax single person discount fraud. This aims to identify fraud by data-matching using the 'Fraud Hub', specialist cloud-based software supplied by the Cabinet Office as an optional addition to the National Fraud Initiative exercise (NFI - see Section 5.4 below for more details). As Internal Audit are the service which co-ordinates the NFI for the Council, a representative from Audit joined the project to provide specialist input on the data-matching function and the collation of datasets for the project.

5.3.9 To date, a memorandum of understanding has been signed by the S151 Officers of all participating Councils, providing the terms on which the project will operate. As such, the project is now at the stage of collating the first round of datasets from various sources to undertake data-matching with. The District Councils have either completed or begun the process of appointing dedicated

staff to work on the project data, with a view for those staff to review and process each possible instance of fraud identified by the software. A review of the project will be undertaken six months after the first round of data-matching has been undertaken, to assess the revenue benefits of the project in comparison to its costs.

5.4   National Fraud Initiative (NFI) 2022/23:

5.4.1   The NFI compares different data sets provided nationally by local authorities, central government, and partner organisations.   CCC pensions data, for example, is compared with data from other local authorities to identify 'matches' i.e. anomalies, such as any individuals in receipt of a pension who are recorded elsewhere as being deceased.   This enables errors to be highlighted, as well as potentially fraudulent transactions.

5.4.2   In 2022/23, the Internal Audit team co-ordinated the collation of data for the 2023 National Fraud Initiative exercise. This involved working with teams across Cambridgeshire County Council to obtain datasets, confirm they were in line with the required data specifications, and upload data in line with the national deadlines. Matches identified from this exercise were released in January 2023, and the Internal Audit team is now co-ordinating review of these matches by the relevant Council services.

6.   RISK MANAGEMENT IN 2022-23

6.1   Overview of Risk Management

6.1.1   Under the Council's constitution, the Strategy & Resources Committee is responsible for the development and oversight of the Council's risk management and strategy.   The Audit & Accounts Committee also has important functions in relation to risk, including considering the effectiveness of the risk management arrangements and associated control environment and to seek assurances that appropriate action is being taken in response to risk.

6.1.2   The risk management approach adopted by the Council is based on identifying, assessing, managing and monitoring risks at all levels across the Council. Risk registers operate at three tiers across the organisation: (a) service/project specific, (b) directorate, and (c) corporate. The Council's Risk Management Policy makes provision for escalation and de-escalation of risk through the tiers. On behalf of the corporate leadership team (CLT), the Executive Director of Strategy & Partnerships champions and takes overall responsibility for seeking to ensure that effective risk management processes operate throughout the Council, including co-ordinating identified improvement activity.

6.2   Risk Management in 2022/23

6.2.1   An updated corporate Risk Management Policy was approved in March 2022 following a full review of the Council's policy and procedures. The Corporate Risk Register has been updated throughout the year and presented to both the Strategy and Resources Committee and Audit & Accounts Committee at regular intervals.

6.2.2   The Council's Corporate Leadership Team have introduced new regular Risk & Assurance meetings in 2022/23, with meetings taking place on 4th October 2022, 5th January 2023 and 8th March 2023. These formal meetings have a dedicated Terms of Reference intended to ensure regular detailed senior management oversight of the corporate and directorate risk registers, to reflect on feedback from Committee and to develop corporate oversight of risk and key independent assurances.

6.2.3   Throughout 2022/23, the Internal Audit & Risk Management team have provided advice and support to services seeking guidance on managing Directorate or service/project level risk registers. This has included:

- Attending Public Health DMT to discuss the PH Risk Register;
- Assisting in the development of a Risk Register for the new Strategy & Partnerships Directorate and delivering risk workshops with heads of service and key managers within the new Directorate;
- Supporting Place & Sustainability with a major review of their Directorate Risk Registers.

6.2.4   In 2022/23, Internal Audit team has completed a Risk Maturity Assessment for Cambridgeshire County Council, using a risk maturity framework from the Institute for Internal Auditors. This has identified that for 56% of the areas reviewed, the Council is operating at a 'risk enabled' level, the highest level of risk maturity within the framework. 38% of areas reviewed were at the 'risk defined' level, meaning that strategies and policies are in place and communicated, and just one area was identified which fell below this level. The intention is that the findings of this review will be used to create a long-term strategy for further development of risk management processes at the Council.

6.2.5   The annual report on Risk Management will be presented to Audit & Accounts Committee and Strategy & Resources Committee in July 2023. This will include the proposed three year Risk Strategy.

6.3   Risk Assurance Reviews

6.3.1   Over the course of the year, the Internal Audit & Risk Management team have developed a new approach to review and challenge individual risks on the Council's Corporate Risk Register, and to provide an independent assurance over the controls in place to manage the risk. There are three phases to the process:

- **Phase 1: Initial Review.** Reviewing the risk register and challenging identified triggers, controls and risk assessments. This aims to identify existing triggers or controls which may not have been identified previously on the risk register, and also to challenge the relevance of established triggers and controls.

- **Phase 2: Heat Map Assessment.** Reviewing the triggers and controls identified in Phase 1, to identify triggers which are poorly controlled and/or controls which manage a significant number of different triggers. The output of this is a prioritisation of controls for review by Internal Audit.

- **Phase 3: Assessment of Control.** Light-touch review of the controls identified as being a priority in Phase 2. This seeks to establish whether controls outlined in the risk register are in place; which triggers they mitigate against in practice; and whether they are serving to mitigate the risk in practice.

6.3.2   The initial review of each risk focuses on ensuring that appropriate controls are in place to manage the risk, while subsequent reviews will focus more on verifying that controls are being complied with in practice. A report is issued at the end of each review, and the expected outcome is for the risk owner to update the Corporate Risk Register and, as part of this, to develop an Action

Plan to further strengthen corporate control of the risk, based on findings and recommendations from the review.

6.3.3 In 2022/23, the Internal Audit & Risk Management team undertook two Risk Assurance reviews, focused on the following corporate risks:

- 'Failure of Key Partnerships or Contracts' (Risk 08 at the time of review)
- 'The Council is a victim of Cyber Crime' (Risk 09 at the time of review)

7. INTERNAL AUDIT PERFORMANCE AND QUALITY ASSURANCE

7.1 Delivery of the 2022/23 Internal Audit Plan

7.1.1 The Cambridgeshire County Council Internal Audit Plan for 2022/23 was developed in early 2022, with the required resources confirmed as 1750 days. The draft Audit Plan was reviewed by Corporate Leadership Team (CLT), and by the Audit & Accounts Committee (AAC) on the 7th March 2022.

7.1.2 The Internal Audit team at Cambridgeshire seeks to be highly responsive to emerging risks, and in accordance with best practice, the Internal Audit Plan is regularly re-assessed and updated in line with changing risks throughout the year. Changes to the Plan were reviewed and challenged by CLT and the Audit and Accounts Committee through regular progress reporting.

7.1.3 The Internal Audit team maintains and tracks Key Performance Indicators (KPIs) to monitor delivery of the Internal Audit Plan. Due to vacancies within the team, Internal Audit resource has been heavily constrained within 2022/23, which is reflected in the reduced delivery against targets. However, it should be noted that team productivity (the % of time spent by staff on delivering productive audit work within the Audit Plan) remains on target. Given the capacity constraints, delivery has been focused on providing assurances that form part of the 'core' Internal Audit Plan.

TABLE 4: Cambridgeshire County Council Audit Plan Delivery 2022/23:

Delivery KPIs	Actual	Target	% Delivery
Delivery of the <u>core</u> Internal Audit Plan (days)	738	930	79%
Delivery of the <u>flexible</u> Internal Audit Plan (days)	540	820	66%
Audit Plan delivered (days)	**1278**	**1750**	**73%**
% Delivery of the <u>core</u> Internal Audit Plan (individual reviews)	62	73	85%
% Delivery of the <u>flexible</u> Internal Audit Plan (individual reviews)	11	20	55%
Audit Plan delivered (% individual reviews)	**73**	**93**	**78%**
Audit Team Productivity (%)	**88.3%**	**85%**	

7.1.4 As the Internal Audit team operates a 'rolling' approach to audit planning, there were a number of audit reviews which were underway at the end of 2022/23 but not yet delivered to draft report stage. These have been rolled over and will be delivered in the 2023/24 financial year as part of the flexible plan.

7.1.5 In addition to the audit days delivered to Cambridgeshire County Council, the Internal Audit team also delivers key financial systems reviews to North Northamptonshire, West Northamptonshire and Milton Keynes Councils, and delivers internal audit work to Pathfinder Legal Services. This external provision accounted for c.195 days of Internal Audit time in 2022/23; this time has not been included in the table above, which only shows delivery of the Cambridgeshire Audit Plan by the team.

7.1.6 All Internal Audit reviews delivered in-year are detailed at Annex A, below.

7.2   Compliance with Public Sector Internal Audit Standards

7.2.1 The Internal Audit service has operated in compliance with Public Sector Internal Audit Standards (PSIAS) throughout the year.

7.2.2 In line with Public Sector Internal Audit Standards (PSIAS), the Internal Audit service maintains an Internal Audit Charter. Under PSIAS, the Charter is "a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities". The Charter was completely rewritten and refreshed in 2022, and was reviewed and approved by Audit & Accounts Committee on the 7th March 2022.

7.2.3 An external assessment of Internal Audit's compliance with Public Sector Internal Audit Standards (PSIAS) is required every five years. An external 'peer-to-peer' review by the Head of Internal Audit at Peterborough City Council was completed in 2022. The full report on this review was presented to Audit & Accounts Committee in November 2022, and concluded that the CCC Internal Audit team fully conforms to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

7.2.4 There was one attribute standard where an element of partial conformance was noted, but it was confirmed that this did not have a material impact on the assessment. This related to a lack of client feedback, due to the fact that customer feedback surveys had not been issued since 2020; however this process was reintroduced before the final PSIAS report was issued (see Section 7.3.7, below, for details).

7.2.5 Following the assessment, six actions were agreed to further improve compliance and effectiveness. These have all now been implemented, with the exception of the following action:

> "*Document within the Audit Manual the approach in relation to non-agreed / implemented recommendations*."

7.2.6   This final outstanding action will be completed when the Audit Manual is next reviewed and updated.

7.3   Quality Assurance & Improvement Plan

7.3.0   In accordance with the UK PSIAS Attribute Standard 1300, a Quality Assurance and Improvement Programme (QAIP) has been developed by Internal Audit. This includes both external assessments (discussed above at Section 6.2) and internal assessments to provide ongoing monitoring of Internal Audit activity and to provide assurance over the service's continued compliance with Public Sector Internal Audit Standards.

Continuing Professional Development:

7.3.1   Continuing professional development has been a major focus of the Internal Audit quality assurance programme in 2022/23, to ensure that staff have the skills to carry out their responsibilities with proficiency and deliver work of the required quality. A system of post-audit assessments against the CIPFA Excellent Internal Auditor standard is used to evaluate audit activity and identify areas for development on an ongoing basis, as part of regular supervision of all staff.

7.3.2   In 2022/23, a key focus of staff development has been enhancing the role of weekly team meetings and using these to deliver training and development to all Internal Audit staff. This includes development sessions delivered by managers within the team, including sessions on communications skills; ethical dilemmas; and governance failures in local government. The team has also regularly invited colleagues from other Council services to speak at Internal Audit meetings, both to enhance professional development and to encouraging networking across the Council. This has included:

- Head of Business Intelligence presenting about the results of the Census in Cambridgeshire and forecasting demography.
- Head of Diligence and Best Value presenting on price variations in contracts.
- Head of Procurement & Commercial presenting about procurement.
- Information Services Senior Advisor presenting about digital accessibility.
- Senior Information Management Analyst presenting about information security.
- Strategic Wellbeing & Engagement Business Partner presenting about staff wellbeing.

Staffing and Capacity:

7.3.3   In 2022/23, the Internal Audit & Risk Management team has undergone a change in leadership with the departure of the previous Head of Internal Audit

& Risk Management in May 2022. The previous Audit & Risk Manager successfully applied for this post; however the service has struggled to fill the subsequent Audit & Risk Manager vacancy, and the existing Group Auditor vacancy, throughout the 2022/23 financial year. This is in the context of an extremely competitive jobs market for internal audit across the UK; feedback from other local authorities in the region suggests that maintaining sufficient qualified staffing is a common issue for public sector Internal Audit teams.

7.3.4 These vacancies have created challenges in the delivery of the Audit Plan this year, which have been managed through regular re-profiling of the Plan, with a focus on ensuring delivery of the 'core' elements of the plan and sufficient breadth of the 'flexible' element of the Plan to provide a balanced year-end opinion. The team has also commissioned external resource to deliver audits of IT Security and IT Records Management in the new financial year.

7.3.5 As such, it is considered that the team has had resources that are just sufficient to enable it to provide adequate coverage authority's control environment to provide the annual opinion; however, resourcing remains a significant risk for the team in 2023/24. It will be critical that the Audit & Risk Manager and Group Auditor posts are filled in the new financial year, or that alternative arrangements to support audit resourcing are put in place, such as a co-sourcing arrangement.

7.3.6 A key part of the Internal Audit team's succession planning continues to be the operation of an Internal Audit Graduate Trainee scheme, run in conjunction with the Financial Management Graduate Trainee scheme. Trainees are taken on as Apprentices to study for chartered accountant status with the Chartered Institute for Public Finance and Accountancy (CIPFA). In September 2022, two new Associate Auditors started work in the team under this scheme; and following a successful recruitment campaign undertaken with Finance, a further Associate Auditor is expected to start work in September 2023.

Customer Feedback Outcomes:

7.3.7 In August 2022, the Internal Audit team re-introduced the use of Customer Feedback Surveys to obtain feedback on the work of the team from senior management and recipients of Internal Audit reports. The team completely re-designed the questionnaire and introduced a new eForm, to ensure the process is straightforward and accessible for officers. Surveys are shared when final audit reports are issued, and the audit team also issued a survey requesting general feedback from CLT in March 2022.

7.3.8 In total, in 2022/23 nine completed surveys were returned to the team. Results were generally very positive, with 100% of respondents stating that they believed the work completed by Internal Audit added value to their service.

7.3.9 More detail on the findings from these surveys is provided below.

Table 5: Customer Feedback Survey Responses:

Questions:	Average score:	
How far do you agree that the auditors involved were professional, knowledgeable and approachable?	**4.2** out of 5 *(1: strongly disagree 5: strongly agree)*	
How far do you agree that auditors engaged with officers to understand key service concerns and risks during the audit?	**3.9** out of 5 *(1: strongly disagree 5: strongly agree)*	
How far do you agree that the draft audit report gave findings in sufficient detail and there was a chance to discuss findings and recommended actions appropriately?	**4.6** out of 5 *(1: strongly disagree 5: strongly agree)*	
How far do you agree that final actions agreed as a result of the audit were relevant and reflected appropriate improvements in risk management and control?	**4.1** out of 5 *(1: strongly disagree 5: strongly agree)*	
Has your perception of Internal Audit changed following your experience?	Yes - positively	2 (22%)
	Yes - negatively	0 (0%)
	No change	7 (78%)