

Internal Audit & Risk Management

Cambridgeshire County Council

Update report

As at 31st October 2023

Section 1

1 INTRODUCTION

1.1 A summary of the content of the key sections of this report is provided below, for reference:

SECTION 1: Introduction

SECTION 2: Internal Audit Reporting Process

SECTION 3: Finalised Assignments

SECTION 4: Summaries of Completed Audits with Limited or No Assurance

SECTION 5: Internal Audit Activity

SECTION 6: Audit Forward Planning: 2023/24

SECTION 7: Follow Up of Agreed Audit Actions

SECTION 8: Risk Management

SECTION 9: Fraud and Corruption Update

SECTION 10: Key Financial Systems Update

ANNEX A: Internal Audit Plan Progress 2023/24

ANNEX B: Outstanding Agreed Actions

2 INTERNAL AUDIT REPORTING PROCESS

2.1 THE REPORTING PROCESS

2.1.1 This quarterly report provides stakeholders, including Audit & Accounts Committee and CCLT, with a summary of internal audit activity for the first three quarters of the 2023/24 financial year.

2.2 HOW INTERNAL CONTROL IS REVIEWED

2.2.1 There are three elements to each Internal Audit review. 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.

2.2.2 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 are being complied with in practice. This element of the review enables internal audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.

2.2.3 Finally, where there are significant control environment weaknesses or where the controls are not being complied with and only limited assurance can be given, internal audit undertakes further substantive testing to ascertain the impact of these control weaknesses.

2.2.4 At the conclusion of each audit, Internal Audit assigns three opinions. The opinions will be:

- Control Environment Assurance
- Compliance Assurance
- Organisational Impact

2.2.5 The following definitions are currently in use:

	Compliance Assurance	Control Environment Assurance
Substantial Assurance	The control environment has substantially operated as intended although some minor errors may have been detected.	There are minimal control weaknesses that present very low risk to the control environment

Good Assurance	The control environment has largely operated as intended although some errors have been detected.	There are minor control weaknesses that present low risk to the control environment.
Moderate Assurance	The control environment has mainly operated as intended although errors have been detected.	There are control weaknesses that present a medium risk to the control environment.
Limited Assurance	The control environment has not operated as intended. Significant errors have been detected.	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment OR it has not been possible for Internal Audit to provide an assurance due to lack of available evidence.

2.2.6 Organisational impact is reported as major, moderate or minor. All reports with major organisation impacts are reported to CLT, along with the appropriate Directorate's 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 FINALISED ASSIGNMENTS

3.1 Since the last Internal Audit Report in **July 2023**, the following audit assignments have reached completion, as set out below in Table 1.

Table 1: Finalised Assignments

No.	Directorate	Assignment	Systems Assurance	Compliance Assurance	Organisational impact	Audit Actions Agreed			
						Essential	High	Medium	Advisory
1.	Finance & Resources	ICT Incident & Problem Management	Good	Limited	Minor	0	0	7	0
2.	Finance & Resources	Shared Service Payroll	Satisfactory	Satisfactory	Minor	2	7 ¹		1
3.	Schools	Fen Drayton Primary School	Moderate	Moderate	N/A	N/A ²			
4.	Schools	Orchard Park Primary School	Good	Good	N/A	N/A			
5.	Place & Sustainability	Disabled Facilities Grant	Grant reviewed and certified.						
6.	Place & Sustainability	Basic Needs Funding	Grant reviewed and certified.						

¹ N.B. The Payroll report was produced by West Northamptonshire Council who have three risk ratings for actions: Essential, Important and Standard. The 'essential' and 'standard' ratings are equivalent to CCC's 'essential' and 'advisory' ratings, and we have reflected the 'important' rating as spanning CCC's 'high' and 'medium' categories.

² Individual recommendations within individual schools reports are not risk rated and are not followed up individually by Internal Audit. An action plan to respond to the audit findings is agreed with the school and presented to Governors. Thematic findings are then incorporated into the overarching schools audit report issued to the Director of Education, and recommendations within the overarching report are then risk rated and followed up by audit as usual.

3.2 Summaries of any finalised reports with limited or no assurance (excluding individual school audits) which have been issued as final since our last Progress Report in September 2023 are provided in Section 4.

3.3 The following audit assignments have reached draft report stage, as set out below in Table 2:

Table 2: Draft Reports

No	Directorate	Assignment
1.	Strategy & Partnerships	Pathfinder Legal Services
2.	Place & Sustainability	Climate Change & Environment Strategy
3.	Finance & Resources	Electronic Records Management
4.	Place & Sustainability	Case 125 Legal Procurement
5.	Children, Education & Families	Case 126 Transport Contracts
6.	Adults, Health & Commissioning	Case 127 Supported Living
7.	Children, Education & Families	Bewick Bridge Primary School
8.	Children, Education & Families	Huntingdon Primary School
9.	Children, Education & Families	Castle School
10.	Children, Education & Families	Huntingdon Nursery School
11.	Children, Education & Families	Meridian Primary School

3.4 Further information on work planned and in progress may be found in the Audit Plan, attached as Annex A.

4 *SUMMARIES OF COMPLETED AUDITS WITH LIMITED OR NO ASSURANCE*

4.1 ICT INCIDENT & PROBLEM MANAGEMENT

4.1.1 An audit was completed of ICT incident and problem management. Incident management and problem management are two separate processes within IT services:

- Incident management is the process of managing individual unplanned IT service disruptions/interruptions and restoring services to normal as quickly as possible.
- Problem management is a wider process, which aims to prevent incidents from occurring and minimise the impact of incidents that cannot be prevented, by analysing root causes of incidents and putting in place longer-term fixes to underlying problems.

4.1.2 The audit review gave a 'good' opinion for the system of control in place, but a 'limited' opinion over compliance with the system. The primary finding from this audit was that while the ICT service have a documented problem management process, this has not yet been implemented in practice by the service; this is the primary reason for the limited compliance opinion.

4.1.3 As the service's documented problem management processes have not been implemented, problems are instead dealt with in an ad-hoc manner and not logged, prioritised or managed in line with procedures. Accordingly, there is a risk that problems may not be effectively identified, recorded, prioritised and resolved/resolved in a timely and effective manner. The Council's incident management application, Hornbill, can link incidents together to create a problem record/log, but this function is not currently being used. Following the audit, the ICT service agreed a range of actions to update problem management processes and implement them in practice, with a target date of the end of December 2023.

4.1.4 With regards to incident management, there were clear, documented incident procedures in place. These procedures including incident logging, prioritisation and other key areas, and in general the audit found good compliance with incident management processes in practice. The audit recommended that the service develop a more detailed major incident response plan with a detailed process for prioritising systems and sites to be restored, should multiple critical systems/sites be affected by a major incident, and the service confirmed this will be completed by the end of December 2023.

INTERNAL AUDIT ACTIVITY

5.1 EXTERNAL AUDIT

5.1.1 The Internal Audit team has continued to provide information and documents to support the Council's external auditors EY in their work on the 2018/19 to 2021/22 Value for Money opinions for Cambridgeshire County Council, as well as supporting the provision of initial information for the incoming external auditors KPMG.

5.2 STAFFING, RESOURCE & RECRUITMENT

5.2.1 Following a procurement via the Crown Commercial Services framework, the Internal Audit team has awarded a contract to TIAA Ltd, for a 'co-sourcing' arrangement to supplement the team's internal resource with additional audit resource. TIAA Ltd have started work to deliver four audits to CCC, reviewing S106 Funding; Procurement Governance; Rental Income and the Multi-Agency Safeguarding Hub.

5.2.2 After completing a recruitment campaign, the Internal Audit team has made an appointment to the role of Senior Auditor. The new member of the team will be joining the Council from January. Although they currently have no prior experience of internal audit, they have committed to studying the Certified Internal Auditor qualification with the Institute of Internal Auditors.

5.2.3 During October and November 2023, the team have also been conducting a recruitment to the Deputy Head of Internal Audit post. A further update will be brought in the next Audit Progress Report.

5.3 SCHOOLS AUDITS

5.3.1 Since September, the Internal Audit team has been undertaking a programme of school finance audits. The entire sample of seven schools have now been visited, all of which have had draft reports issued, and two of these reports have now been issued as final. Common themes identified this year include a lack of in-system approval by a second officer for individual payroll amendments which increases the risk of payroll fraud; documents such as signed contracts being lost when staff leave due to being held only in emails; and schools having asset registers which have not been updated since their creation, reducing their scope for use as evidence in the event of an insurance claim.

5.3.2 An overarching thematic schools audit report will be issued shortly, bringing together these findings and any overarching recommendations for the Council, as well as areas of good practice identified through the school visits which can be shared more widely.

5.3.2 In addition to the programme of audit visits to schools, Internal Audit is undertaking a desktop review of schools who are expected to submit a Deficit Recovery Plan to the Council, meaning they are forecasting an end-of-year budget deficit of 5% or over. This review aims to assess the situation that these schools are in at this point in the financial year, and how Deficit Recovery Plans are being put in place, with support from the Council.

5.4 PUBLIC SECTOR INTERNAL AUDIT STANDARDS

5.4.1 Internal Audit practice at Cambridgeshire County Council is bound by the UK Public Sector Internal Auditing Standards (PSIAS), which in turn are based on the International Professional Practices Framework (IPPF) developed by the Institute of Internal Auditors (IIA). The PSIAS interpret the requirements of PSIAS for the UK public sector context.

5.4.2 The International Internal Auditing Standards Board (IIASB) has been in the process of undertaking a fundamental review of the IIA framework, with consultation taking place throughout 2023. The final version of the new Global Internal Audit Standards is expected to be released digitally in January 2024, with the Standards becoming effective 12 months from the release date, in 2025. Based on the draft Standards released for comment, it is expected that the new Standards will include more focus on the public sector, compared to the previous Standards.

5.4.3 The UK's Internal Audit Standards Advisory Board (IASAB) has confirmed they will undertake a review of PSIAS against the new global standards when they are released. Any subsequent changes to the UK's PSIAS, and their implementation, will then be subject to consultation and appropriate transitional arrangements.

5.4.4 Cambridgeshire's Internal Audit team underwent an external review against the current PSIAS in 2022/23, which found that the team was compliant with PSIAS. It was initially agreed with Committee that a further external review would be undertaken in 2023/24. However, given the expected changes to the global standards and the likely impact of this on the PSIAS, the Head of Internal Audit & Risk Management is proposing that an external review should instead be undertaken in late 2024/25, as this would have the benefit of being able to scrutinise and provide additional assurance over the team's planning for implementation of the new standards.

5.4.5 The team would instead undertake a self-assessment against PSIAS in 2023/24 to provide assurance over compliance with the current standards. This is in line with PSIAS requirements, which mandate an external review once every five years.

5.5 ADVICE & GUIDANCE:

5.4.1 Internal Audit also provide advice, guidance and support to the organisation on governance, assurance and related issues. This work is undertaken on an ad-hoc basis as and when required. Some of the key areas of support provided since the previous Progress Report include:

- The Head of Internal Audit & Risk Management has been attending Directorate Management Team meetings alongside the Monitoring Officer and Head of Procurement, to raise awareness of the Council's Contract Procedure Rules and the importance of compliance with the rules when making purchases.
- Reviewing draft financial guidance for officers involved in the management of service user finances.
- Providing information for the Chief Finance Officer's Assurance Statement on the use of Dedicated Schools Grant.
- Responding to Freedom of Information requests.

6. AUDIT FORWARD PLANNING: 2023/24

- 6.1 Core audit work is progressing in line with the agreed Audit Plan 2023/24, following on from the significant rephrasing of the Plan that was reported in July 2023. Progress on work underway is detailed at Annex A to this report.
- 6.2 The proposed ‘flexible’ Internal Audit Plan for the next four quarters (Q4 2023/4 – Q3 2024/5) is set out below, showing the current risk profiling of Internal Audit reviews over the next year. This reflects the usual approach of the team to plan four quarters ahead on a rolling basis. These are new jobs proposed to commence in the period, i.e. ongoing work is not included, as this is reflected in Annex A.
- 6.3 This programme of work is indicative only, and is subject to change to ensure that the Audit Plan can be reactive as well as proactive about providing assurance over emerging risk areas.

Table 5: Proposed ‘Flexible’ Internal Audit Plan (Next Four Quarters):

Audit	Directorate	Category	Days	Why
Current Proposed Flexible Internal Audit Plan for Q4 2023/24:			155	
Quality Assurance in Childrens Social Care	Children's	Safeguarding	25	Review of quality assurance arrangements in Children's to ensuring that key safeguarding risks are mitigated through appropriate monitoring of practice.
Lifestyle Services Contract	Public Health	Procurement & Commissioning	30	A review of this key contract with an annual value of £3.1m across Cambridgeshire and Peterborough.
Council Owned Companies	Finance & Resources	Governance	20	High level review of the governance of Council owned companies to provide assurance that the risks associated with these companies are managed appropriately.
Adults Directorate Business Planning Review & Challenge	Adults	Value For Money	20	Review to provide constructive challenge to Business Planning proposals considering the robustness of plans, sustainability of savings and the risks that they mitigate/create.
Project Management Framework and Project Assurance	Strategy & Partnerships	Project Management & Transformation	20	Review of the implementation and development of Council-wide project management framework and project assurance arrangements.

LD Supplier Resilience Reviews	Adults	Business Continuity	20	Review of a sample of key strategic suppliers, with a focus on suppliers of care and transport to vulnerable service users, to identify assurances in place over supplier resilience and continuity planning.
Mosaic System Uploads, Data Integrity and Key Controls	Adults	ICT and Information Governance	20	A review of key controls in the Mosaic system with regards to security and payment controls, and how data integrity is maintained from feeder systems and uploads.
Current Proposed Flexible Internal Audit Plan for Q1 2024/25:			165	
Budget Setting and Demand Forecasting	Finance & Resources	Financial Governance	20	Review of processes for forecasting high demand demographically-driven budgets to ensure processes are robust and budget setting is accurate.
Capital Programme Projects Assurance	Place & Sustainability	Project Management & Transformation	20	Review of a sample of individual capital programme projects, to provide assurance over compliance with the project management controls agreed by the MID Project Assurance Group.
Late Payments in Commissioning	Adults	Financial Governance	15	Review to provide assurance over processes in place to ensure timely payment of social care providers.
Investment Properties	Finance & Resources	Value For Money	20	The Council holds a number of investment properties. This would review management of investments, income streams etc. Reputational risk area.
Business Planning	Strategy & Partnerships	Financial Governance	30	Review of governance, compliance, management and monitoring, lessons learned and benefits realisation.
Early Years Funding Process	Children's	Value For Money	20	To provide assurance that robust and efficient processes are in place to ensure payments to Early Years providers are timely and accurate and there are appropriate controls in place to reduce the risk of fraud.
ICT Procurement	Finance & Resources	Procurement & Commissioning	20	Review of ICT procurement function including commissioning, contract management, efficiencies etc.
Health & Safety in Place & Sustainability	Place & Sustainability	Safeguarding	20	Review of controls and compliance for key health and safety considerations in P&S Directorate including how management obtains assurance that key controls are met

Current Proposed Flexible Internal Audit Plan for Q2 2024/25:				160
Inspection Programmes & Trading Standards	Finance & Resources	Value For Money	20	Review of Trading Standards service to affirm value for money is achieved.
Contract Price Variations	Finance & Resources	Procurement & Commissioning	20	Sample testing for compliance with the Council's guidelines for agreeing price variations in contracts, to provide assurance that cost increases are controlled appropriately
Passenger Transport Services	Children's	Procurement & Commissioning	20	Review of the Council's passenger transport services covering how services are planned and commissioned and the monitoring frameworks in place to ensure that suppliers deliver in line with the Council's requirements.
Direct Payments	Adults	Financial Governance	20	Review of direct payments policies and procedures and compliance with procedures in practice, to provide assurance that direct payments are managed in a way that safeguards public funds and ensures that they achieve best value.
Social Care Debt	Adults	Financial Governance	20	Reviewing Council management of social care debt.
Projects Assurance (Non-Capital)	Strategy & Partnerships	Project Management & Transformation	40	Provision of assurance over a sample of key non-capital projects and review of the efficacy of extant assurance processes.
Contract Management - Minor Works Framework	Finance & Resources	Procurement & Commissioning	20	Review of Minor Works Framework contract with an estimated annual value of £8m.
Current Proposed Flexible Internal Audit Plan for Q3 2024/25:				170
ICT Strategy	Finance & Resources	ICT and Information Governance	20	The ICT service is in the process of a major refresh of strategy and governance. This review will aim to work collaboratively with the service to consider progress to date and suggestions for ongoing strategy development.
Contract Management Policies & Compliance	Finance & Resources	Procurement & Commissioning	20	Noted as a risk area. This would review contract management guidance and training available to managers in the organisation, and implementation of contract

				management processes. High impact area.
Asset Management Strategy	Finance & Resources	Value For Money	20	Review of the Council's asset management strategy to provide assurance that the Council's assets are managed to deliver value for money.
ICT Disaster Recovery	Finance & Resources	ICT and Information Governance	20	Review of ICT disaster recovery planning and testing.
Adult Social Care Finance	Adults	Financial Governance	20	Assurance over the policies and processes in place within the Adults Social Care Finance team, with a particular focus on reviewing invoicing , cost recovery and the link to debt management.
Contract Management - Supported Living	Adults	Procurement & Commissioning	20	Review of the Supported Living framework contract with an annual estimated value of £22.6m
Cambridgeshire County Council Client Monitoring Arrangements for This Land Ltd	Finance & Resources	Governance	20	A review to provide comprehensive follow-up on findings and implementation of actions following the review of This Land Ltd in 2019/20.
Contract Management - Integrated Sexual Health and Contraception Service	Public Health	Procurement & Commissioning	30	Review of this major contract with an estimated annual value of £4.1m

7. FOLLOW UP OF AGREED AUDIT ACTIONS

7.1 OVERVIEW OF FOLLOW UPS

7.1.1 The outstanding management actions from Internal Audit reports as at 31st October 2023 are summarised in table 7 below. This includes a comparison with the percentage implementation from the previous report (bracketed figures).

7.1.2 Internal Audit reporting on closed recommendations includes recommendations that have been closed in the previous 12 months as at the reporting date. This provides a more accurate up to date position regarding the implementation of recommendations and ensures that recommendations closed more than a year ago do not skew the statistics to give a falsely positive impression.

Table 7: Implementation of Recommendations

	Category 'Essential' recommendations		Category 'High' recommendations		Category 'Medium' recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Implemented	1 (1)	0.56% (0.63%)	20 (20)	11.11% (12.58%)	63 (68)	35.00% (44.77%)	84 (89)	46.67% (55.97%)
Actions due within last 3 months, but not implemented	0 (0)	0.00% (0.00%)	5 (7)	2.78% (4.40%)	29 (12)	16.11% (7.55%)	34 (19)	18.89% (11.95%)
Actions due over 3 months ago, but not implemented	1 (1)	0.55% (0.63%)	11 (7)	6.11% (4.40%)	27 (20)	15.00% (12.58%)	39 (28)	21.67% (17.61%)
Capital Programme Actions³ due over 3 months ago, but not implemented	0 (0)	0.00% (0.00%)	0 (0)	0.00% (0.00%)	23 (23)	12.78% (14.47%)	23 (23)	12.78% (14.47%)

³ These 23 actions related to a single audit review of capital project management. Internal Audit is currently conducting a full follow-up audit of these; as such further updates on implementation will not be provided until the audit is complete. The completion of this review has been delayed this year, initially due to the officer working on the review leaving the team, and subsequently in autumn 2023 by the need to divert resource from this review to deal with a high priority whistleblowing review. The audit team are seeking to complete this as soon as possible.

Totals	2		36		142		180	
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7.1.3 There are currently 96 management actions outstanding. Further detail on outstanding actions is provided at Annex B. This is a significant increase from the 71 outstanding recommendations in the last audit progress report (as at 31.8.23). It is noted that 35 actions from 10 audit reports had due dates in September/October 2023 and therefore became due in the current round of reporting.

7.1.4 For future cycles of Committee reporting, rather than Internal Audit staff chasing individual updates on actions, the implementation of actions will be monitored and reported within Directorates. Executive Assistants will maintain a list of audit actions and updates and request monthly updates, which will be reviewed at Directorate Management Team meetings before being passed on to Internal Audit. This will increase senior management oversight of action implementation and allow the Internal Audit team to focus resource on reviewing the evidence for implementation of actions, once they are reported to be complete.

7.1.5 There is currently one outstanding 'Essential' recommendation:

- This passed its target date at the end of November 2021. This relates to the Light Touch ICT Security Health check 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 2023, with regular updates provided to the Audit & Accounts Committee. The Service has confirmed that the PSN application was submitted to the Cabinet Office on 18 October 2023. The service then provided a response to clarification questions from the Cabinet Office on 15 November 2023. The Council is now awaiting a response, which is expected by the end of November and hope to have the application confirmed shortly after.

7.1.6 One recommendation from the 2022/23 VAT audit has been closed as unimplemented. The recommendation was concerned with reviewing invoices in relation to the Council's car lease scheme to ensure the correct VAT was applied. The Head of Finance confirmed to Internal Audit that the VAT involved would be minimal and that the resources required to review individual invoices would be disproportionate. The Section 151 Officer also confirmed that he was satisfied with the Head of Finance's conclusion on this matter and confirmed that the recommendation could be closed.

7.1.7 Table 8, below shows the number of outstanding recommendations in each directorate.

Table 8: Outstanding Actions By Directorate

Directorate		Outstanding recommendations
Children's		9
Adults, Health and Commissioning		4
Place and Sustainability	<i>Capital Programme (see footnote 3)</i>	23
	<i>Other</i>	0
Finance and Resources Directorate	<i>Key Financial Systems</i>	7
	<i>Other</i>	40
Public Health		2
Strategy and Partnerships		11

7.2 PUBLIC HEALTH OPEN BOOK CONTRACT MANAGEMENT

7.2.1 At the previous meeting of this Committee, two outstanding audit actions from within the Public Health directorate were discussed. These actions related to implementing 'open book' contract monitoring provisions which are written into two existing contracts within Public Health.

7.2.2 The concept of 'open book' contract management builds on the practice of 'open book' accounting within public contracts:

- **Open Book Accounting** – A provision within the contract which ensures that the provider's financial records relating to the service(s) provided are made available to the contracting authority. This includes all material data and information including staff costs, resources used, overhead calculations, payments to sub-contractors and providers, profit margins etc. etc. The use of this approach allows the contracting authority to verify that they are being charged a fair and accurate price for the service that is actually being delivered.
- **Open Book Contract Management** - Using the information provided through open book accounting alongside operational and performance data to promote collaborative contract management behaviour between the supplier and the contracting authority in order to achieve: a fair price for the supplier; value for money for the contracting authority; and performance improvement for both over the contract life. It provides a basis to be able to review performance, agree the impact of change and to bring forward ideas for efficiency improvements.

7.2.3 The Open Book Contract Management approach is recommended by the Chartered Institute of Public Finance & Accountancy as representing best practice in managing all major public contracts, to maximise the value obtained.

Specifically within the health and care sector, under NHS England guidance, Integrated Care Systems (ICSs) are required to have in place a System Collaboration and Financial Management Agreement (SCFMA) which requires open book accounting and financial transparency between its partner organisations.

7.2.4 In two previous audits of contracts within the Public Health Directorate, Internal Audit noted that although the wording of the contract included the right for the Council to undertake open book review of provider costs to enable an open book approach to contract management, there was no evidence that these rights had been used by the service or that an open book approach was being taken by contract managers. In both instances, actions were agreed with the service to implement open book monitoring practices within these contracts. The wording of the actions is set out below:

- **Healthy Child Programme Contract Audit** – Recommendation 6 – Quarterly Open Book Monitoring Against New Pricing Schedule: “Once a detailed Pricing Schedule has been developed for the contract, the Public Health team should implement quarterly open-book monitoring against the pricing schedule. This should include a detailed breakdown of actual costs incurred by the providers, with this information being reviewed and challenged by the Authority. The service should also ensure the year-end reconciliation of reported costs to actuals takes place in line with the Section 75 Agreement document.” [Target Implementation Date: 30th June 2023]
- **Integrated Drug & Alcohol Contract Audit** – Recommendation 8 – Budget Variances Are Not Reconciled to Prime Cost Evidence: “Public Health should alter financial monitoring so that, for budget variances as uncovered in the review of SMS reporting within quarterly contract monitoring meetings, are reconciled to prime evidence, as allowed by clauses 34.1 and 34.2 of the contract. This represents a shift to more open book financial reporting. To assist with this, Public Health should utilise the detailed pricing schedule which includes a detailed list of allowable costs against each pricing element. This pricing schedule can be the basis for challenge in contract monitoring meetings allowing for efficient detection of budget variances. It will also allow the council to distinguish costs that should be absorbed by CGL. If the Service considers this unfeasible, they should consult with the Head of Diligence and Best Value for advice and guidance on how to implement a more open book financial reporting approach.” [Target Implementation Date: 30th January 2023]

7.2.5 In both instances, the actions are currently outstanding for implementation. Internal Audit reported to the September meeting of this Committee that a discussion regarding open book accounting had been held at the Procurement Governance Board, and that the Public Health Directorate were exploring how to enhance the expertise within their service to implement an open book approach

within these and other contracts. It was confirmed that a detailed update on progress would be sought from the Director of Public Health and brought back to this Committee.

- 7.2.6 On the 31st October, the Director of Public Health, the Deputy Director of Public Health, the Head of Procurement and Commercial and the Head of Internal Audit & Risk Management met to discuss these actions and open book contract management more generally.
- 7.2.7 The Director of Public Health noted that some NHS providers have expressed discontent at having to supply prime records to the Council despite this being a provision of the contract, which is a continuing challenge for the directorate to manage. Capacity is also an issue within Public Health due to staff turnover and the need for staff with sufficient expertise in open book contract management. Additionally, the open book provisions within the contracts are currently quite general, rather than being specific about a particular open book approach will be implemented. As a result, in order to implement these recommendations, that the commissioners for these contracts will need to conduct a risk assessment and identify an appropriate, detailed approach to open book contract management.
- 7.2.8 It was agreed that Commissioners within the Public Health Directorate should undertake formal training on open book contract management to help implement the approach throughout the directorate. It was also agreed that the service would report their plans for rolling out training to Procurement Governance Board, to identify whether other commissioning services may also wish to send staff on the training. In that case, it may be possible to arrange a larger-scale corporate training session which may be more cost-efficient and allow more staff to benefit from the training.
- 7.2.9 The Head of Procurement and Commercial noted that the Council's Commercial team have just opened a new Contract Management Teams channel to share best practice and it may be possible to use the channel to share information on open book approaches to contract management.
- 7.2.10 The audit recommendations regarding implementation of open book contract management within the two contracts highlighted above will therefore not be implemented until after this training has been rolled out to Commissioners. The Director of Public Health confirmed a revised target date for implementation of these actions is therefore 30th April 2024.

8.0 *RISK MANAGEMENT*

- 8.1 A full update on Risk Management activity is provided in the separate report on the Corporate Risk Register.

9 FRAUD AND CORRUPTION UPDATE

9.1 FRAUD INVESTIGATIONS

9.1.1 The current Internal Audit caseload of investigations is summarised below in Table 7. As at the 31st October 2023, Internal Audit has received 20 whistleblowing referrals in the 2023/24 financial year, a few more than the number of referrals received by the same point in 2022/23 (14 cases). There are no open cases which have been carried forward from 2022/23.

Table 9. Current Internal Audit Investigations Caseload

All Cases Reported in 2023/24 To Date		Open	Closed	Total
Fraud and Theft	Conflict of Interest	2	1	3
	Council Officer Fraud	2	1	3
	Third Party Fraud	0	2	2
	Health and safety	1	0	1
	Theft	1	1	2
Governance	Internal Governance Issue	3	0	3
	Schools Governance	0	1	1
Grievance/Bullying	Staff Conduct/Grievance	0	1	1
Safeguarding and Health & Safety	Safeguarding	1	3	4
Total		10	10	20

9.1.2 It should be noted that the Internal Audit team records all whistleblowing referrals we receive; however Internal Audit normally act as the investigating service only for referrals relating to theft, fraud, corruption and governance concerns. Where whistleblowing referrals relate to e.g. safeguarding or HR issues, the referrals are passed on to the appropriate service to investigate and respond.

9.1.3 Summaries of the current open whistleblowing and investigation cases are provided below:

- **Conflict of Interest (2 open cases)** – Internal Audit is currently collaborating with HR colleagues to investigate two cases relating to conflicts of interest involving people working for CCC.
- **Safeguarding (1 open case)** – One case of safeguarding concerns raised by a member of the public is currently open, which is being investigated by Children’s Social Care.

- **Internal Governance (3 open cases)** – Internal Audit are currently investigating three cases of internal governance concerns. In two instances, a draft report has been issued, and a summary of the outcomes of the investigations and agreed actions will be brought to Audit & Accounts Committee as part of the next Progress Report, once they have been issued as final. In the remaining case, initial work undertaken suggests there are no serious concerns but Internal Audit continue to investigate.
- **Theft (1 open case)** – Internal Audit is currently investigating one case relating to the possibility of theft. A draft report has been issued, and a summary of the outcome of the investigation and agreed actions will be brought to the next Audit & Accounts Committee.
- **Council Officer Fraud (2 open cases)** – Internal Audit is currently investigating two cases of alleged fraud involving people employed by CCC, in conjunction with HR colleagues.
- **Health and Safety (1 open case)** – Internal Audit is currently investigating one whistleblowing report which relates to Health and Safety. This case is being investigated by the relevant service, with support from Internal Audit.

9.2 WHISTLEBLOWING, ANTI-FRAUD AND ANTI-MONEY LAUNDERING E-LEARNING

- 9.2.1 Following the implementation of the new Anti-Fraud and Corruption Policy and new Anti-Money Laundering Policy which both came into force in 2022, Internal Audit is undertaking, in conjunction with the Learning and Development team, to create two e-learning modules to support the embedding of these new policies for both existing and new staff.
- 9.2.2 Following the update provided in September's report, creation of these e-learning modules is still underway. A full draft of the Anti-Money Laundering training module is now complete and has been shared with the Learning & Development team to progress development, while the Whistleblowing & Anti-Fraud training module is still being drafted. Progress has been hindered by resourcing issues in Internal Audit, which have resulted in a scarcity of time to work on the modules in light of priority audit work.

9.3 NATIONAL FRAUD INITIATIVE (NFI)

- 9.3.1 The NFI compares different data sets provided nationally by local authorities and partner organisations, for the purpose of detecting and preventing fraud.
- 9.3.2 The current exercise commenced in September 2022 when data was supplied for matching purposes by all relevant parties, including CCC. The matched output

was released by the NFI in January 2023. The total number of matches for CCC as at January 2023 was 4,200 across 34 reports which have a high or medium risk rating, depending on the nature of the data. The NFI released an extra data set recently regarding residential parking permits, therefore the total number of matches is now 4,229 across 35 reports.

- 9.3.3 As at October 2023, 1,838 matches have been reviewed and cleared resulting in £1,462.46 identified to recover. This sum relates to pension payments made to a deceased person and the Pension Team Leader (West Northamptonshire) is progressing these cases. The purpose of the match is to identify instances where an occupational pensioner has died but the pension is still being paid. 250 blue badges have been cancelled; the Cabinet Office estimates a notional saving of £162,500.00 for these.

9.4 WHISTLEBLOWING ANNUAL REPORT

- 9.4.1 The Internal Audit & Risk Management team conducts an annual whistleblowing survey of CCC officers, usually in late August/early September, to inform the Council's Annual Whistleblowing Report. This year, the timing of the whistleblowing survey was deferred at the request of CLT, so as to not conflict with the main employee survey being conducted in September. The survey is being conducted in November/early December instead.
- 9.4.2 The Annual Whistleblowing Report will therefore be brought to the February 2024 meeting of the Audit & Accounts Committee. The report will include an update on the findings of the survey; information on whistleblowing activity; and a review of the Whistleblowing Policy.
- 9.4.3 Following the previous review of the Whistleblowing Policy at the Audit & Accounts Committee meeting in November 2022, the Chief Executive suggested that at the next annual review, the Council should consider engaging an external organisation such as Protect (a whistleblowing charity, formerly Public Concern At Work) to contribute to the review.
- 9.4.4 As a result, as part of the annual review of the Whistleblowing Policy, the Internal Audit team will facilitate completion of Protect's 'Whistleblowing Benchmark'. This is a self-assessment that the Council can conduct against a detailed set of whistleblowing standards covering Governance, Staff Engagement, and Operations. The Council's responses are then benchmarked against other similar organisations and a report is produced to outline an improvement plan to further strengthen the whistleblowing environment. The outcomes of this process will be reported to this Committee in February 2024.

10 *KEY FINANCIAL SYSTEMS UPDATE*

10.1 2022/23 KEY FINANCIAL SYSTEMS AUDITS

10.1.1 The Lead Authority Board agreed in August that for the 2022/23 financial year, Cambridgeshire's Internal Audit team would continue to deliver the Accounts Payable, Income Processing and Debt Recovery audits for the Lead Authority partners, in line with the approach taken in previous years. West Northamptonshire's Internal Audit team were due to deliver Payroll, Pensions and an IT Access Controls audit. The outcomes of the Administration of the Pension Fund audit were reported to the September 2023 meeting of the Audit & Accounts Committee.

10.1.2 The 2022/23 Payroll audit report has now been delivered to Cambridgeshire County Council. The Payroll audit gave an opinion of "satisfactory" assurance for both the control environment and compliance. This is equivalent to the CCC 'moderate' assurance rating, indicating that there are control weaknesses that present a medium risk to the control environment, and that controls mainly operated as intended although errors were detected that should have been prevented / mitigated.

10.1.3 The main conclusions within the report identified that the most significant factor contributing to this audit opinion related to issues within the processes around payroll control account reconciliations, particularly in relation to standardised operating procedures, record-keeping arrangements, the quality assurance process, and clearance of unreconciled items. A number of key actions to address identified risks were agreed with management following the audit.

10.1.4 It is noted that the compliance opinion provided was based upon a single "walkthrough" test of each key control process within payroll (i.e. starters, leavers, variations, overtime payments etc.). This restricted sample size reduces the opportunity for the auditors to identify non-compliance or inconsistency in the operation of key controls, and may therefore reduce the amount of reliance that should be placed upon the compliance assurance opinion given.

10.1.5 The implementation of actions identified as part of the 2022/23 Payroll audit will be reviewed as part of the 2023/4 Payroll audit which will be undertaken by the Cambridgeshire audit team (see below).

10.2 2023/24 KEY FINANCIAL SYSTEMS AUDITS

10.2.1 The Head of Internal Audit & Risk Management attended a meeting of the Lead Authority Board on the 25th October 2023, alongside the other Heads of Audit from the Lead Authorities. It was agreed at the meeting that Cambridgeshire will deliver the internal audits of the Pensions and Payroll systems in 2023/24, while

West Northamptonshire will deliver the audits of Income Processing and Debt Recovery, and North Northamptonshire will deliver the audit of Accounts Payable.

- 10.2.2 The Cambridgeshire team has therefore commenced planning for the Pensions and Payroll audits. At the time of writing, the Terms of Reference for the Payroll audit has been issued, with the Pensions Terms of Reference currently in draft, and the team have begun booking in initial walkthrough testing for key controls within the Payroll system.