

# LGSS Internal Audit & Risk Management

Cambridgeshire County Council

*Update report*

*As at 5<sup>th</sup> November 2021*

## *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: Advisory Activities

SECTION 6: Audit Forward Planning: Next Four Quarters

SECTION 7: Follow Up of Agreed Audit Actions

SECTION 8: Risk Management

SECTION 9: Fraud and Corruption Update

APPENDIX A: Internal Audit Plan Progress 2021/22

APPENDIX B: Outstanding Agreed Actions

APPENDIX C: National Fraud Initiative Update

## 2 INTERNAL AUDIT REPORTING PROCESS

### 2.1 THE REPORTING PROCESS

2.1.1 This quarterly report provides stakeholders, including JMT and the Audit & Accounts Committee, with a summary of internal audit activity for the third quarter of 2021/22 and the current proposed coverage for the next four quarters.

### 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:

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

<b>Good Assurance</b>	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.
<b>Satisfactory Assurance</b>	The control environment has mainly operated as intended although errors have been detected.	There are some control weaknesses that present a medium risk to the control environment.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	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.

2.2.6 Organisational impact is reported as major, moderate or minor. All reports with major organisation impacts are reported to JMT, along with the appropriate Directorate's agreed action plan.

<b>Organisational Impact</b>	
<b>Level</b>	<b>Definitions</b>
<b>Major</b>	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
<b>Moderate</b>	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
<b>Minor</b>	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 our last Progress Report in September 2021, the following audit assignments have reached completion, as set out below in Table 1.

**Table 1: Finalised Assignments**

No.	Directorate	Assignment	Compliance Assurance	Systems Assurance	Organisational impact
1.	Law and Governance	Declaration of Interest - Members	Good	Good	Minor
3.	People & Communities	Disabled Facilities Grant	Grant sign-off completed.		
4.	People & Communities	Foster Carer Overpayments Review	Review of overpayment calculations completed and report produced.		
5.	People & Communities	Additional Home to School Grant	Grant sign-off completed.		

3.2 Summaries of any finalised reports with limited or no assurance 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.	Place & Economy	MID Investigation Report

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

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

- 4.1 There have been no finalised audits issued with either limited or no assurance during the period.

## 5 *ADVISORY ACTIVITIES*

### 5.1 SUSTAINABILITY GRANT PANEL:

- 5.1.1 Internal Audit has been providing support to the Sustainability Grant Panel since 2020 and as part of this role has identified an opportunity to strengthen the governance arrangements through introducing panel members to formally declare any potential interests at the start of meetings.

### 5.2 NORTHSTOWE PLACEMAKING FUNDING:

- 5.2.1 Internal Audit has provided advice and guidance to the development of grant funding activity relating to Northstowe Placemaking Funding, including signposting key policies and procedures such as the Council's Partnerships Governance Advice & Guidance and Grants to Voluntary Organisations Policy, and providing ad-hoc advice and guidance on financial administration for the project.

### 5.3 DIRECT PAYMENT FINANCIAL REVIEW:

- 5.3.1 Internal Audit has been approached by the Learning Disability Partnership to undertake a financial review of complex financial arrangements for a service user where the direct payment appears to have been aggregated into other income streams. As a result, there is a lack of clarity about the current package and what is being funded from the direct payment. Internal Audit has agreed to conduct a full financial review to assist the service in clarifying the care plan and funding.

## 6. AUDIT FORWARD PLANNING: NEXT FOUR QUARTERS

- 6.1 Core audit work is progressing in line with the agreed Audit Plan 2021/22. Progress on this work is detailed at Appendix A to this report.
- 6.2 The proposed 'flexible' Internal Audit Plan for the next four quarters (Q4 2021/22 – Q3 2022/23) is set out below, showing the current risk profiling of Internal Audit reviews over the next year. These are new jobs proposed to commence in the period, i.e. ongoing work is not included.
- 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. This approach also creates capacity where audits from earlier in the year have been identified as requiring additional resource to complete due to a high level of complexity of resource requirement, e.g. the highways open book review. The team's available resources have also been significantly impacted by a number of leavers and secondments this year. It is anticipated that these posts will be filled during Quarter 3 and Quarter 4.
- 6.4 The team will continue to progress each quarter's work as outlined below, assuming a full team structure; any shortfall will be re-profiled in future quarters. This is one of the advantages of the new flexible planning approach.

Current Proposed Flexible Internal Audit Plan for Q4:		165	Jan - Mar 2022
Safeguarding Assurances	P&C	30	Review of assurances over the Council's safeguarding arrangements for children and adults, including internal review processes, contractual assurances, and assurances received from third parties such as Ofsted, peer reviews etc. This audit was previously deferred from the 2020/21 Audit Plan.
Council Tax NFI Project	Resources	5	Internal Audit support to a project to reduce Council Tax Single Person Discount fraud with the District Councils and other partners.
Direct Payments Fraud Policies	P&C	5	Internal Audit support to further development of counter fraud policies and procedures for direct payments
Procurement Compliance	CCC	20	Review of compliance with key controls identified in the draft BDO value for money opinion.
Waste PFI	P&E	30	Council's biggest PFI contract, £35m p.a. gross budget. Renegotiation of the contract to resolve legacy issues re: retention of monies. The scale of the contracts means this is a key financial risk for the Council. This audit was previously deferred from the 2020/21 Audit Plan.



ICT Disaster Recovery Lessons Learned	C&D	5	Following the ICT data centre move in November, there will be a 'lessons learned' processes. Internal Audit will conduct a light-touch review of this process to obtain assurance over current processes and assist with identification of learning points; a full Disaster Recovery review will be undertaken in 2023 following the SAN replacement.
ICT Change Management	C&D	20	Review of policies, procedures and compliance with managing change in ICT systems and processes.
Home to School Transport & Contracts	P&C	30	Key pressure area, difficulties faced in keeping down costs in rural locations. Ensure the Council gets best value from providers. Follow up on areas of concern from 2015/16 audit. High area of focus for Transformation - audit requested for final quarter of 2021/22 by Daniel Sage
Fostering Payments	P&C	20	Reviewing fostering arrangements in light of the high cost of fostering placements to the Council. Also in light of previous audit report which raised issues re:overpayments, and complaints from foster carers.
<b>Current Proposed Flexible Internal Audit Plan for Q1:</b>		<b>215</b>	<b>Apr - Jun 2022</b>
Investment Properties	Resources	20	The Council is increasingly investing in property at a high cost. Review of investments, process, strategy and risk especially in light of new guidance on use of loans from PWLB. High reputational risk. This audit was previously deferred from the 2020/21 Audit Plan.
Adult Social Care Finance	P&C	20	Assurance following the major restructure and centralisation of the Adults Social Care Finance team, particularly reviewing invoicing processes, cost recovery and the link to debt management. This audit was previously deferred from the 2020/21 Audit Plan.
Rental Income	Resources	20	Ensuring that the Council maximises the value of its property, including farms and other properties. Deferred to the first quarter of 2022/23 due to staff vacancies in the service.
ICT Strategy	C&D	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.
Taxation	Resources	20	Review of taxation compliance following the disaggregation of the Finance team from LGSS meaning there is no longer a single dedicated VAT specialist, and considering the impact of Making Tax Digital.
Client Funds and Deputyships	Resources	20	Review of client funds and deputyships arrangements which have been brought back in-house following

			disaggregation from LGSS.
Demand management strategies	CCC	20	Community resilience; review how the Council is working to reduce demand for high-cost services and whether plans to manage demand in one area end up increasing demand in another area.
Mosaic System Uploads & Data Integrity	P&C	5	A review of key controls in the Mosaic system with regards to security, and how data integrity is maintained from feeder systems and uploads.
Financial Regulations Monitoring & Compliance, including Delegated Authorities	CCC	20	Review to ensure that budget variations are approved in line with the requirements of the Financial Procedure Rules and the Constitution.
ICT Incident and Problem Management	C&D	20	Review of policies, procedures and compliance with managing identified incidents, issues and problems with ICT systems and services.
Fire Safety Checks	Resources	20	Confirm that fire safety check processes are up to date, carried out, and compliant with relevant legislation.
Procurement Team Oversight of Major Procurements Compliance	Resources	10	Recommendation from a previous audit that a monthly report of all purchase orders above £100k raised in the last month is extracted from ERP and that this is compared to the known contracts that have been created in the last month to check for contracts above £100k that were not overseen by the Procurement Team. Procurement have indicated that this would be too expensive for them to implement so Internal Audit will conduct compliance testing on this key control.
<b>Current Proposed Flexible Internal Audit Plan for Q2:</b>		<b>220</b>	<b>July - Sept 2022</b>
ICT Procurement	C&D	20	Review of ICT procurement function including commissioning, contract management, efficiencies etc.
Equality Impact Assessments	BI&D	20	Review of the implementation of the new Equality Impact Assessment process and compliance
Contract Management - Minor Works Framework	Resources	30	Review of this major contract with an annual value of £8m.
Client-side Review of Pathfinder Legal Services	L&C	20	Client-side review of Cambridgeshire's Pathfinder Legal Services legal provision.

Supplier Resilience Reviews	CCC	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.
Capital Strategy	Resources	20	Review of the Council's Capital Strategy, in light of the CIPFA Prudential Code requiring Local Authorities to have a Capital Strategy in place from April 2019.
Statutory Health & Safety Property Inspections	Resources	20	Confirm that statutory inspections of property for health and safety are up to date, carried out, and compliant with relevant legislation. Confirm that recommendations are implemented and implementation is monitored.
FOI and SAR	C&D	20	Freedom of Information & Subject Access Requests are legally required to be completed by the Council within set timescales.
Contract Management - Residential & Short Break Care for Children and Young People with a Disability	P&C	30	Review of this key contract with an annual value of £2.35m.
<b>Current Proposed Flexible Internal Audit Plan for Q3:</b>		<b>220</b>	<b>Oct - Dec 2022</b>
ICT Security	C&D	20	Review of ICT security strategy and compliance with key measures such as PSN etc.
Contract Management - Cambridgeshire Energy Performance Contracting Project	P&E	30	Review of contract management within the Cambridgeshire Energy Performance Contracting project, which holds two major contracts with a combined annual value of £11m.
Budgetary Forecasting	Resources	20	Review of processes for forecasting high demand demographically-driven budgets across People & Communities to ensure processes are robust and forecasting is accurate.
Children's Social Care Commissioning Strategies	P&C	30	Review of strategic planning for commissioning and contracting across Children's Social Care, to provide assurance that commissioning is pro-active, considers demand and how this may be managed, and takes into account the condition of local markets.
Information Security	C&D	20	Review of arrangements for controlling information security risk, with a focus on: policies and procedures; compliance with legislative requirements; communication and staff awareness; compliance monitoring; and incident handling.

Contract Management	CCC	20	Noted as a risk area given the outcomes from recent audits. Lack of detailed contract management guidance available to managers in the organisation. High impact area.
Management of Consultants and Interims	CCC	20	Review of the use of consultants and interims at the Council to gain assurance over compliance with contract procedure rules, appropriate use of employment status, and effective contract management.
Early Years Entitlements Funding	P&C	20	To provide assurance that robust and efficient processes are in place to ensure payments to Early Years providers are timely and accurate. £38m of DSG is classed as Early Years funding in 2021/22.
Most Economically Advantageous Tenders	CCC	20	Review MEAT where the lowest price was not successful, to assess the cost of additional quality. Review the appropriateness of specification, evaluation criteria (and compliance), including rationale for award.
Adoption	P&C	20	Review of new in-house adoption processes to confirm value for money following termination of contract with Coram Cambridgeshire Adoption

## 7. FOLLOW UP OF AGREED AUDIT ACTIONS

- 7.1 The outstanding management actions from Internal Audit reports as at 5<sup>th</sup> November 2021 are summarised in the table below. This includes a comparison with the percentage implementation from the previous report (bracketed figures).
- 7.2 In line with the new rolling audit plan, implemented recommendations now only includes those closed within the last five quarters. Any recommendations that were closed more than five quarters ago are not included in the figures below.

**Table 4: Implementation of Recommendations**

	Category 'Essential' recommendations		Category 'Important' recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total
<b>Implemented</b>	3 (3)	2.40% (2.75%)	60 (52)	48.00% (47.71%)	63 (55)	50.40% (50.46%)
<b>Actions due within last 3 months, but not implemented</b>	0 (1)	0.00% (0.92%)	14 (39)	11.20% (35.78%)	14 (40)	11.20% (36.70%)
<b>Actions due over 3 months ago, but not implemented</b>	1 (0)	0.80% (0.00%)	47 (14)	37.60% (12.84%)	48 (14)	38.40% (12.84%)
<b>Totals</b>	<b>4</b>		<b>121</b>		<b>125</b>	

- 7.3 There are currently 62 management actions outstanding. Further detail on outstanding actions is provided at Appendix B.
- 7.4 It is pleasing to note there are no current outstanding 'Essential' recommendations.

## 8.0 *RISK MANAGEMENT*

- 8.1 As agreed at the previous Audit and Accounts Committee meeting, the Corporate Risk Management update will be brought to Committee in February 2022.

## 9 FRAUD AND CORRUPTION UPDATE

### 9.1 FRAUD INVESTIGATIONS

- 9.1. The current Internal Audit caseload of investigations is summarised below in Table 5. As at the end of October, Internal Audit has received 11 whistleblowing referrals in the 2021/22 financial year, in line with the number of referrals received by the same point in 2020/21 (11 cases).

**Table 5. Current Internal Audit Investigations Caseload**

<b>Open Cases from 2020/21</b>		<b>Open</b>	<b>Closed</b>	<b>Total</b>
<i>Carried forward</i>				
Fraud	Direct Payments	2	0	2
<b>Total</b>		<b>2</b>	<b>0</b>	<b>2</b>
<b>All Cases Reported in 2021/22</b>				
<i>To Date</i>				
Fraud	Third Party Fraud	1	0	1
	Schools Fraud	0	1	1
	Officer Fraud	1	0	1
	School Admissions Fraud	0	1	1
Governance	Officer Code of Conduct	0	1	1
	Conflict of Interest	0	1	1
	Fostering Service	0	1	1
	Schools Governance	1	0	1
Safeguarding	Fostering Service	1	0	1
Overpayment	Payroll Overpayment (Night Allowances)	0	1	1
Theft	Libraries Theft	0	1	1
<b>Total</b>		<b>4</b>	<b>7</b>	<b>11</b>

- 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. In the table above, the investigations into the referrals relating to the Officer Code of Conduct, the payroll overpayment and the allegation of officer fraud and misconduct were led by the Assistant Director of HR & Learning; and a safeguarding concern in the Fostering service was passed on to the Director of Children's Services.

### 9.2 PRO-ACTIVE COUNTER-FRAUD WORK

9.2.1 The Internal Audit team also undertakes a range of pro-active counter-fraud activities. Currently the team is reviewing the Council's Anti-Fraud and Corruption Policy, with the intention of bringing an updated policy to JMT and the Audit & Accounts Committee in early 2022.

9.2.2 Additionally, Internal Audit are providing support to a project run in conjunction with the District Councils, to reduce Council Tax single person discount fraud, and to consider whether there is potential for the project could be expanded to support other internal counter-fraud activities. Internal Audit is also working with colleagues in People & Communities to review and update policy and guidance on dealing with suspected fraud and misuse of direct payments.

### 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. The current exercise commenced in September 2020 when data was supplied for matching purposes by all relevant parties, including CCC. The matched output was released by the NFI in January 2021. The total number of matches for CCC is 8,629 across 31 reports which have a high or medium risk rating, depending on the nature of the data. As at November 2021, a total of 5,504 matches have been reviewed and closed at CCC.

9.3.2 Please see Appendix C for further details on the NFI process and work to date.