

Internal Audit & Risk Management

Cambridgeshire County Council

Update report

As at 14th September 2022

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: Next Four Quarters

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 2022/23

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 second quarter of the 2022/23 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 2022, 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.	Resources	Invoice Raising & Aged Debt	Moderate	Moderate	Minor
2.	Public Health	Adults Weight Management Grant	Grant certification provided		
3.	Public Health	Universal Drug Treatment Grant	Grant certification provided		
4.	Place & Economy	Local Transport Capital Block Funding	Grant certification provided		
5.	Place & Economy	Pothole Funding	Grant certification provided		
6.	Cross-cutting	Risk Assurance report	Risk assurance report provided for Risk 11 'Failure of Key Partnerships & Contracts'		
7.	People & Communities	Early Years Provider allegation	Briefing note style report provided		

- 3.2 Summaries of any finalised reports with limited or no assurance (excluding individual school audits) 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.	Public Health	Drug & Alcohol Treatment Contract
2.	Cross-Cutting	Related Parties Assurance

3.4 Further information on work 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 N/A – no reports have been issued with limited or no assurance in this period.

5 *INTERNAL AUDIT ACTIVITY*

5.1 GRANT CERTIFICATIONS

- 5.1.1 In the first quarter of 2022/23, a particular focus for the Internal Audit team has been certification of central government grants. The exact audit requirements vary from grant to grant; in general, where central government requires Internal Audit review of grant expenditure, the Chief Internal Auditor is required to provide assurance that grant monies have been spent in line with the terms and conditions of the funding and accurate expenditure has been declared by the Council.
- 5.1.2 Internal Audit has provided assurance over the Local Transport Capital Block Funding and Pothole grants as required to the Cambridgeshire and Peterborough Combined Authority as part of the agreed audit plan. The team also reviewed two Public Health related grants where grant conditions required the Head of Internal Audit to provide an opinion to the Chief Executive that grant expenditure was eligible and compliant with the terms and conditions.
- 5.1.3 Internal Audit's work on one of these grants, the Adult Weight Management Grant, identified some wider issues with the related Lifestyle Services contract. As a result of these findings, it has been agreed that Internal Audit will undertake an audit of the procurement and contract management of this contract. The issues noted during the review did not prevent Internal Audit from signing off the grant, as all expenditure was compliant with grant terms and conditions.

5.2 SCHOOL AUDITS

- 5.2.1 To provide assurance regarding the efficacy of financial management in schools, Internal Audit are planning to undertake a programme of visits to 12 local schools to review the operation and compliance with local financial management and governance controls in these settings, including payroll and purchasing processes. Schools are selected for audit on the basis of identified risk factors, which includes schools where there are existing concerns about finance or governance, or schools where there has been a change of leadership or finance personnel.
- 5.2.2 Visits to schools will be taking place throughout the autumn term. Individual reports will be provided for each school, making recommendations to improve governance, procedures and compliance where relevant. An overarching report will also be produced to summarise common findings and themes from the schools visits, which will then be used to inform communications with schools in the spring term.

5.3 ADVICE & GUIDANCE:

5.3.1 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 when required. Some of the key areas of support provided since the previous Progress Report include:

- Providing advice on the administration of a social fund in Adults Social Care;
- Providing advice on arrangements for recording time and costs spent on delivering future drug treatment grants.

6. *AUDIT FORWARD PLANNING: NEXT FOUR QUARTERS*

- 6.1 Core audit work is progressing in line with the agreed Audit Plan 2022/23. 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 (Q3 2022/23 – Q2 2023/24) 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. The Audit Plan has been rebalanced since it was last presented to Committee in July 2022, with mostly minor changes to reflect changing risk prioritisation and team resourcing.
- 6.4 The team will continue to progress each quarter's work as outlined below, assuming a full team structure from Q3 onwards; any shortfall will be re-profiled in future quarters. This is one of the advantages of the new flexible planning approach.

Audit:	Days:	Description:
Proposed Flexible Audit Plan for Q3:	200	(Oct – Dec 2022)
ICT Strategy	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.
Climate Change & Environment Strategy	20	Review of the Council's Climate Change and Environment Strategy, how the aims of this strategy are reflected in broader corporate policies and governance processes, and progress with action plans within the strategy.
Capital Project Management Processes	20	Review of implementation of new project management processes within the Major Infrastructure Delivery team, to verify implementation of key Internal Audit recommendations and management of key risks. This will give assurance that the Project Assurance Group has implemented the key actions agreed.
Direct Awards Approval Compliance	10	Review of compliance with the new requirement for directly-awarded contracts to be approved by the Central Procurement Team.
Transparency Code Compliance	20	Review to verify that the Council is compliant with the provisions of the Local Government Transparency Code 2015.

Contract Management - Residential & Short Break Care for Children and Young People with a Disability	30	Review of this key contract with an annual value of £2.35m.
Mosaic System Uploads, Data Integrity and Key Controls	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.
Adult Social Care Finance	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.
Statutory Health & Safety Property Inspections	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.
Budget Setting and Demand Forecasting	20	Review of processes for forecasting high demand demographically-driven budgets across People & Communities to ensure processes are robust and budget setting is accurate.
Proposed Flexible Audit Plan for Q4:	180	(Jan – Mar 2023)
Project Management Framework and Project Assurance	20	Review of the implementation and development of Council-wide project management framework and project assurance arrangements.
Projects Assurance (Non-Capital)	40	Provision of assurance over a sample of key non-capital projects and review of the efficacy of extant assurance processes.
Supplier Resilience Reviews	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.
Business Planning	30	Review of governance, compliance, management and monitoring, and benefits realisation.
Demand management strategies	20	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.
ICT Security	20	Review of ICT security strategy and compliance with key measures such as PSN etc.

Information Security	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.
Management of Consultants and Interims	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.
Proposed Flexible Audit Plan for Q1:	225	(Apr – Jun 2023)
ICT Procurement	20	Review of ICT procurement function including commissioning, contract management, efficiencies etc.
Adult's Social Care Commissioning Strategies	20	Review of strategic planning for commissioning and contracting across Adults 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.
Investment Properties	20	The Council holds a number of investment properties. This would review management of investments, income streams etc. Reputational risk area.
Capital Programme Projects Assurance	40	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.
Decentralised Corporate Controls	15	A review looking at key corporate controls which are delegated to individual managers (such as declarations of interest, vehicle and driver license checks, corporate induction completion etc), to identify which controls are delegated to budget managers and the extent of corporate oversight and control over compliance and completion.
Rental Income	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.
Client-side Review of Pathfinder Legal Services	20	Client-side review of Cambridgeshire's Pathfinder Legal Services contract for legal provision.
Contract Management	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.

Contract Management - Public Transport, Park & Ride, and Guided Busway Contract	30	Review of this contract with an annual value of £3m.
Contract Management - Supported Living	20	Review of the Supported Living framework contract with an annual estimated value of £22.6m
Proposed Flexible Audit Plan for Q2:	220	(Jul – Sept 2023)
Children's Social Care Commissioning Strategies	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.
Contract Management - Connecting Cambridgeshire Superfast Broadband	20	Review of this key contract with an annual value of £7.5m.
Financial Regulations Monitoring & Compliance, including Delegated Authorities	20	Review to ensure that budget variations are approved in line with the requirements of the Financial Procedure Rules and the Constitution.
Most Economically Advantageous Tenders	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.
ICT Asset Inventory	20	Review of how physical ICT assets are inventoried and managed throughout the Council, especially with the move to increased remote working.
Direct Payments Support Service	20	Review of the contract with CCC's DPSS and other DPSS currently in use by service users in receipt of Direct Payments, to ensure that appropriate controls are in place to allow CCC to take assurance from the monitoring carried out by DPSS.
Less Than Best Property Awards	20	Review of process to control property awards made at less than best value and compliance with the process.
Contract Management - Minor Works Framework	20	Review of Minor Works Framework contract with an estimated annual value of £8m.
Safe Recruitment	20	Review of Council-wide safer recruitment policies and compliance with the policies in practice.
Grants to Voluntary Organisations Policy & Compliance	20	Review of the Grants to Voluntary Organisations Policy and compliance with the policy in practice.

7. FOLLOW UP OF AGREED AUDIT ACTIONS

- 7.1 The outstanding management actions from Internal Audit reports as at 14th September 2022 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 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 'High' recommendations		Category 'Medium' recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Implemented	1 (2)	0.67% (1.47%)	9 (8)	6% (5.88%)	90 (79)	60.00% (58.09%)	100 (89)	66.67% (64.39%)
Actions due within last 3 months, but not implemented	0 (0)	0.00% (0.00%)	6 (3)	4% (2.21%)	6 (1)	4.00% (0.74%)	12 (4)	8.00% (2.94%)
Actions due over 3 months ago, but not implemented	1 (1)	0.67% (0.76%)	0 (1)	0% (0.74%)	11 (14)	7.33% (10.29%)	12 (16)	8.00% (11.76%)
Capital Programme Actions¹ due over 3 months ago, but not implemented	0 (0)	0.00% (0.00%)	0 (0)	0.00% (0.00%)	26 (26)	17.33% (19.85%)	26 (26)	17.33% (19.85%)
Totals	2		15		133		150	

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¹ These 27 actions related to a review of capital project management. Audit & Accounts Committee received a full update on implementation of these actions on 31st May 2022 from the Place & Economy service. It has been agreed that Internal Audit will conduct a full follow-up audit of these actions in Q3 2022/23 to assess their implementation; as such further updates on implementation will not be provided until the audit is complete.

- 7.3 There are currently 50 management actions outstanding. Further detail on outstanding actions is provided at Annex B.
- 7.4 There is only one current outstanding 'Essential' recommendation which passed its target date at the end of November 2021. This recommendation relates to the obtainment of Public Services Network (PSN) certification. The CCC PSN application was submitted 2nd August 2022 and this application contained a Remediation Action Plan (RAP) containing a list of High and Medium severity vulnerabilities. The CCC PSN application failed the validation stage and was therefore rejected by the Cabinet Office on 23rd August 2022 for containing more than 10 high risk vulnerabilities. As of September 2022, the IT service have reduced the number of high severity vulnerabilities from 58 to 31 and plans are in place to close a further 24 high severity vulnerabilities before the next PSN submission. In order to meet the Cabinet Office validation criteria for the next PSN submission, a plan to dovetail the resolution of outstanding vulnerabilities is being formulated with a new IT Health Check to be carried out for confirmation. This work will continue to be progressed as a matter of priority and its progress carefully monitored.
- 7.5 Seven outstanding actions relate to the Internal Audit review of the Dedicated Schools Grant High Needs Block Funding. Implementation of some agreed actions from this review has been delayed by work to develop the Safety Valve intervention programme, and in some cases the actions identified by the audit are now being progressed as part of the Safety Valve work. Internal Audit is currently working closely with the Education service to review the outstanding actions and identify where actions can be closed on the basis of work undertaken.
- 7.6 Table 5, below shows the number of outstanding recommendations in each directorate:

Table 5: Outstanding Actions By Directorate

Directorate		Outstanding recommendations
Customer and Digital		4
Business Improvement & Development		2
People and Communities	<i>DSG High Needs</i>	7
	<i>Other</i>	1
Place and Economy	<i>Capital Programme</i>	26
	<i>Other</i>	1
Resources		6
Public Health		2

8.0 *RISK MANAGEMENT*

- 8.1 The Council's Corporate Risk Register (CRR) was reviewed by CLT on the 22nd August 2022. This resulted in a significant update to the CRR including the addition of several new risks and splitting others. The updated Risk Register was to be presented to the postponed Strategy & Resources (S&R) Committee on 20th September 2022 alongside a report on risk management. If the rescheduled S&R Committee pre-dates the Audit & Accounts Committee meeting then the report to S&R Committee and the updated CRR will be circulated to Audit & Accounts Committee members immediately after.
- 8.2 The Internal Audit team have introduced a new process to formally challenge and assure individual risks on the Corporate Risk Register (CRR). The first risk to be reviewed in this way was Risk 11. "Failure of Key Partnerships or Contracts" (formerly Risk 08). This risk was selected for review over the summer for the first risk assurance review, as it was the newest addition to the CRR.
- 8.3 The risk assurance process is a subjective piece of consultancy work, designed to facilitate scrutiny and challenge of Risk 08 by the corporate risk owner. A report was produced reflecting the outcomes of the risk assurance process and provided to the Service Director: Finance & Procurement, as the risk owner. As a result, Risk 11 has been updated with additional information on risk triggers and controls in place, and the action plan for the risk has been reviewed and updated.

9 FRAUD AND CORRUPTION UPDATE

9.1 FRAUD INVESTIGATIONS

- 9.1. The current Internal Audit caseload of investigations is summarised below in Table 7. As at the 1st September 2022, Internal Audit has received 9 whistleblowing referrals in the 2022/23 financial year, similar to the number of referrals received by the same point in 2021/22 (8 cases).

Table 7. Current Internal Audit Investigations Caseload

Open Cases from 2021/22 <i>Carried forward</i>		Open	Closed	Total
Governance	Conflict of Interest	1	0	1
Total		1	0	1
All Cases in 2022/23 <i>To Date</i>				
Fraud and Theft	Conflict of Interest	1	0	1
	Theft	0	1	1
	Third Party Fraud	3	1	4
Governance	Internal Governance Issue	2	0	2
Health & Safety	Health & Safety	0	1	1
Total		6	3	9

- 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 has been asked to provide assurance over the management of a possible conflict-of-interest. This investigation is close to concluding. Another possible conflict-of-interest case has been identified via the National Fraud Initiative and is currently being investigated.
 - **Third Party Fraud (3 open cases)** – Internal Audit are currently reviewing three separate allegations of possible third party fraud. One case involves an Early Years provider; one involves an allegation of fraud in a framework contract; and one involves an alleged fraud by an interim worker.

- **Internal Governance Issue (2 open cases)** – Internal Audit are reviewing two separate concerns raised about financial governance.

9.2 NATIONAL FRAUD INITIATIVE (NFI)

- 9.2.1 The NFI compares different data sets provided nationally by local authorities and partner organisations, for the purpose of detecting and preventing fraud.
- 9.2.2 The next NFI exercise will commence in October 2022, when data will be uploaded onto the NFI portal by Cambridgeshire County Council. The matches identified from this data will then be released by the NFI in January 2023 for the Council to review.
- 9.2.3 The NFI exercise at Cambridgeshire County Council is co-ordinated by the Internal Audit team and work has commenced on confirming the datasets to be submitted. This includes ensuring that services will be ready to extract data in line with the NFI specifications and to submit these in line with timelines.

10 *KEY FINANCIAL SYSTEMS UPDATE*

- 10.1 At the time of writing, the 2021/22 Payroll Transactions report remains outstanding. The payroll audit is being conducted by colleagues in the Internal Audit team at West Northamptonshire Council (WNC), as the payroll service is delivered by WNC under the Lead Authority model. The Head of Internal Audit at WNC has confirmed that they have received all the information required for the audit from the Payroll team, and at the time of writing this report were completing the final testing. The Head of Internal Audit at WNC expects to issue the report no later than 30th September.
- 10.2 Work has been underway planning the reviews of key financial systems with the other Internal Audit teams in the Lead Authority model. A paper was taken to the Lead Authority Board meeting on the 24th August to confirm the general approach to the audits, with specific proposals to be presented at the following meeting on the 21st September.
- 10.3 The Lead Authority Board agreed on the 24th August that for the 2022/23 financial year, Cambridgeshire's Internal Audit team will continue to deliver the Accounts Payable, Income Processing and Debt Recovery audits for the Lead Authority partners. West Northamptonshire's Internal Audit team will deliver the Payroll and Pensions audits.
- 10.4 The Board decided that from 2023/24 onwards, the key financial systems audits will be allocated on a rotating basis across the four partner authority audit teams (Cambridgeshire, West Northamptonshire, North Northamptonshire and Milton Keynes). This reverses a previous decision to continue with the established process that where services are delivered by a 'host' authority, the Internal Audit team of that authority will conduct the annual review.