



CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY

Internal Audit Strategy 2020/21 - 2022/23: **DISCUSSION DRAFT**

Presented at the Audit & Governance Committee meeting of 2 October 2020

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EXECUTIVE SUMMARY

Our **discussion draft** of the Internal Audit Plan for 2020/21 is presented for consideration by the Audit & Governance Committee. Please note that this document needs to be further informed by wider discussions with the CMT and will be represented to the Audit & Governance Committee at the November 2020 meeting. As the developments around Covid-19 will continue to impact on all areas of the organisation's risk profile, we will work closely with management to deliver an internal audit programme which remains flexible and 'agile' to ensure it meets your needs in the current circumstances.

The key points to note from our plan are:

2020/21 Internal Audit priorities: Internal audit activity for 2020/21 is based on analysing your corporate objectives, risk profile and assurance arrangements as well as other factors affecting you in the year ahead, including changes within the sector. Our detailed plan for 2020/21 is still being developed. However, we have identified some initial areas for coverage with the intention of providing a full plan at the next Audit & Governance Committee meeting in November 2020. The initial proposed areas for coverage are highlighted within section two below.



We are **seeking approval at the October meeting for two audits** to be scoped and commenced ahead of the November 2020 meeting, namely:

- **Risk Management** – proposed to be undertaken in October 2020, and will enable us to review the risk framework in place and have confidence that our audits driven from the risk register are indeed the right areas of risk.
- **Key Financial Controls** – An audit that will typically be covered in each year of the internal audit plan, but of particular importance given the remote working that the authority has encountered in 2020/21 due to the covid pandemic.



Resource: RSM are aware of the need to deliver an Annual Internal Audit Opinion by 31st March 2021 and have allocated the resources to deliver all audits agreed within the plan by the year end.



Committee Development Session: We have agreed with the Combined Authority to hold a development session for the members of the Audit & Governance Committee on developing your internal audit service, this will include the role of internal audit, our approach, methodology, reporting and how the Combined Authority can benefit from the value of Internal Audit.



Core Assurance: The core assurance pieces for the 2020/21 audit plan includes the review of Key Financial Controls which could consider a selection of controls adjusted for COVID-19 priorities. In addition, as part of our work to support to inform the Head of Internal Audit Opinion we will review the effectiveness of the organisations Risk Management arrangements.



‘Agile’ approach: Our approach to working with you will always be one where we will respond to your changing assurance needs, which is particularly important in light of the COVID-19 Pandemic. By employing ‘agile’ or a ‘flexible’ approach to our service delivery, we are able to change the focus of audits / audit delivery; keeping you informed of these changes in our progress papers to Audit & Governance committee during the year.



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1. YOUR INTERNAL AUDIT PLAN 2020/21

Our approach to developing your internal audit plan is based on analysing your corporate objectives, risk profile and assurance framework as well as other, factors affecting Cambridgeshire and Peterborough Combined Authority in the year ahead, including changes within the sector.

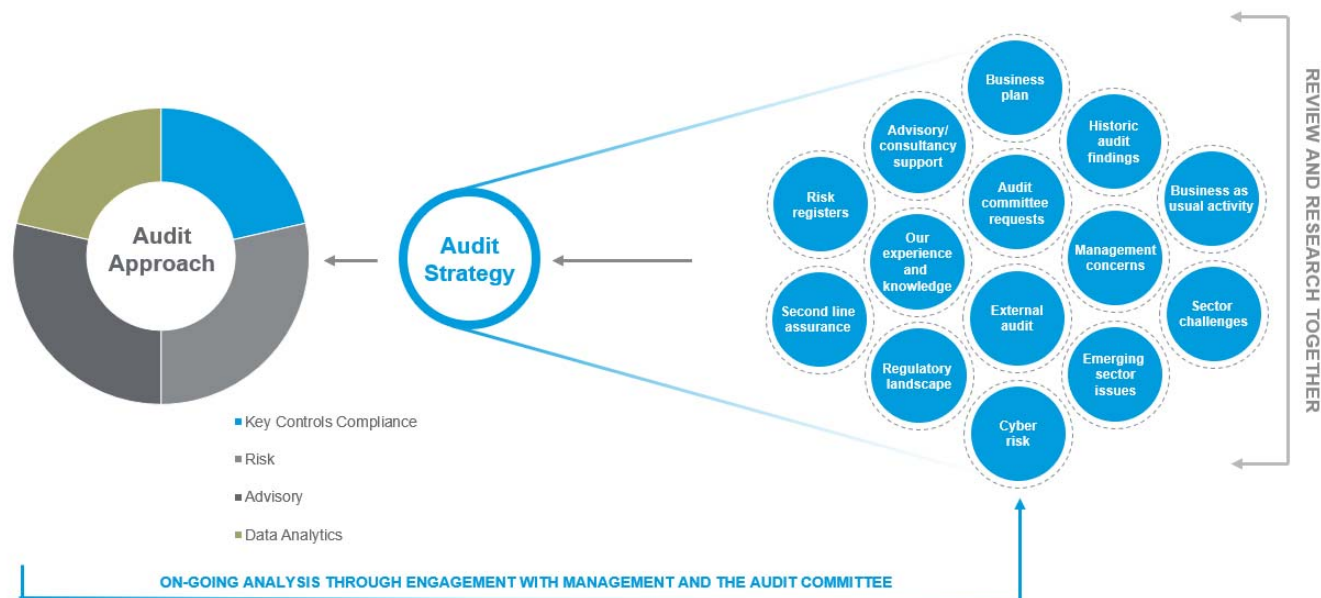
Risk management processes

We have reviewed your risk registers and held discussions with various members of the management team to inform the initial elements of the internal audit strategy however, due to time constraints, we have not been able to meet with all of the required key stakeholders (Audit and Governance Chair and wider SMT members for example) and therefore we have prepared this paper as a 'discussion draft'. To date we have met with:

- Jon Alsop – Chief Finance Officer
- Anne Gardiner – Scrutiny Officer
- Robert Parkin – Chief Legal Officer (LMO)
- Robert Fox – Scrutiny Officer

We have used various sources of information (see Figure A below) and discussed priorities for internal audit coverage with senior management however, have also not been able to meet with the previous Internal Auditors and the current External Auditors prior to the October 2020 committee paper deadline. We have therefore only prepared an outline plan with some initial areas of consideration outlined for the 2020/21 financial year which will be subject to further review and consideration prior to presentation of a full plan at the November 2020 Audit & Governance Committee.

Figure A: Audit considerations – sources considered when developing the Internal Audit Strategy.



Based on our understanding of the organisation, the information provided to us by stakeholders, and the regulatory requirements, we have developed an annual internal plan for the coming year and a high level strategic plan (see Section 2 and Appendix B for full details).

2. INTERNAL AUDIT PLAN 2020/21

The table below shows potential reviews for coverage in 2020/21 that will be further refined following the October 2020 Committee meeting.

The table details the strategic risks which may warrant internal audit coverage and require further discussion with the CMT ahead of formal approval by this Committee. This review of your risks allows us to ensure that the proposed plan will meet the organisation's assurance needs for the forthcoming and future years. As well as assignments designed to provide assurance or advisory input around specific risks, the strategy also includes; grant audit coverage, time for tracking the implementation of actions and an audit management allocation.

Objective of the review	Audit approach	Proposed timing	Proposed Audit Committee
Risk Based Assurance			
Potential Audit TBC - Impact of COVID-19 on CPCA delivery of projects	Risk Based	March 2021	April 2021
Proposed Audit Coverage: To provide assurance over the governance arrangements in place to monitor and manage the delivery of projects of the Combined Authority following the disruption of the COVID-19 pandemic. Risk ID 16: Disruption of the delivery of the Combined Authority objectives.			
Potential Audit TBC - Climate Change	Risk Based	January 2021	April 2021
Proposed Audit Coverage: To review the arrangements in place for the Combined Authority's role in approaching climate change. Specific			
Appointments to Boards and Committees sponsored by the Combined Authority	Risk Based	February 2021	April 2021
Proposed Audit Coverage: To provide assurance over the processes in place for the appointment of Members to the Combined Authority's Boards and Committees. The review could consider but not be restricted to the following key areas: <ul style="list-style-type: none"> • Board Appointment Plan and Procedures; • Attendance; • Effectiveness reviews; • Member skills consideration; • Succession Planning; • Code of Conduct; and • Declarations of Interest. 			

Objective of the review	Audit approach	Proposed timing	Proposed Audit Committee
Core Assurance			
Grant Verification	Compliance	February 2021	April 2021
Proposed Audit Coverage: The verification of grants receivable from the Department for Transport. This will include a review of the assurance provided by Constituent Councils e.g. Cambridgeshire County Council for monies associated with their expenditure. This could include: <ul style="list-style-type: none"> • Integrated Transport Block • Highways Maintenance • Pothole Action Fund • National Productivity Investment Fund Risk ID 17: Unplanned significant increases in costs lead to requests for additional funding to the Combined Authority to enable schemes to proceed.			
Risk Management	Systems based	October / November 2020	January 2021
Proposed Audit Coverage: <ul style="list-style-type: none"> • The arrangements in place for the identification of key risks threatening the achievement of the organisation's objectives and the documenting of these on the risk register together with the controls in place to manage these; and • The effectiveness of arrangements in place for monitoring the management of key risks at Board and Committee level, including the use of the Assurance Framework as a tool to deliver this. We will utilise a risk management culture questionnaire as part of our audit approach to gauge the views of staff throughout the organisation on the effectiveness of risk management arrangements in place.			
Key Financial Controls	Data Analytics and Key Controls Compliance	October / November 2020	January 2021
Proposed Audit Coverage: This audit will look to provide assurance in relation to the transaction processes managed by the organisation and the management of the payroll function. Testing could cover a number of the following areas, with the specific areas of coverage to be agreed in advance of the audit. <ul style="list-style-type: none"> • General Ledger • Income and Debt Management • Payments and Creditors • Asset Management • Payroll 			

Objective of the review	Audit approach	Proposed timing	Proposed Audit Committee
<ul style="list-style-type: none"> Cash Management Budgetary Control Medium Term Financial Planning <p>We will undertake a review of a selection of the areas above to provide assurance over the key risk areas, which will be decided in discussion with management.</p> <p>Risk ID 10: Absence of Resource Planning & Financial Management.</p>			
<p>Potential Audit TBC - Information Technology Audit</p> <p>Proposed Audit Coverage: To provide assurance over the effectiveness of the organisations IT systems and processes. The specific audit to be undertaken will be determined through discussions with management team and our Technology risk team but could include:</p> <ul style="list-style-type: none"> Remote Working and Operational Resilience; Cyber Security; Network Security; General IT Controls; Data Storage and Management; Information Systems and Data; and GDPR. <p>Risk ID 14: Disruption to the operation of the Combined Authority.</p>	Risk based	January 2021	April 2021
<p>Other Internal Audit Activity</p>			
<p>Follow up - To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.</p>	N/A	March 2021	April 2021
<p>Advice and Consultancy - To provide advice on an ongoing basis on all aspects of governance, risk management and internal control.</p>	N/A	Ongoing	Ongoing
<p>Management</p> <p>This will include:</p> <ul style="list-style-type: none"> Annual planning Preparation for, and attendance at, audit committee Regular liaison and progress updates Liaison with external audit and other assurance providers Preparation of the annual opinion 	N/A	Ongoing	Ongoing

A detailed planning process will be completed for each review, and the final scope will be documented in an Assignment Planning Sheet. This will be issued to the key stakeholders for each review.

2.1 Working with other assurance providers

The Audit & Governance Committee is reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers, such as external audit to ensure that duplication is minimised, and a suitable breadth of assurance obtained.

APPENDIX A: YOUR INTERNAL AUDIT SERVICE

Your internal audit service is provided by RSM Risk Assurance Services LLP. The team will be led by Dan Harris as your Head of Internal Audit, supported by Jay Desai as your client manager.

Core team

The delivery of the 2020/21 audit plan will be based around a core team. However, we will complement the team with additional specialist skills where required, for example Technology risk specialists for the IT audit.

Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2016 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

The external review concluded that “there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to audit committee and the supporting working papers.” RSM was found to have an excellent level of conformance with the IIA’s professional standards.

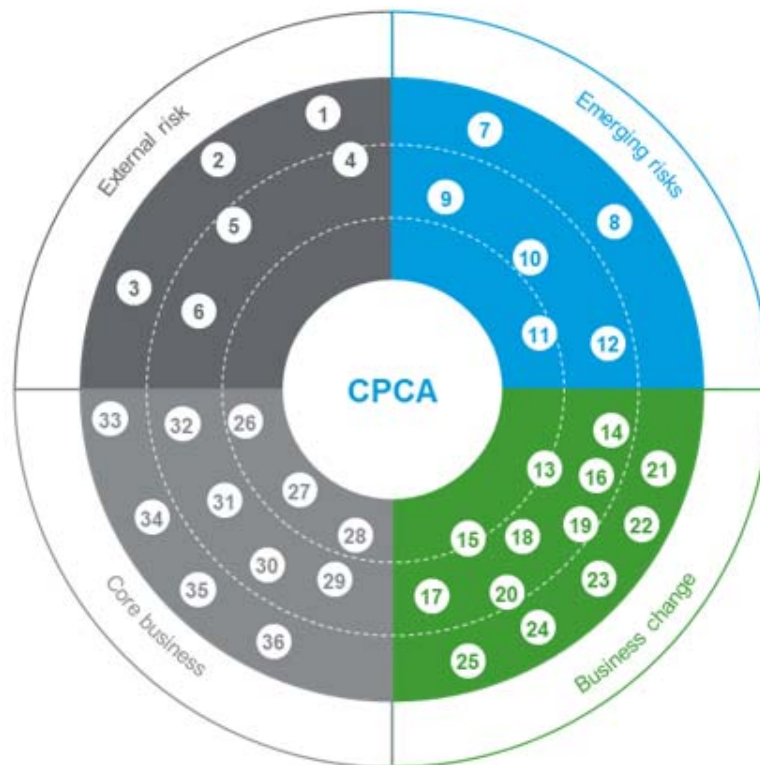
The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

Conflicts of interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

APPENDIX B: INTERNAL AUDIT STRATEGY DEVELOPMENT

The diagram below shows an overview of the potential internal audit coverage which was identified as part of our submission during our appointment process. The diagram identifies potential areas of coverage based on analysis of the information publicly available.



1	COVID-19 – External Economy	19	Governance, Transparency and Decision Making
2	COVID-19 – Impact on CPCA	20	Project Planning and Delivery
3	Government Funding	21	Information Governance
4	Public Communication and Perception	22	Business Continuity and Disaster Recovery
5	Cyber Security	23	Culture
6	Political changes and priorities	24	Resource Management
7	Recession	25	Business Transformation
8	Unemployment	26	Risk Management
9	Impact of Brexit	27	Project / Programme Management
10	Climate Change	28	Grants
11	Partnerships and Collaboration	29	Contract Management
12	Strategic Partnerships	30	People Management
13	Remote Working	31	Fraud Risk Assessment
14	Partnership Working	32	Financial Planning and Delivery
15	Strategic Planning	33	Data Quality and Performance Management
16	Digitalisation	34	Financial Controls
17	Big Data / Data Quality	35	Technology Assurance
18	IT Strategy	36	GDPR

Following the completion of our internal audit planning meetings and the meetings with external key stakeholders, we will develop a three-year strategy for inclusion within this section of the internal audit

APPENDIX C: INTERNAL AUDIT CHARTER

Need for the charter

This charter establishes the purpose, authority and responsibilities for the internal audit service for Cambridgeshire and Peterborough Combined Authority. The establishment of a charter is a requirement of the Public Sector Internal Audit Standards (PSIAS) and approval of the charter is the responsibility of the audit committee.

The internal audit service is provided by RSM Risk Assurance Services LLP (“RSM”).

We plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, focusing in particular on how these arrangements help you to achieve its objectives. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Core principles for the professional practice of internal auditing;
- Definition of internal auditing;
- Code of ethics; and
- The Standards.

Mission of internal audit

As set out in the PSIAS, the mission articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the mission.

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.

Independence and ethics

To provide for the independence of internal audit, its personnel report directly to the Partner, Dan Harris (acting as your head of internal audit). The independence of RSM is assured by the internal audit service reporting to the chief executive, with further reporting lines to the Chief Financial Officer.

The head of internal audit has unrestricted access to the chair of audit committee to whom all significant concerns relating to the adequacy and effectiveness of risk management activities, internal control and governance are reported.

Conflicts of interest may arise where RSM provides services other than internal audit to Cambridgeshire and Peterborough Combined Authority. Steps will be taken to avoid or manage transparently and openly such conflicts of interest so that there is no real or perceived threat or impairment to independence in providing the internal audit service. If a potential conflict arises through the provision of other services, disclosure will be reported to the audit committee. The nature of the disclosure will depend upon the potential impairment and it is important that our role does not appear to be compromised in reporting the matter to the audit committee. Equally we do not want the organisation to be deprived of wider RSM expertise and will therefore raise awareness without compromising our independence.

Responsibilities

In providing your outsourced internal audit service, RSM has a responsibility to:

- Develop a flexible and risk based internal audit strategy with more detailed annual audit plans. The plan will be submitted to the audit committee for review and approval each year before work commences on delivery of that plan.
- Implement the internal audit plan as approved, including any additional tasks requested by management and the audit committee.
- Ensure the internal audit team consists of professional audit staff with sufficient knowledge, skills, and experience.
- Establish a quality assurance and improvement program to ensure the quality and effective operation of internal audit activities.
- Perform advisory activities where appropriate, beyond internal audit's assurance services, to assist management in meeting its objectives.
- Bring a systematic disciplined approach to evaluate and report on the effectiveness of risk management, internal control and governance processes.
- Highlight control weaknesses and required associated improvements together with corrective action recommended to management based on an acceptable and practicable timeframe.
- Undertake follow up reviews to ensure management has implemented agreed internal control improvements within specified and agreed timeframes.
- Report regularly to the audit committee to demonstrate the performance of the internal audit service.

For clarity, we have included the definition of 'internal audit', 'senior management' and 'board'.

- Internal audit – a department, division, team of consultant, or other practitioner (s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
- Management team who are the team of individuals at the highest level of organisational management who have the day-to-day responsibilities for managing the organisation.

- Combined Authority Board - The highest-level governing body charged with the responsibility to direct and/or oversee the organisation's activities and hold organisational management accountable. Furthermore, "board" may refer to a committee or another body to which the governing body has delegated certain functions (eg an audit committee).

Client care standards

In delivering our services we require full cooperation from key stakeholders and relevant business areas to ensure a smooth delivery of the plan. We proposed the following KPIs for monitoring the delivery of the internal audit service:

- Discussions with senior staff at the client take place to confirm the scope four weeks before the agreed audit start date.
- Key information such as: the draft assignment planning sheet are issued by RSM to the key auditee four weeks before the agreed start date.
- The lead auditor to contact the client to confirm logistical arrangements at least 10 working days before the commencement of the audit fieldwork to confirm practical arrangements, appointments, debrief date etc.
- Fieldwork takes place on agreed dates with key issues flagged up immediately.
- A debrief meeting will be held with audit sponsor at the end of fieldwork or within a reasonable time frame.
- Draft reports will be issued within 10 working days of the debrief meeting and will be issued by RSM to the agreed distribution list / Sharefile.
- Management responses to the draft report should be submitted to RSM.
- Within three working days of receipt of client responses the final report will be issued by RSM to the assignment sponsor and any other agreed recipients of the report.

Authority

The internal audit team is authorised to:

- Have unrestricted access to all functions, records, property and personnel which it considers necessary to fulfil its function.
- Have full and free access to the audit committee.
- Allocate resources, set timeframes, define review areas, develop scopes of work and apply techniques to accomplish the overall internal audit objectives.
- Obtain the required assistance from personnel within the organisation where audits will be performed, including other specialised services from within or outside the organisation.

The head of internal audit and internal audit staff are not authorised to:

- Perform any operational duties associated with the organisation.

- Initiate or approve accounting transactions on behalf of the organisation.
- Direct the activities of any employee not employed by RSM unless specifically seconded to internal audit.

Reporting

An assignment report will be issued following each internal audit assignment. The report will be issued in draft for comment by management, and then issued as a final report to management, with the executive summary being provided to the audit committee. The final report will contain an action plan agreed with management to address any weaknesses identified by internal audit.

The internal audit service will issue progress reports to the audit committee and management summarising outcomes of audit activities, including follow up reviews.

As your internal audit provider, the assignment opinions that RSM provides the organisation during the year are part of the framework of assurances that assist the board in taking decisions and managing its risks.

As the provider of the internal audit service we are required to provide an annual opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the board is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The annual opinion will be provided to the organisation by RSM Risk Assurance Services LLP at the financial year end. The results of internal audit reviews, and the annual opinion, should be used by management and the Board to inform the organisation's annual governance statement.

Data protection

Internal audit files need to include sufficient, reliable, relevant and useful evidence in order to support our findings and conclusions. Personal data is not shared with unauthorised persons unless there is a valid and lawful requirement to do so. We are authorised as providers of internal audit services to our clients (through the firm's terms of business and our engagement letter) to have access to all necessary documentation from our clients needed to carry out our duties.

Quality Assurance and Improvement

As your external service provider of internal audit services, we have the responsibility for maintaining an effective internal audit activity. Under the standards, internal audit services are required to have an external quality assessment every five years. In addition to this, we also have in place an internal quality assurance and improvement programme, led by a dedicated team who undertake these reviews. This ensures continuous improvement of our internal audit services.

Any areas which we believe warrant bringing to your attention, which may have the potential to have an impact on the quality of the service we provide to you, will be raised in our progress reports to the audit committee.

Fraud

The audit committee recognises that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the audit committee recognises that internal audit is not responsible for identifying fraud; however internal audit will be aware of the risk of fraud when planning and undertaking any assignments.

Approval of the internal audit charter

By approving this document, the internal audit strategy, the audit committee is also approving the internal audit charter.

FOR FURTHER INFORMATION CONTACT

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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 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 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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