

Agenda Item No. 6

TITLE **Internal Audit Progress Report**
To: **Audit & Accounts Committee**
Date: **22nd September 2020**
From: **Duncan Wilkinson, LGSS Chief Internal Auditor**

1. PURPOSE

- 1.1 To report on the main areas of audit coverage for the period to 19th August 2020.

2. BACKGROUND

- 2.1 The role of Internal Audit is to provide the Audit & Accounts Committee and Management independent assurance on the effectiveness of the controls in place to ensure that the Council's objectives are achieved. Internal Audit coverage is planned so that the focus is upon those areas and risks which will most impact upon the Council's ability to achieve these objectives.
- 2.2 Cambridgeshire County Council (CCC) Joint Management Team (JMT) considered this report on 3rd September 2020 prior to its submission to the Audit & Accounts Committee on 22nd September 2020.

3. RECOMMENDATION

3.1 The Committee is

- a) asked to note and comment on the report
- b) Agree that the Audit Plan for the remainder of 20/21 reflects the current environment and that outcomes are reported to JMT and the Audit and Accounts Committee using the normal reporting arrangements.

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LGSS Internal Audit & Risk Management

Cambridgeshire County Council

Update report

As at 19th August 2020

Section 1

1. INTRODUCTION

- 1.1 Following the outbreak of the Pandemic it was decided to pause the agreed 2020/21 Audit Plan and to fully align resources to risks being managed by Cambridgeshire County Council, consistent with the service's BCP. This has been achieved by increased consultation and direction by the Council's Deputy Chief Executive and Chief Financial Officer.
- 1.2 During the first quarter, the team completed the reporting of the 2019/20 internal audit plan and the annual Chief Internal Auditor opinion was confirmed in the Internal Audit Annual Report and the Council's draft Annual Governance Statement.
- 1.3 Work in the first few months of this financial year was therefore more reactive to risks and issues and also more of a probative nature e.g. spend analysis as transactions are processed through ERP. Although this is a rapidly moving environment, the internal audit team is anticipating reverting to a more structured work-plan for the second half of the year although it is obvious that Covid-19 will continue to directly affect the focus of this work.
- 1.4 In the two quarters of the year there has been a significant amount of work directed towards daily spend transactions, payroll and contract management as the pandemic directly impacts those areas of control and that work will augment assurances that these key financial control systems continue to work effectively during this period.
- 1.5 The team has been proactive in engaging with the Joint Management Team in recommending areas where existing controls required enhancing, identifying new areas of risk that required control and also undertaking targeted audit work to increase assurances in those key areas of risk.
- 1.6 At the start of this Pandemic there was a request that colleagues across the Council be deployed to those areas of greatest need. Accordingly, internal audit colleagues were seconded to support corporate/community priorities as follows:

- Principal Officer Seconded to Income for a total of 21 days
- Associate Auditor Seconded to Addenbrook's Hospital for a total of 13 days

In addition, the team seconded an associate auditor to the income team and that has recently become a permanent move, resulting in another vacancy for the team to fill after this period has ended.

- 1.7 Section 2 of this report summarises where the remaining resources have been deployed to date. When the Audit Plan was paused, the business continuity arrangements dictated that the normal granularity of detail supporting resource

allocation was suspended however, Section 3 of this report gives a more detailed overview of the work undertaken and Annex A gives a more detailed summary.

- 1.8 Much of the introduction and early work has already been reported to the Audit & Accounts Committee at its July meeting (for information) but has not yet been seen by JMT. This updated report will go to the September Audit & Accounts Committee meeting.

2 INTERNAL AUDIT RESOURCES

- 2.1 As already outlined, the original 20/21 Internal Audit Plan (1,750 days) was paused in accordance with business continuity procedures and the team was deployed to the areas of greatest need. In the period, a total of 700 days have been targeted towards internal audit work as follows;

Summary of Audit Themes	Days	%
A 19-20 Audit Plan Close Down	32.1	4.59
B Recurring & Ongoing Covid-19 Assurances		
• AP-GPC spend analysis	164.5	23.51
• Covid 19 CCC Risk Management	33.1	4.73
• Contract Audit including PPN02/20	94.5	13.51
C Ad-Hoc Projects		
• Targeted 20-21 Audit Work	287.1	41.04
D Investigations	76.6	10.95
E Audit Committee/JMT	11.7	1.67
Total Days	699.6	100

- 2.2 Section 3 gives more detail of the type of work being undertaken, however progress to date is in line with the commissioned 1750 days.
- 2.3 If the national improvement in Covid projections continues (and for example a 2nd wave is not experienced) the above pattern of audit work is expected to continue until at least 30th Sept, as services will not return to (new) business as usual immediately. The Audit service must review key financial systems during 20/21 and therefore a preliminary 6 months audit plan is developed (as set out in section 4).

3 SUMMARY OF WORK COMPLETED TO 31ST AUGUST 2020

- 3.1 The Pandemic impacted immediately upon the Council, with business as usual making way for a new and unknown set of challenges, requiring an urgent review of risk management and the necessity for decisions to be taken quickly, often as a direct result of Government directives.
- 3.2 Internal audit responded quickly to these challenges by increasing assurances on key areas, such as spend, risk management and supplier relief as well as supporting directorates in developing processes and proportionate governance in new areas.

3.3 Recurring & Ongoing Covid-19 Assurances

3.3.1 Daily Spend

Although annual internal audit reviews of the AP system consistently give positive assurance, during the pandemic urgent spend decisions and a change to business as usual increased the risk of inappropriate expenditure. To give additional assurance, internal audit reviewed all Accounts Payable transactions on a daily basis to identify potential fraudulent or inappropriate entries to provide additional assurances to S151 Officer and other stakeholders that expenditure is legitimate and proportionate.

It must be highlighted that this work cannot guarantee the prevention of fraudulent or inappropriate spend but emphasis was placed on the potential impact that Covid-19 has had. Unusual transactions were subject of further audit testing and those deemed as warranting further scrutiny were referred to the Head of Finance. Weekly reports were produced that summarised the week's transactions reviewed, tested, and referred to finance.

This work ceased at the end of August 2020, however Internal Audit is currently planning additional work in this area to specifically focus on payments to suppliers in excess of £20k.

3.3.2 PPN 02/20 – Supplier Relief

In response to this new notice (and similar) from the Cabinet Office, internal audit developed a full suite of procedures for the end-to-end supplier relief process. This was approved by Joint Management Team (JMT) and the Council Leader. The Audit team is currently responsible for initial recording and monitoring through the process and, depending on complexity, internal audit colleagues will assess the applications to support the contract managers. This has notably included the highways contract and the waste management contract. The Head of Audit at Cambridgeshire County Council (CCC) sits on the Panel to recommend acceptance/rejection of application. This work is now tailing off but contract audit in the latter part of the year will include a focus on additional spend claimed by suppliers as a result of COVID-19.

3.3.3 COVID -19 Risk Register

Following a request from JMT Gold, using the Corporate Risk Register as a base, Internal Audit and Transformation colleagues developed full Covid-19 Risk register, as well as a supplementary key control focused risk register, to allow JMT to assign risk owners and manage the trigger of the pandemic pro-actively. The team initially provided a weekly, then fortnightly update report to the Director of Business Improvement and Development for consideration and submission to JMT. It has been

agreed that this will now cease and the Covid-19 triggers and controls will be incorporated into Corporate and Directorate level risk registers.

3.3.4 Grants/Loans

Internal audit was requested by the S151 Officer to help produce an effective and proportionate governance process to underpin grant/loan arrangements whereby the Council supports early year's centres during the Covid-19 pandemic. This has been completed and the Head of Audit sits on the decision Panel.

The team is also working to assure test, track and trace funding, support to homecare providers and BC considerations and reviewing the grant/loan support to residential homes in distress to ensure good governance.

3.3.5 Procurement Waivers

Internal audit was asked by the Head of Procurement (supported by the Section (S)151 Officer) to review a recent increase in waivers. The main concern was the legitimacy of these and the extent to which they can be supported as necessary due to Covid-19 pressures. This compliance work has now been completed and the draft report has provided good assurance that the correct process for waivers has been followed in line with Contract Procedure rules, with a particular focus on assessing the legitimacy of any Covid19 causal factors stated in waiver documentation. The final report is expected to be issued by the 4th of September.

3.4 Ad-Hoc Projects

3.4.1 Less than Best Process and Rent Reviews

Internal audit was asked to provide a high level review to the system in place for the Councils 'less than best' process for early years' settings and the current rent review process. The audit reviewed the process for establishing 'less than best' decisions from the 15 stage procedural note used by the Property team.

3.4.2 King's Dyke Tender

Internal audit was commissioned to do an urgent piece of work around the effectiveness of the tender assessment process, and the understanding of an additional £1.13m of costs submitted by the successful bidder, following an error in the original tender submission. The Report issued on 22 May, 2020 to the Executive . Director, Place and Economy, the Service Director, Highways and Transport and the Assistant Director, Infrastructure and Growth gave a number of recommendations. Following the assurances given as part of this work, the project progressed to the next stage with acceptance of both costs and assurances of the external advisors regarding the robustness of their tender assessment process.

3.4.3 Private Finance Initiative (PFI) rebate

Internal audit worked on the assessment of insurance contributions and rebates on PFI contracts and resulted in around £50k requested back by the Council. There was the suggestion that this should be rolled out to look at all PFI's but due to Covid was not progressed further.

3.4.4 Highways Contract OBR

The team undertook work assessing the 'actual cost' information provided to the Council by the contractor in March, resulting in a significant repayment to the Council. This exercise resulted in numerous meetings, conversations and emails that confirmed the contractor was required to resubmit their final position as at 31st March 2019 and 2020 to allow the OBR to continue. Despite numerous reminders to the contractor, this has not been forthcoming. In early September 2020 the Executive Director, Place & Economy, sent a letter to SKANSKA and in clear terms set out the Council's expectations.

3.4.5 Capital Programme Major Infrastructure

The Executive Director, Place & Economy commissioned an urgent piece of work for an end-to-end review of 4 projects within the capital programme, all with different emerging issues and a full review of the wider service to recommend governance improvements. These reports are currently at draft stage.

3.4.6 Feeder systems

To support the daily spend work and give greater assurance on payments made by the Council work has commenced to establish, evaluate and test controls in systems that interface payments and sales invoices into ERP gold. This work will provide assurance that feeder system control environments are sufficient to ensure only legitimate invoices and payments are issued.

3.4.7 Grants

Work has been completed to confirm 19/20 grants that require audit review in 20/21 and a programme of work in line with sign off deadlines, including CA grants agreed. Two grant audits have been completed to date, with a third to be completed w/e 4th of September.

3.4.8 Infection control grant

Work to review the governance arrangements in place to administer the Infection Control grant is ongoing. An interim recommendation regarding the information required in provider returns has already been made to reflect the time criticality of this grant. Fieldwork is nearly complete with a draft report expected w/e 4th of September.

4 PROPOSED AUDIT PLAN

- 4.1 For a number of years internal audit has had arrangements whereby the Plan is changed throughout the year to address in year risks, in consultation with the Deputy Chief Executive & Chief Finance Officer and the Audit Committee. This has resulted in a very flexible and responsive service. The current working environment has shown the benefit of this approach and that, by working closely with key stakeholders in the Council, the audit resource can be deployed to the areas of greatest need.
- 4.2 As such, it is proposed that the Audit Plan for the remainder of 20/21 reflects the current environment, i.e. is truly flexible, and that outcomes are reported to JMT and the Audit and Accounts Committee using the normal reporting arrangements. The Plan is being considered by JMT during September and will be reported to the Audit & Accounts Committee at its October meeting.

5 INVESTIGATIONS

- 5.1 The team has experienced higher than normal workloads in investigations with work carried over from 2019/20 having a significant impact on resources.
- 5.2 Annex B of this report summarises the work of the Counter Fraud service to date in 2020/21.

6 FOLLOW UPS

- 6.1 The team has not lost track of following up previous audit recommendations. These were being actively monitored up until the end of March 2020 but, in line with the business continuity arrangements and mindful of Council service pressures arising from Covid-19, internal audit paused this process.
- 6.2 The team has recently asked for update on overdue recommendations but due to the impact of Covid19 on services (and officers being on leave) full updates and verification of reported implementations has not been possible in all cases. This recent exercise was done with the recognition that services are still not at full business as usual and with the knowledge that none of the overdue recommendations are classified as essential/critical. As such updates have not been robustly pursued to date, in line with the approach agreed in March.
- 6.3 A more formal follow up process will be undertaken from September, subject to Covid-19 pressures allowing, the audit team will revisit outstanding recommendations to confirm they remain relevant and proportionate and will commence discussions, where appropriate, with services to ascertain the current position. This process will review evidence to ensure that all relevant recommendations are either confirmed as being implemented or that revised dates for implementation are agreed.
- 6.4 The outstanding management actions as at the end of August 2020 are summarised in the table below.

	Category 'Essential' recommendations		Category 'Important' recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total
Implemented	0	0%	39	70%	39	70%
Actions due within last 3 months, but not implemented	0	0%	3	5%	3	5%
Actions due over 3 months ago, but not implemented	0	0%	14	25%	14	25%
Totals	0		56		56	

- 6.5 There are currently 17 management actions outstanding which will be prioritised within the September review.
- 6.6 The key financial system audits from 19/20 were issued toward the end of the year coinciding with the start of the pandemic. It was decided to pause further activity relating to these completed audits to fully align resources to risks being managed by Cambridgeshire County Council, consistent with the service's BCP, and to help ensure relevant services could do the same and respond to the challenges pose by the pandemic without distraction. As such, target dates for the key financial systems recommendations were not agreed. This will be done as part of Internal audit's renewed formal follow up process from September onwards and those recommendations will also be considered during the 20/21 audits to commence in quarter 3.
- 7 Source Documents Annexe A and B