



CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY

DRAFT Annual internal audit report 2022/23

Presented at the Audit and Governance Committee 9 June 2023

This report is solely for the use of the persons to whom it is addressed.

To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING



THE ANNUAL INTERNAL AUDIT OPINION

This report provides our annual internal audit opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. The opinion should contribute to the organisation's annual governance reporting.

The opinion

For the 12 months ended 31 March 2023, the DRAFT head of internal audit opinion for Cambridgeshire and Peterborough Combined Authority is as follows:



Please see appendix A for the full range of annual opinions available to us in preparing this report and opinion.

It remains management's responsibility to develop and maintain a sound system of risk management, internal control and governance, and for the prevention and detection of material errors, loss or fraud. The work of internal audit should not be a substitute for management responsibility around the design and effective operation of these systems.

Scope and limitations of our work

The formation of our opinion is achieved through a risk-based plan of work, agreed with management and approved by the audit and governance committee, our opinion is subject to inherent limitations, as detailed below:

- internal audit has not reviewed all risks and assurances relating to the organisation;
- the opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. The assurance framework is one component that the board takes into account in making its annual governance statement (AGS);
- the opinion is based on the findings and conclusions from the work undertaken, the scope of which has been agreed with management;
- where strong levels of control have been identified, there are still instances where these may not always be effective. This may be due to human error, incorrect management judgement, management override, controls being by-passed or a reduction in compliance;
- due to the limited scope of our audits, there may be weaknesses in the control system which we are not aware of, or which were not brought to our attention; and
- it remains management's responsibility to develop and maintain a sound system of risk management, internal control and governance, and for the prevention and detection of material errors, loss or fraud. The work of internal audit should not be seen as a substitute for management's responsibilities around the design and effective operation of these systems.

FACTORS AND FINDINGS WHICH HAVE INFORMED OUR OPINION

Risk Management

We have undertaken a Risk Management review in 2022/23 which has resulted in a Partial Assurance (negative) opinion. This follows on from a previous negative opinion (partial assurance) in 2020/21. Our review found that the necessary updates to strengthen the risk management processes were still work in progress with areas such as the provision of training and the development of the risk appetite. The control framework still required further strengthening to ensure that all areas of risk could be consistently identified, managed, reviewed, and reported.

We noted that the updated Risk Management Strategy was yet to be approved, inconsistencies in the completeness of a sample of two Programme and two Portfolio risk registers that we reviewed including details about action owners and risk scores, improvements were required to ensure robust and regular review of Programme and Portfolio risks and identifying the absence of the use of assurances within the risk registers.

Whilst we note some improvements and progress has been made since our last review in 2020/21, it is evident that further work was still required to ensure a fully robust and effective risk management framework is in place.

We also agreed a high priority action in relation to risk management within the Net Zero Hub Governance review.

We note that the Combined Authority have requested additional support in this area, and RSM colleagues are in the process of providing some support and have delivered some risk management training.

Governance

Our governance coverage in 2022/23 was focussed on Subsidiary Companies Governance and Net Zero Hub (NZH) Governance. Our Subsidiary Companies Governance review resulted in reasonable assurance (positive opinion) (DRAFT). The NZH Governance resulted in partial assurance (negative opinion). We noted a governance structure, whilst in deliberation, had not been defined for Greater South East Net Zero Hub (GSENZH). Furthermore, we identified a number of control weaknesses, including reviewing and updating the Constitution, the Accountable Body Agreement, and the GSENZH Board Terms of Reference.

In terms of risk management, we noted the escalation process for NZH-related risks had not been defined in the Accountable Body Agreement. We also noted both the GSENZH Risk Register had 147 omitted entries and varying information headers. We further noted the 12/20 open risks had not been reviewed in the last 12 months and did not record a risk review frequency.

Please also see the section below 'Additional factors and findings informing our opinion' which documents some of the Governance challenges facing the Authority, the Best Value notice and the Authorities response and ongoing improvement plan.

Internal Control

We have undertaken six assurance assignments (four DRAFT) that resulted in opinions during the year. Of these five were negative opinions, where only Partial Assurance could be taken:

- Risk Management,
- Affordable Housing Grant Programme,
- Net Zero Hub – Governance,
- IT General Controls; and

- Core Control Framework – Treasury Management and Accounts Payable).

The key findings from those reviews are detailed below:

Affordable Housing Grant Programme (**Partial Assurance**) (DRAFT)

We found that the controls in place in relation to the receipt of formal applications, assessment of eligibility, submission of business cases, authorisation of the grants and Governance reporting of the grants were found to be well designed and complied with. However, we found control weaknesses regarding compliance with the control framework.

Specifically, these weaknesses were in regard to an absence of evidence for the recording and retention of due diligence checks on developers, conflicts of interests not being captured for all decision making staff involved in the grant process, an absence of recorded approval for claim forms and an inconsistency in the receipt of progress reports from developers as well as documentation of site visits retained.

IT General Controls (**Partial Assurance**) (DRAFT)

During our review, we noted that robust processes were in place in relation to information security training, endpoint security systems and the management of new starters. A significant issue was however noted with respect to the management of user accounts relating to movers and leavers with respect to timeliness of requests and subsequent updating/disabling of accounts, respectively. This can lead to users having unauthorised access to the organisation's systems and data, which also has GDPR implications. Several gaps were also noted with respect to web-filtering, review of firewall rules, review of user access levels, and periodic testing of backups. Further areas for improvement were identified with regards to IT related policies and job descriptions of IT staff.

Core Control Framework – Treasury Management and Accounts Payable (**Partial Assurance**) (DRAFT)

Treasury Management - Although the Authority had a Treasury Management Strategy, there were no formal policies or procedures to support or guide staff in complying with the Strategy. We identified issues with ex-employees having access to two systems (Agresso and Treasury Live), a need to ensure all required documentation is held on the Treasury Live system, completion and monitoring of cashflow forecasts, regularly and timely completion of bank account reconciliations (a reconciliation was conducted in December 2022 for the period of April to October 2022) which was had not been subject to any scrutiny or approval. In addition, the summary of the report found that £6.6million receipts were 'unmatched' within the reconciliation and the monthly bank reconciliation process had not occurred since the end of April 2022.

Accounts Payable - Goods Receipt Notices (GRNs) were not always being appropriately checked and reconciled before processing the invoice for payment. We also identified cases where the S.73 Officer and Monitoring / CEO approvals for grant funding agreements were not recorded within the grant form, or within Agresso. We were informed by the Chief Accountant that the Monitoring Officer/ CEO authorisation was not required at the time of the grant agreement, although the S.73 Officer approval was still required. Furthermore, we found issues with regards to processing supplier information changes. We also followed up action agreed in the previous accounts payable review and of the seven management actions agreed previously, we identified that two actions had been implemented, one was partly implemented and four had not been implemented.

For the other assurance review, we provided a positive opinion (Reasonable Assurance) on the **Subsidiary Companies Deep Dive** - GrowthCo and Propco2 audit.

We have also undertaken an advisory review on **Data Protection - Deep Dive** which identified a number of significant issues and where we agreed one high, nine medium and two low priority management actions. The high priority action related to a recommendation that key CPCA staff undertake a session aimed at understanding potential consequences for data subjects as a result of the data breach which occurred in November 2021. This was requested by the Information Commissioner's Office and had not been implemented. Other issues identified related to Officer and Member training, inductions, accuracy of training records, raising awareness of data protection and data breach notifications.

Follow Up

The implementation of agreed management actions agreed during the course of the year are an important contributing factor when assessing the overall opinions on control. Our Follow Up review resulted in a positive outcome where we have provided an assessment that **Reasonable Progress** had been made in implementing the actions agreed.

Additional factors and findings informing our opinion

Whilst outside our direct internal audit coverage in 2022/23, we are aware that the Authority (CPCA) were issued a Best Value Notice on 24 January 2023 by the Department for Levelling Up, Housing and Communities.

The notice outlined that the Department expects authorities to identify and implement arrangements to secure continuous improvement and acknowledges the steps the authority had taken to identify the serious issues at CPCA and the action plan that has been put in place to address these. However, ministers remained concerned as to CPCA's capacity to comply with its Best Value Duty under the Local Government Act 1999. The Parliamentary Under Secretary of State therefore made the decision to issue CPCA with this Best Value Notice.

This Best Value Notice ("Notice") was a formal notification that the Department has concerns regarding the authority and is a request that the authority engages with the Department to provide assurance of improvement. This Notice was issued to CPCA ('the Authority') following:

- Significant concerns highlighted by the external auditor, published on 1 June 2022, in relation to the 2021/22 audit year confirming significant weakness in the Authority's governance arrangements that they believe to be pervasive.
- The Department will be taking a precautionary approach to the transfer of funding to CPCA until we have assurance that there are appropriate plans in place to reach a resolution.
- Significant delivery concerns in some of the programmes delivered by the Authority.
- Concerns around partnership working, as outlined in the Minister for Local Government's letter to the then Mayor, James Palmer, on 13 July 2020, which remains an area that requires work, and
- Concerns raised within the Authority in respect of procurement of services to the Authority.

The CPCA have put an Improvement Board in place and agreed an Improvement Plan that is regularly reported on, including to the A&GC. We have not specifically reviewed the work undertaken but note that progress is being reported. However, we recognise that further work is required to address some of the originally identified governance issues. We would be happy to assist the authority in 2023/24 as required to provide some assurance or advice in relation to the Improvement Plan and key themes.

Topics judged relevant for consideration as part of the annual governance statement (AGS)

The Combined Authority should consider including the findings from the following internal audit reviews which concluded with negative opinions or the advisory review which identified some significant issues, in the AGS, together with the actions taken and/or planned to address the control weaknesses identified from the following reviews:

- Data Protection Deep Dive
- Risk Management)
- Affordable Housing Grant Programme
- Net Zero Hub Governance
- IT General Controls 7.22/23
- Core Control Framework – Treasury Management and Accounts Payable

In forming our annual opinion we have also taken into account some of the significant wider governance issues that we refer to above that we understand are being addressed via the Improvement Plan and Improvement Board. The Combined Authority should therefore also include the receipt of the Best Value Notice issued in January 2023 by the Department for Levelling Up, Housing and Communities, the Authorities response to that notice and the progress made in the form of the Combined Authority's Improvement Plan and any other actions taken to address the issues contained within the notice.

THE BASIS OF OUR INTERNAL AUDIT OPINION

As well as those headlines previously discussed, the following areas have helped to inform our opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

Acceptance of internal audit management actions

Management have agreed actions to address all of the findings within the finalised reports produced by the internal audit service during 2022/23. Please note action plans need to be agreed for the remaining reports currently in draft.

Implementation of internal audit management actions

Our follow up of the actions agreed to address previous years' internal audit findings shows that the organisation had made **reasonable progress** in implementing the agreed actions. Full details are included in the section above.

Working with other assurance providers

In forming our opinion, we have not placed any direct reliance on other assurance providers. However, in forming our annual opinion we have also taken into account the significant wider governance issues which have come to our attention following the issue of the Best Value Notice by the Department for Levelling Up, Housing and Communities in January 2023.

OUR PERFORMANCE

Wider value adding delivery

Area of work	How has this added value?
Sector Briefings	Issued briefings relating to the sector within our progress reports presented to the Audit and Governance Committee (AGC) to assist officers and committee members in being informed on the latest developments within the sector.
Webinar invitations	Various invitations have been sent to management to attend webinars to inform of any sector and wider sector updates.
Audit and Governance Committee attendance	We have attended all AGC's and where appropriate contributed to the wider agenda.
Communication	We have held scheduled monthly calls with the Deputy Chief Finance Officer, and numerous ad hoc calls as required with the CFO and Monitoring Officer.
Best practice	Shared best practice across the sector through the management actions we have agreed as part of our work.
Specialist expertise	We have provided specialist support through the audit plan as required including the Data Protection - Deep Dive and IT General Controls reviews.
Sector experience	We have also made suggestions throughout our audit reports based on our knowledge and experience in the local government sector to provide areas for consideration.
Ad hoc reviews	We have responded to requests to undertake additional ad hoc reviews and allocated the appropriate level of skill or expertise to each assignment.

Conflicts of interest

During 2022/23 we have completed several reviews of grant funding received by the Combined Authority as part of the requirements of the Authority to confirm to funding providers that expenditure has been appropriate in line with the terms of the grants. We were also requested to undertake some risk management support and training, work in regard to the administration of devolved Adult Education Budget funding, a review in regard to procurement and contract management and an engagement from our **specialist investigations team**.

All this work was undertaken via separate letters of engagements, led by independent engagement partners and delivered by specialist staff separate from the core Internal Audit Team. We have considered as part of all of these additional engagements the safeguards required to be in place and are satisfied that these have been met. When asked to undertake any additional roles / responsibilities outside of the internal audit programme, the Head of Internal Audit has discussed these areas with the Chief Finance Officer and highlighted any potential or perceived impairment to our independence and objectivity. We have also reminded the CFO of the safeguards we have put in place to limit impairments to independence and objectivity and how these continue to be managed.

RSM has not therefore undertaken any work or activity during 2022/2023 that would lead us to declare any conflict of interest.

Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the International Standards for the Professional Practice of Internal Auditing, the wider International Professional Practices Framework (IPPF), and the Internal Audit Code of Practice as published by the Global Institute of Internal Auditors (IIA) and the Chartered IIA.

Under the Standards, internal audit services are required to have an external quality assessment (EQA) every five years. The RSM UK Risk Assurance service line commissioned an external independent review of our internal audit services in 2021, to provide assurance as to whether our approach continues to meet the requirements.

The external review concluded that RSM 'generally conforms*' to the requirements of the IIA Standards' and that 'RSM IA also generally conforms with the other Professional Standards and the IIA Code of Ethics. There were no instances of non-conformance with any of the Professional Standards'.

* The rating of 'generally conforms' is the highest rating that can be achieved, in line with the IIA's EQA assessment model.

Quality assurance and continual improvement

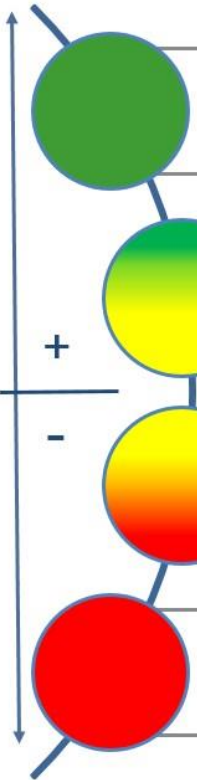
To ensure that RSM remains compliant with the International Standards for the Professional Practice of Internal Auditing and the International Professional Practices Framework (IPPF) we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews are used to inform the training needs of our audit teams.

Resulting from the programme in 2022/23, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

In addition to this, any feedback we receive from our post assignment surveys, client feedback, appraisal processes and training needs assessments is also taken into consideration to continually improve the service we provide and inform any training requirements.

APPENDIX A: ANNUAL OPINIONS

The following shows the full range of opinions available to us within our internal audit methodology to provide you with context regarding your annual internal audit opinion.

Annual opinions	Factors influencing our opinion
 <p>The organisation has an adequate and effective framework for risk management, governance and internal control.</p>	<p>The factors which are considered when influencing our opinion are:</p> <ul style="list-style-type: none">• inherent risk in the area being audited;• limitations in the individual audit assignments;• the adequacy and effectiveness of the risk management and / or governance control framework;• the impact of weakness identified;• the level of risk exposure; and• the response to management actions raised and timeliness of actions taken.
<p>The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.</p>	
<p>There are weaknesses in the framework of governance, risk management and control such that it could become, inadequate and ineffective.</p>	
<p>The organisation does not have an adequate framework of risk management, governance or internal control.</p>	

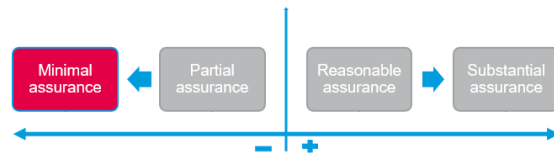
APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2022/23

All of the assurance levels and outcomes provided above should be considered in the context of the scope, and the limitation of scope, set out in the individual assignment report.

Assignment	Assurance level	Actions agreed		
		L	M	H
Data Protection - Deep Dive	Advisory – significant weaknesses [●]	2	9	1
Affordable Housing Grant Programme (DRAFT)	Partial Assurance [●]	0	4	0
IT General Controls (DRAFT)	Partial Assurance [●]	6	5	1
Core Control Framework – Treasury Management and Accounts Payable (DRAFT)	Partial Assurance [●]	5	8	2
Risk Management	Partial Assurance [●]	0	6	0
Net Zero Hub – Governance	Partial Assurance [●]	1	3	1
Subsidiary Companies Governance (DRAFT)	Reasonable Assurance [●]	3	3	0
Follow Up	Reasonable Progress [●]	0	6	0

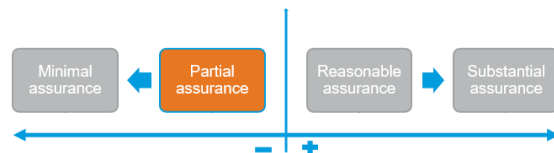
APPENDIX C: OPINION CLASSIFICATION

We use the following levels of opinion classification within our internal audit reports, reflecting the level of assurance the board can take:



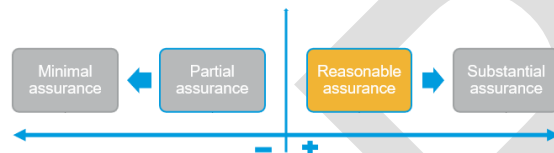
Taking account of the issues identified, the board can take minimal assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.

Urgent action is needed to strengthen the control framework to manage the identified risk(s).



Taking account of the issues identified, the board can take partial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.

Action is needed to strengthen the control framework to manage the identified risk(s).



Taking account of the issues identified, the board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk(s).



Taking account of the issues identified, the board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

YOUR INTERNAL AUDIT TEAM

Daniel Harris, Head of Internal Audit

Daniel.Harris@rsmuk.com

07792 948 767

Nick Fanning, Client Manager

Nick.Fanning@rsmuk.com

07977 625 657

rsmuk.com

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of Cambridgeshire and Peterborough Combined Authority, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM UK Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

RSM UK Risk Assurance Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.