

Internal Audit Annual Report 2021-2022

To: Audit & Accounts Committee

Date: 31st May 2022

From: Head of Internal Audit & Risk Management

Purpose: The Public Sector Internal Audit Standards require that the Chief Internal Auditor presents an annual report to the Authority's Audit & Accounts Committee. This is reflected in the terms of reference of the Authority's Audit & Accounts Committee.

The purpose is for Audit & Accounts Committee to consider the Annual Internal Audit Report for 2021 – 22 and be made aware of the Head of Internal Audit & Risk Management's opinion on the state of the Internal Control Framework within Cambridgeshire County Council.

Key issues: The Annual Internal Audit Report forms part of the evidence that supports the Authority's Annual Governance Statement 2021 – 22.

Recommendation: Audit & Accounts Committee is requested to review and comment on the Annual Internal Audit Report.

Officer contact:

Name: Mairead Claydon
Post: Acting Head of Internal Audit & Risk Management
Email: Mairead.Claydon@cambridgeshire.gov.uk
Tel: (01223) 715542

Member contact:

Name: Councillor Wilson
Post: Chair, Audit & Accounts Committee
Email: Graham.Wilson@cambridgeshire.gov.uk
Tel: 01223 706398

INTERNAL AUDIT & RISK MANAGEMENT ANNUAL REPORT

2021/22

Internal Audit & Risk Management Annual Report 2021/22

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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 2021/22

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 My 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 Public Sector Internal Audit Standards (PSIAS) also require the CAE to confirm that the Internal Audit service has operated with an adequate level of resource to deliver an annual audit opinion. Internal Audit operates independent of the organisation, as per the Internal Audit Strategy and Charter, and there have been no compromises of Internal Audit's independence in its operation this year. I can also confirm that the service was compliant with PSIAS requirements (see Section 6, below, for more detail).

On the basis of the audit work undertaken by Cambridgeshire's Internal Audit team during the 2021/22 financial year, a satisfactory assurance opinion has been reached.

My opinion is derived from an assessment of the range of individual opinions arising from work completed in 2021/22 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 Appendix A, below; however, I would particularly highlight the following key pieces of evidence on which my opinion is based:

- Review of the organisation's Code of Corporate Governance and the evidence supporting the Council's Annual Governance Statement, which demonstrate a sound core of organisational governance;*
- The reviews of Key Financial Systems for which Cambridgeshire County Council is the Lead Authority consistently demonstrating a good or moderate assurance across all systems;*

- *The continuing, positive, organisational response to the Covid-19 pandemic, which demonstrated the strength of the Council's business continuity and risk management processes and the ability of senior management to respond effectively to unexpected challenges;*
- *Contract management remains a key area of focus for Cambridgeshire County Council and this has been reflected in the Internal Audit plan and work completed throughout the year. A number of initiatives to improve contract management in key areas are due for implementation during the 22/23 financial year.*

The opinion of satisfactory has reduced from last year's 'strong satisfactory' because of a current known issue with payroll control accounts. This is covered in more detail in sections 4.2.3 – 5 of this report.

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.

- *Neil Hunter, Head of Internal Audit & Risk Management*

3. REVIEW OF INTERNAL CONTROL

3.1 How Internal Control is Reviewed

- 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 changing public sector environment and emergence of new risks means that best practice necessitates a flexible approach and re-evaluation of the Audit Plan throughout the year. In 2021/22, revisions to reflect the changing risk profile of the organisation were approved, on an ongoing basis, throughout the year by CLT and the Audit and Accounts Committee. This approach ensures that work completed is sufficient to give an evidence-based opinion over the control environment for the year.
- 3.1.3 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.
- 3.1.4 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.
- 3.1.5 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.
- 3.1.6 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, which were updated at the meeting of Audit & Accounts Committee on 28th September 2021:

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.

- 3.1.7 Organisational impact will be reported as major, moderate or minor (as defined below). All reports with major organisational impact are reported to CCLT, 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.

3.2 *The Basis of Assurance*

- 3.2.1 The findings and assurance levels provided by the reviews undertaken throughout 2021/22 by Internal Audit form the basis of the annual opinion on the adequacy and effectiveness of the control environment.
- 3.2.2 In 2021/22, the Audit Plan has been based on assurance blocks that each give an opinion on the key control environment elements, targeted towards in-year risks, rather than a more traditional cyclical approach that looks at each system over a number of years. The Audit Plan reflects the environment in which the public sector audit operates, recognising that this has changed considerably over the past few years with more focus on, for example, transformation, contract management, safeguarding and achieving value for money; and in 2021/22, an emphasis on providing assurance over organisational arrangements to respond to the coronavirus pandemic often through assurance work on grants received.

Section 4

4. INTERNAL AUDIT IN 2021/22

4.1 Overview and Key Findings

4.1.1 Section 4 of this report provides information on the audit reviews carried out in 2021-22, by assurance block.

4.1.2 For the reviews undertaken during 2021/22, 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 underpins the overall strong satisfactory 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 recommendations to further improve the system of control and compliance. It is recognised that management has the responsibility to manage risk and 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.

4.1.4 An overview of the implementation of actions as at 31st March 2022 is summarised in Table 1, below¹:

Table 1: Implementation of Audit Actions 2021-22

Recommendation Category	Essential	High	Important & Medium²	Total
Agreed and implemented.	3	5	77	85
Agreed and due within the last 3 months, but not yet implemented.	0	1	5	6

¹ Please note that the total reflects the number of recommendations required to be implemented within 2021-22, and therefore includes recommendations made in 2020-21.

² Internal Audit amended the categories of recommendations during the year. This column captures recommendations under the old 'important' category the more recently introduced 'medium' rating.

Agreed and due over 3 months ago, but not yet implemented.	1	0	40	41
Agreed but not due until after 31 March 2022.	0	0	0	0
TOTAL	4	6	122	132

- 4.1.5 Details of all outstanding actions are provided at Annex B to this report.
- 4.1.6 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. This creates a risk that the Council may be unable to share data with other public sector parties, and could be disconnected from the PSN. PSN had confirmed that they were adopting a ‘supportive posture’ towards authorities with certification lapses during the Covid pandemic, which reduced this risk in the short-term, and a target date for re-certification was set at 30th November 2021.
- 4.1.7 However, the corporate decision to delay the IT data centre move - originally scheduled for the end of May 2021 - to the end of November 2021, prevented IT colleagues from meeting this original timescale, as the data centre move needed to be complete before the work to re-obtain certification could be conducted. As a result, the timeline for obtaining recertification has slipped. The service conducted an initial ITHC (the first step in obtaining certification) in January 2022, and developed a Remediation Plan to rectify the issues identified in February 2022. A second ITHC is planned to take place in late June 2022, and once this is completed the service can re-apply for PSN certification in July. Internal Audit are receiving regular updates from the service on the work to address this outstanding issue.
- 4.1.8 Throughout the year, colleagues in Place & Economy (P&E) have been addressing project and contract governance issues identified in 2020/21. The service will report progress with the implementation of their agreed actions as part of the paper from the Director of P&E to the 31st May 2022 Audit & Accounts meeting.
- 4.1.9 Details of outstanding recommendations, with explanations and updates, are regularly reported to the Audit & Accounts Committee as part of the internal audit progress updates.
- 4.2 *Financial and Other Key Systems*

- 4.2.1 This is the 2021/22 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; 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 2021/22 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 Receivable, Purchase to Pay and Debt Recovery systems to the other partners, and receive reports on the Payroll and Pensions systems. At the time of writing, reports on Pensions and Payroll have yet to be received for the 2021/22 financial year, although partners have provided an expected date of 20th May 2022 for delivery of the draft Pensions report.
- 4.2.3 Internal Audit is aware of an issue with payroll control accounts, where there is currently 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.
- 4.2.4 Cambridgeshire's Internal Audit service is not able to audit the payroll control accounts issue directly, as the Payroll system is held by West Northamptonshire under the Lead Authority model. Payroll audits are now conducted by the Lead Authority; previously they were delivered by colleagues based at Milton Keynes via the LGSS Internal Audit service. However, a full audit of the Payroll system for CCC was not supplied by LGSS for the 2019/20 financial year and in 2020/21 an HR Transactions audit was supplied but not an audit of the Payroll system. For the 2021/22 financial year, despite challenge from Cambridgeshire Internal Audit, payroll control accounts have been excluded from the scope of the Payroll audit, and the draft report covering the rest of the system has yet to be received.
- 4.2.5 As such, the annual audit opinion has been caveated, as the Head of Internal Audit is not able to provide satisfactory assurance over the operation of the payroll system in 2021/22. 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 identified the following sources of indirect assurance:
- Finance colleagues have confirmed that this issue has been considered by External Audit and they are content that the unreconciled items do not represent a risk of material misstatement of the Council's accounts.

- The Director of Resources has confirmed that a full action plan setting out how the control accounts issue will be addressed across all partners is expected at the Lead Authority Board meeting in June 2022.
- CCC Finance report that they have been able to access copies of detailed payroll control account reconciliation documents since January 2022.
- CCC Internal Audit has seen copies of an action plan and briefing note from work conducted by Milton Keynes Council to address issues in their own payroll control accounts. While this does not address the unreconciled balances at Cambridgeshire it does provide some assurance that some issues affecting the wider payroll system have been identified.

4.2.6 Table 2 below details the assurance levels of all key systems audits undertaken in 2021/22, compared to the assurance levels in 2020/21. Where reports are still at draft stage at the time of writing, the draft audit opinion is indicated.

Table 2 – Key Financial Systems Audits 2021/22

Key Financial Systems:	Audit Opinion 2021-2022		Audit Opinion 2020-2021	
	Environment	Compliance	Environment	Compliance
Treasury Management	Good	Good	Good	Good
Purchase to Pay (draft)	Good	Good	Good	Good
Accounts Receivable (draft)	Good	Good	Good	Good
Debt Recovery (draft)	Moderate	Good	Moderate	Moderate
Payroll	TBC		Not Completed	
Pensions	TBC		Substantial	Good

4.3 Risk-Based Reviews

4.3.1 Risk-based reviews have been a key element of the assurance on the entire control environment of the authority in 2021/22. This assurance block includes reviews which have been 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. This block also incorporates on-going work on initiatives to promote value for money. Each audit we undertake includes consideration of value for money at its core.

4.3.2 Risk-based reviews completed in 2021/22 include reviews of the following key areas:

- Dedicated Schools Grant High Needs Block Funding
- Insurance Fund
- Annual Key Policies & Procedures Review (draft)
- Fees and Charges Policy & Compliance

4.3.3 The outcomes of all risk-based reviews issued in 2021/22 can be seen at Annex A.

4.4 *Compliance*

4.4.1 Compliance work is fundamental, as it provides assurance across all Directorates and therefore has a significant influence on the Head of Internal Audit opinion on the control environment. The audit coverage for compliance is underpinned by an assessment of the Council's framework of controls (often directed by policies and procedures) and includes a focus on those core areas where a high level of compliance is necessary for the organisation to carry out its functions properly. The work involves compliance checks across the organisation to provide assurance on whether key policies and procedures are being complied with in practice. As a part of this work, the existing controls are challenged to ensure that they are modern, effective and proportionate.

4.4.2 All risk-based and key financial systems reviews do include a compliance element. As well as a range of contract reviews, discussed below at 4.6, Internal Audit conducted compliance work in the following areas:

- Declaration of Interest – Members
- Declarations of Interest -Officers & Related Parties Assurances
- Light Touch ICT Security Healthcheck
- Expenditure over £20k
- Procurement Compliance

4.4.3 Where weaknesses have been identified, recommendations have been made to improve compliance and/or procedures and controls; all recommendations which are considered to be of medium or high impact on the control environment are followed up by Internal Audit to ensure they have been implemented.

4.5 *Contracts Reviews*

4.5.1 In 2021/22, Internal Audit has provided reviews of a number of contracts, including the Healthy Child Programme Section 75 Agreement and the Highways Service Contract open book review, with the second stage of this work resulting in a significant repayment to the Council for the over recovery of payments.

- 4.5.2 Internal Audit has also provided ongoing advice and support to the Contract Management Steering Group, Highways Contract Commercial Group and Waste Project Board.

4.6 ICT and Information Governance

- 4.6.1 A light touch ICT Security Healthcheck was undertaken and completed in May 2021. No further internal audit reviews on ICT were undertaken in-year due to the major data centre move project. In April 2022, a review of ICT Change Management has been initiated and further IT reviews are planned throughout the year.

- 4.6.2 During 2020/21, Internal Audit provided assistance to Information Governance colleagues in obtaining information requested under the Freedom of Information Act and met with HR and Customer and Digital Services to discuss planning for implementation of a s113 agreement. Representatives from Internal Audit also attend regular meetings of the Information Management Board.

4.7 Grants and Other Head of Audit Assurances

- 4.7.1 Internal Audit testing again confirmed that grants received by Cambridgeshire County Council requiring review and certification by Internal Audit have been spent in accordance with grant conditions, including the ongoing troubled families grant process.

- 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 2021/22 Internal Audit completed five grant reviews for the CPCA: the Local Transport Capital Block Funding (Highways Maintenance); the Pothole & Challenge Fund; the Bus Service Operators Grant (BSOG); the Additional Home to School Grant; and the Active Travel Fund.

- 4.7.3 Internal Audit has continued to support review of grants distributed to support the local response to Covid in 2021/22. The team completed a certification for the Covid Community Testing Grant and regularly attended the Sustainability Panel, to provide advice and challenge on the distribution of Covid sustainability grant to Early Years and Childcare providers. The Panel's approach is to target funding on providers where the greatest likelihood of longer-term sustainability can be achieved by a single injection of funding to fill or bridge a gap in cash flow and short-term viability. Audit presence on this decision-making panel supports financial and risk-based scrutiny of provider

applications and provides ongoing review of compliance with panel governance processes and criteria.

4.8 Policies and Procedures

4.8.1 In 2021/22, Internal Audit has maintained a focus on review of key policies and procedures, to ensure that these are: up to date; fit for purpose; effectively communicated; routinely complied with across the organisation; monitored and routinely improved.

4.8.2 In addition to work which focuses specifically on individual Council policies and procedures, every risk-based audit review undertaken considers the current policies and procedures in the service area under review, and audit recommendations include suggested revisions or updates to policies as appropriate.

4.9 Schools Audits

4.9.1 In 2021/22, Internal Audit conducted a review of schools payroll. This identified that Cambridgeshire County Council was not able to obtain third-party assurance over schools payroll systems and therefore that the Council currently has little assurance over schools' compliance with the requirements of the Schools Financial Regulations with respect to payroll. It was therefore agreed that Internal Audit would undertake a programme of reviews of individual schools' financial controls, particularly looking at payroll controls, and targeted towards schools which have been identified as higher-risk via the Schools Finance team or Schools Causing Concern process, or where there had been recent changes of leadership at the school.

4.9.2 Audit undertook 14 schools visits between November 2021 and March 2022 and issued reports to the schools. Headteachers are requested to provide management responses and agree recommended actions, and return the report to Internal Audit. A final copy is then issued to the Headteacher and Chair of Governors.

4.9.3 A consolidated report was also 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 for changes to the Schools Financial Regulations.

4.10 Other Work

4.10.1 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. In particular, as reported last year, in 2021/22 there was a high volume of queries and requests for advice relating

to the organisation's pandemic response. 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.

4.11 Summary of Completed Reviews

4.11.1 A summary of all audit reports issued in 2021/22 is attached at Annex A.

5. ANTI-FRAUD & WHISTLEBLOWING

5.1 Overview of Whistleblowing Cases

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

5.1.2 In 2021/22, a total of 20 whistleblowing referrals were received and processed by the Internal Audit Team at CCC. This is comparable to a total of 23 referrals received in 2020/21 and 24 referrals in 2019/20:

Table 3: Whistleblowing Referrals Received by Internal Audit in 2021/22:

Whistleblowing Cases reported to Internal Audit in 2021/22		Open	Closed	Total
Fraud	Third Party Fraud	0	1	1
	Schools Fraud	0	1	1
	Officer Fraud	1	1	2
	Direct Payments Fraud	2	0	2
	School Admissions Fraud	0	1	1
	Total Cases of Alleged Fraud	3	4	7
Governance	Conflict of Interest	1	1	2
	Internal Governance Allegation	0	3	3
	School Governance Allegation	0	1	1
	Total Governance Allegations	1	5	6
Safeguarding	Safeguarding Concerns	0	2	2
Overpayments	Payroll Overpayment (Night Allowances)	0	1	1
HR	Grievance / Respect at Work concerns	0	2	2
Information Security	Information Security Concern	0	1	1
Theft	Libraries Theft	0	1	1
Total		4	16	20

5.1.3 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 2021/22 is set out at Table 4, below:

Table 4: Outcomes of Whistleblowing Referrals Received in 2021/22:

Outcome of Case	No. Cases
Referred into formal complaints process.	2
Internal Audit investigation report.	4
HR advice & recommendations.	2
No action required.	3
No powers to investigate.	1
Investigation confirmed no serious concerns.	3
Resolved within service.	1
Investigation ongoing.	4
2020/21 Totals	20

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.

- 5.2.2 Of note in the 2021 – 22 financial year is that two separate investigations have identified non-compliance with Council policies on consultancy and interim worker appointments. The first investigation reviewed a timesheet fraud committed by an interim worker, which was reported to Audit & Accounts Committee in March 2022; the second investigation was in response to value for money findings by the Council's former external auditors and a related whistleblowing allegation.

- 5.2.3 In both instances, Internal Audit has agreed recommendations with management to strengthen the Council's control environment around commissioning consultancy and interim workers, with updates to the Agency & Interim Worker Policy already having taken place. In addition to this, Internal Audit has committed to undertake additional assurance work in 2022/23 to review procurement waivers and test compliance with correct account coding on the general ledger.

5.3 *Proactive Anti Fraud Work*

- 5.3.1 During 2021/22 the Internal Audit team undertook a range of pro-active counter-fraud activities. Internal Audit conducted a major review and rewrite of the Council's Whistleblowing Policy, which was approved by Audit & Accounts Committee in July 2021. The rewrite has streamlined the policy and

made it more user-friendly, as well as signposting other Council policies which may be used to raise concerns. Following the update of the policy, an awareness campaign was run with the assistance of the corporate Communications team, including a run of regular posts in the staff newsletter 'Friday Focus' on specific aspects of whistleblowing.

- 5.3.2 Following the review of the Whistleblowing Policy, Internal Audit have started the process of reviewing and updating the Anti-Fraud & Corruption Policy and the Anti-Money Laundering Policy, with the intention of bringing these to the Audit & Accounts Committee to approve in the 2022/23 financial year. Internal Audit have also been working on drafting a new policy to provide greater guidance and support to officers on identifying and dealing with suspected fraud or misuse of direct payments monies. This is being developed in conjunction with staff from the Adults Finance Team, Disability Social Care 0-25 Team, and the Debt Team.
- 5.3.3 Additionally, in October Internal Audit were made aware of 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.
- 5.3.4 A business case for the project was approved by Strategy & Resources Committee at the start of November 2022. Subsequently, as staff turnover meant that the project was under-resourced, Internal Audit committed additional resource to support other project activities. This has included:
- Supporting the development of a Memorandum of Understanding (MoU) to govern the project between the County Council and the District, Police and Fire authorities.
 - Attending regular project meetings with representatives from CCC and the District Councils.
 - Identifying other areas of project governance in need of further development and supporting implementation. This has included development of a Data Protection Impact Assessment and Equalities Impact Assessment, both of which are now underway.
 - Identifying and liaising with data owners both internal and external to CCC, and working with colleagues in IT and Business Intelligence to identify how data required for the project can be generated.
- 5.3.5 At the end of March 2022 a specialist project resource was allocated to the project, which will provide greater resilience going forward and should enable the Council to co-ordinate remaining project implementation activities more

quickly. Internal Audit are also recommending that when the initial phase of the project to conduct data-matching to identify Council Tax fraud is complete, the Council should formally consider whether there is potential for the project to be expanded to support other internal counter-fraud activities. Given the nature of the Fraud Hub software, there is significant opportunity for Cambridgeshire to explore using data-matching outputs to identify and investigate fraud in areas such as social care payments.

5.4 National Fraud Initiative (NFI) 2021/22:

- 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 The current exercise commenced in September 2020, when the Council supplied datasets for national data matching purposes, including payroll, creditors, concessionary travel, and procurement data. Identified 'matches' were then released by the NFI in January 2021; these matches are being investigated by the Council, with oversight from the Internal Audit team. The total number of matches for CCC is 8,629 across 31 reports which have a high or medium risk rating. Given the extremely high volume of matches, a risk assessment process is undertaken to prioritise the most high-risk matches for review in the coming year. Outcomes are reported to Audit & Accounts Committee on an ongoing basis, as part of the quarterly Internal Audit Progress Reports.

6. RISK MANAGEMENT IN 2021-22

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 Director of Business Improvement and Development champions and takes overall responsibility for seeking to ensure that effective risk management processes operate throughout the Council, including co-ordinating identified improvement activity.
- 6.1.3 CCLT held a meeting in February 2022 to discuss the Corporate Risk Register, and outcomes from the meeting, which included a refresh of the corporate risks and supporting details, have been produced. The Committee will be given an update on progress at the next meeting.
- 6.1.4 The latest iteration of the Corporate Risk Register was presented to Strategy and Resources Committee on the 29th March 2022, along with an updated Risk Management Policy following a full review of the policy and procedures. A copy of this report is attached at Annex C, with the Risk Register at Annex D, Risk Management Policy at Annex E, and Risk Appetite Statement at Annex F.
- 6.1.5 At the Strategy & Resources Committee meeting, the Chief Executive noted that he was keen to look rigorously at the Council's Risk Register with CLT and would also be looking at officer and operational governance across the authority. Following discussions with the Committee, it was agreed that in future the risk register will record both the current risk score and previous score, to facilitate scrutiny of the register by management and Committees.
- 6.1.6 GRACE (the RM software) is up to date and the quarterly reporting cycle is back to 'business as usual', which will include a challenge session with CLT to ensure that when risk comes to CLT they can focus on live and emerging triggers or indeed new risk areas.

6.1.7 Over the course of the next year, the risk management team will undertake a programme of work which challenges and assesses each of the Council's Corporate Risks. This will include an evaluation of the extent to which the controls documented in the risk register are being complied with. The intention is that for each risk three levels of assurance are given:

- **Governance controls** (are the planned controls proportionate and effective in mitigating the identified risk and triggers);
- **Compliance** (are those controls being routinely complied with in practice);
- **Substantive** (are the controls being effective in mitigating the risk in practice).

6. INTERNAL AUDIT PERFORMANCE AND QUALITY ASSURANCE

6.1 *Delivery of the 2021/22 Internal Audit Plan*

6.1.1 The Cambridgeshire County Council Internal Audit Plan for 2021/22 was developed in early 2021, with the required resources confirmed as 1770 days. The draft Audit Plan was reviewed and agreed by Joint Management Team (JMT), and reviewed and agreed by the Audit & Accounts Committee on the 23rd March 2021.

6.1.2 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 approved by Corporate Leadership Team (CLT) and the Audit and Accounts Committee (AAC) through regular progress reporting. The key performance measure for Internal Audit was approved as completion of the Audit Plan, which is reported to CLT and Audit Committee at least quarterly.

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

6.2 *Compliance with Public Sector Internal Audit Standards*

6.2.1 The Internal Audit service has operated in compliance with Public Sector Internal Audit Standards (PSIAS) throughout the year. An internal assessment of compliance with PSIAS was conducted in early 2021 and found no areas of non-compliance.

6.2.2 An external assessment of Internal Audit's compliance with Public Sector Internal Audit Standards (PSIAS) is required every five years. This was most recently completed in 2016/17 with a follow up visit undertaken in May 2017, which confirmed the service's compliance with the latest set of standards. An external review by the Head of Internal Audit at Peterborough City Council is currently underway. Initial feedback on the outcome of the review has not identified any concerns and it is hoped this will be completed shortly.

6.3 *Service Development*

6.3.1 Continuing Professional Development has been a major focus of the quality assurance programme in 2021/22, to ensure that staff have the skills to carry out their responsibilities with proficiency and deliver work of the required quality.

6.3.2 In 2021/22, due to the impact of the remote working instituted as a result of the Covid-19 pandemic, professional development has been delivered remotely. Weekly team development meetings are used to deliver training and development to all staff, and a system of post-audit assessments against the

CIPFA Excellent Internal Auditor standard is used to identify areas for development on an ongoing basis, in tandem with regular supervision of all staff.

- 6.3.3 The Internal Audit team continues to develop staff and capacity for the future through the 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).
- 6.3.4 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”.
- 6.3.5 Following the service’s disaggregation from LGSS, Internal Audit undertook a full review of the Internal Audit Charter, along with a review of key processes and working practice within the Internal Audit team. The Internal Audit Charter has been completely re-drafted, with appendices setting out key principles and processes for the team, including the audit planning process, audit workflow, assurance ratings etc. The Charter also considers the culture of the Internal Audit team and how the service can demonstrate its professional and ethical values, as well as ensuring compliance with PSIAS.