



CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY

Annual internal audit report 2021/22

DRAFT

Presented at the Audit and Governance Committee 29 July 2022

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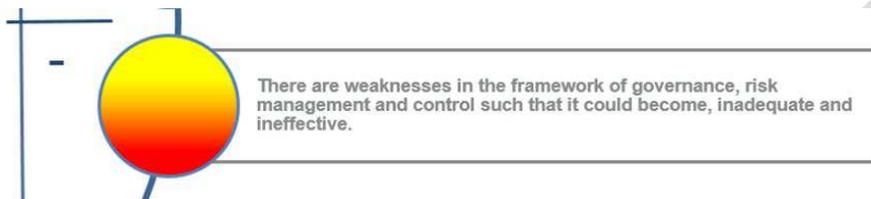


THE ANNUAL INTERNAL AUDIT OPINION

This report provides a draft 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 draft opinion should contribute to the organisation's annual governance reporting.

The opinion

For the 12 months ended 31 March 2022, 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 draft 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 draft 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 draft opinion is based on the findings and conclusions from the work undertaken, the scope of which has been agreed with management / lead individual;
- 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
- our internal audit work for 2021/22 has continued to be undertaken through the operational disruptions caused by the Covid-19 pandemic. In undertaking our audit work, we recognise that there has been some impact on both the operations of the organisation and its risk profile, and our draft annual opinion should be read in this context.

FACTORS AND FINDINGS WHICH HAVE INFORMED OUR OPINION

Risk management

We have not undertaken a specific risk management review in 2021/22. An audit of risk management was originally included within the 2021/22 plan following the partial (negative) assurance opinion issued in 2020/21. Management advised that whilst some progress had been made, there were still a number of areas arising from the partial assurance opinion that still needed to be addressed. Due to the limited progress of implementing these actions, the risk management audit was replaced with another review.

We were provided with an updated version of the Corporate Risk Register on 16 May 2022 to further inform our discussions on the internal audit coverage for 2022/23, but we have not carried out a detailed review of the new risk register or the actions previously agreed.

Governance

Our governance coverage in 2021/22 was focussed on Subsidiary Governance (currently in draft). We carried out an audit designed to allow the Authority take assurance that appropriate governance arrangements were in place to monitor, manage and support its subsidiary companies, including the reporting and escalation of matters to the CPCA for oversight and scrutiny. This concluded with a negative opinion, minimal assurance.

Our review identified significant issues requiring management attention, including a lack of operational and financial performance reporting from the subsidiary companies to the CPCA, and a lack of oversight from the CPCA regarding the operations of its subsidiaries. In addition, evidence was not provided during the audit to confirm that the business plans of subsidiary companies were being subject to regular review by the CPCA in line with Shareholder Agreements, whilst for one subsidiary, evidence of an initial business plan was not provided. Furthermore, we identified issues with the risk registers for the CPCA's operational subsidiary companies, including a lack of separation between planned actions and implemented controls, and a lack of specific and measurable actions. We were also unable to confirm that a Programme Management Committee had been established for the Business Growth Company, as required by its Shareholders Agreement. We did identify also some well designed and complied with controls during the review.

We have also been advised post year end of a governance review commissioned by the Authority and conducted by Governance First Limited which has highlighted a wide range of improvement actions required in the area of governance. Following this review we have also been advised of a subsequent letter from EY, the authorities external auditors and the potential impact that the findings from the governance review may have on their value for money conclusion. These post year end events have also been taken into account when forming our opinion.

Internal control

In addition to the Subsidiary Governance audit, we undertook four further assurance assignments during 2021/22, from all four of which the Authority could take positive (Reasonable) assurance:

- Adult Education Budget
- Key financial controls – financial reporting and general ledger
- Capital programme – monitoring and reporting
- Payroll

Our Follow Up review, conducted on a sample of the previously agreed management across five previous audits management actions concluded that the Authority had made reasonable progress in implementing the actions (see below).

We also undertook two additional follow up reviews specifically relating to the IT Control Framework. These reviews followed on from the minimal (negative) assurance audit undertaken in 2020/21. The first of the reviews found that of the four actions which had become due for implementation, three had been implemented, but one high priority action had not been implemented.

The second review (currently in draft) followed up that high priority action plus the six remaining actions which were all due for implementation. Whilst we found that three actions had been implemented, two medium priority actions had only been partly implemented, and one medium priority action and the same high priority action, which related to ensuring sufficient IT specialism/expertise is maintained amongst the authorities workforce, had not been implemented.

Advisory reviews

As part of the internal audit plan, our specialist colleagues undertook an advisory Fraud Risk Assessment, which identified seven areas for suggested improvement, but did not identify any significant areas of weakness. In addition to the audits in the original 2021/22 internal audit plan, we were also commissioned to undertake three additional advisory reviews: One CAM – Governance and Decision-making, Community Land Trust Advisory Review (currently in draft and 11 management actions agreed), and an Analysis of Government Procurement Card Expenditure and Expenses – Deep Dive.

The deep dive draft report has been issued (with six high and one medium priority actions) and work is ongoing to finalise this report.

Additional factors and findings informing our opinion

In addition to the minimal assurance (negative) opinion of the Subsidiary Governance audit, the limited progress implementing the actions from the 2020/21 risk management audit, the findings of the Government Procurement Card Expenditure and Expenses – Deep Dive and some of the actions still requiring work following the 2020/21 IT Control Framework (minimal assurance) review, in forming our annual opinion we have also taken into account some significant wider governance issues. Some of these came to our attention following the independent review of governance commissioned by the Authority and subsequent concerns raised by the external auditor and reported by them to the Department for Levelling Up, Housing and Communities (DLUHC). The independent governance review made some 47 recommendations.

We note the External Auditor's concerns and include an extract from the June 2022 Audit and Governance Committee papers:

The Chair of the Committee received a letter from EY, the Authority's external auditors, on 1 June 2022 which notified him of their judgement that a value for money risk exists in the form of significant weakness in Cambridgeshire & Peterborough Combined Authority's governance arrangements. This judgement, was based on the following reasons:

- “Investigations into key individuals in the Mayor's office following a whistle-blower notification.
- Increased number of employment related claims against the Authority.
- Current vacancies in the Authority's senior management team, particularly at Chief Executive level, and the prospect that this could increase further from July 2022.
- Weaknesses we have observed in how the extraordinary meeting of the Authority Board makes informed decisions; and
- That the nature of the whistle-blower allegations and initial findings of independent investigation reports raises significant questions on the culture, behaviour and integrity of key individuals in the Mayor's office”

and leads the auditors to a concern “that the Authority has insufficient capacity, capability and an inappropriate culture to support the effective governance and operation of the organisation and how it discharges its statutory services”.

We understand that the authority Board will be debating a report from the Interim Chief Executive that sets out the initial steps of an improvement journey and we have included some proposed coverage in the 2022/23 internal audit plan to provide some independent coverage in relation to the improvement plan / actions that are agreed.

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

The Combined Authority should consider including the findings from the following reviews in the AGS, together with the actions planned to improve the weaknesses identified from the following reviews:

- Subsidiary Governance – 2021/22 Minimal Assurance
- Risk Management – 2020/21 Partial Assurance
- IT Control Framework – follow up and outstanding actions
- Government Procurement Card Expenditure and Expenses – Deep Dive

The Combined Authority should also consider whether other significant issues should be included in the AGS, including the results of the independent governance review and concerns raised by external audit, that were reported to DLUHC.

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 reported by the internal audit service during 2021/22. Please note some reports remain 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.

We undertook one Follow Up review in April 2022 and confirmed that of the 10 actions followed up, one medium and four low priority actions had been fully implemented, one medium priority action had been partly implemented, one medium priority action had not yet been implemented, and three medium priority actions had been superseded. In one case, although the medium priority action had been implemented, we agreed a new low priority action due to a further issue being identified.

We also undertook two specific follow up reviews of the IT Control Framework review from 2020/21 and the results of this are shown 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 independent review of governance commissioned by the Authority and the concerns raised by the external auditor (EY) and reported by them to the DLUHC.

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. Examples include Procurement, Employment Matters, and VAT.
Coronavirus: Various briefings and webinars	RSM have delivered a number of webinars and client briefings in relation to Coronavirus (ranging from Government financial support for employers, fraud briefings, HR and Legal Support etc).
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 IT Control Framework follow up reviews, Fraud Risk Assessment, and Adult Education Budget review.
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 2021/22 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 (information gathering, analysis, interpret, check, challenge and conclude, development of road map).

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 2021/2022 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

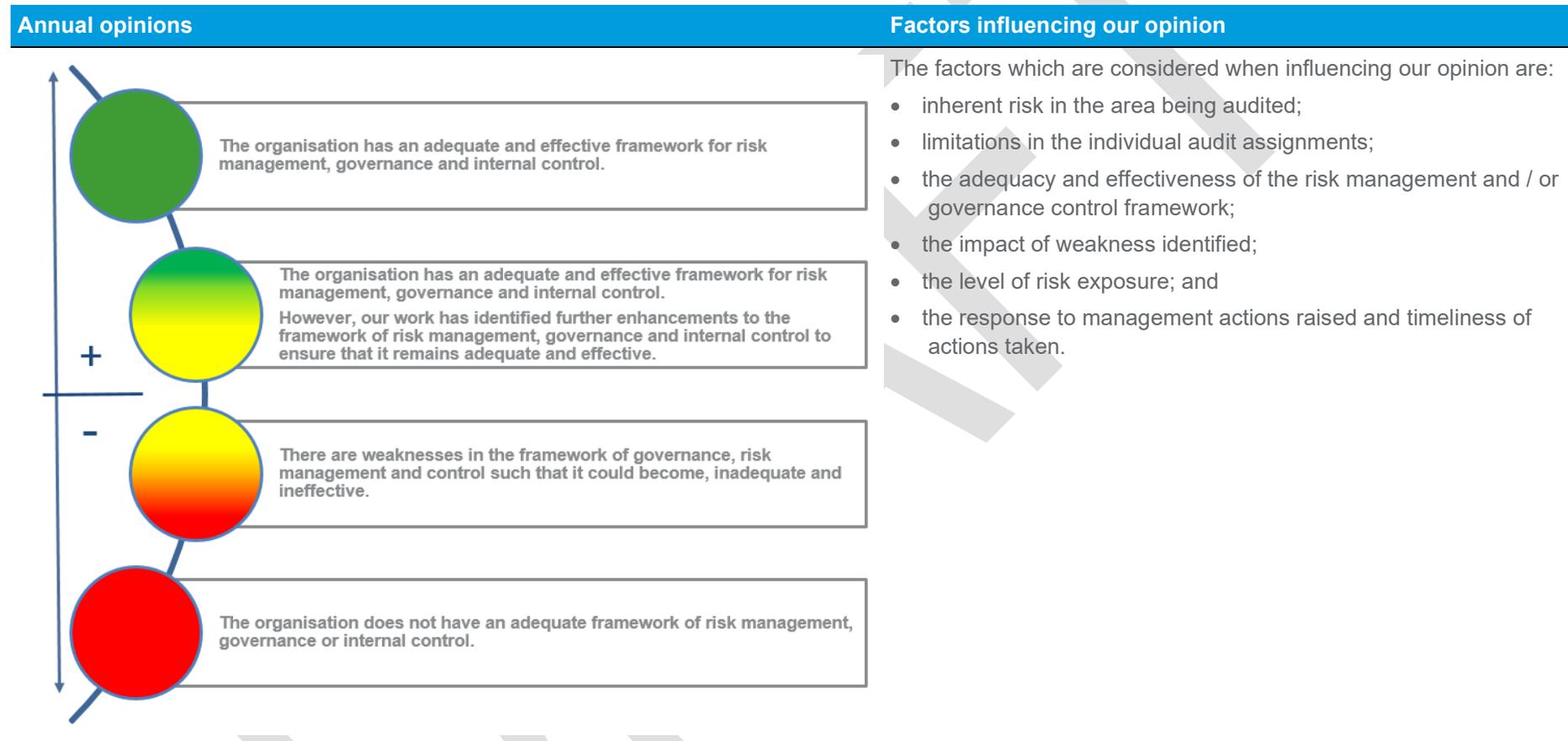
To ensure that RSM remains compliant with the International Standards for the Professional Practice of Internal Auditing and the International Professional Practices Framework (IPPF) we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our 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 2021/22, 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.



APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2021/22

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	Executive lead	Assurance level	Actions agreed		
			L	M	H
Subsidiary Governance (DRAFT)	Robert Parkin, Chief Legal Officer (Monitoring Officer)	Minimal Assurance [●]	0	3	2
Adult Education Budget	John T Hill – Director of Business and Skills	Reasonable Assurance [●]	3	2	0
Key Financial Controls – Financial Reporting and General Ledger	Jon Alsop – Chief Finance Officer	Reasonable Assurance [●]	5	2	0
	Robert Emery – Deputy Chief Finance Officer				
Capital Programme – Monitoring and Reporting (DRAFT)	Jon Alsop – Chief Finance Officer	Reasonable Assurance [●]	2	2	0
	Robert Emery – Deputy Chief Finance Officer				
Payroll (DRAFT)	Jon Alsop – Chief Finance Officer	Reasonable Assurance [●]	5	2	0
Follow Up (DRAFT)	Jon Alsop – Chief Finance Officer	Reasonable Progress	1	2	1
	Robert Emery – Deputy Chief Finance Officer				
Fraud Risk Assessment	Jon Alsop – Chief Finance Officer	Advisory	7 areas for improvement		
One CAM - Governance and Decision Making	Robert Parkin, Chief Legal Officer (Monitoring Officer)	Advisory	2	1	0

Assignment	Executive lead	Assurance level	Actions agreed		
			L	M	H
IT Control Framework Review – Follow Up Part 1	Robert Parkin, Chief Legal Officer (Monitoring Officer)	No overall opinion	1	1	1
IT Control Framework Review – Follow Up Part 2 (DRAFT)	Robert Parkin, Chief Legal Officer (Monitoring Officer)	No overall opinion	1	2	1
Analysis of Government Procurement Card Expenditure and Expenses – Deep Dive (DRAFT)	Jon Alsop – Chief Finance Officer	No overall opinion but significant weaknesses	0	1	6
Community Land Trust – Advisory Review (DRAFT)	Robert Parkin, Chief Legal Officer (Monitoring Officer)	Advisory	11 management actions		

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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

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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.

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