

Internal Audit Interim Update Report 2022/23 Internal Audit Plan

October – December 2022

1. Introduction

- 1.1. In accordance with the Public Sector Internal Audit Standards, the Internal Audit Interim Update Report contains “emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 1.2. Internal Audit is required to form an annual opinion on the overall adequacy and effectiveness of the organisation’s control environment, which includes consideration of any significant risk or governance issues, and control failures which have been identified.

2. Summary of Audit Work to Date

- 2.1. During this period, audit work was undertaken on the whole of the control environment comprising risk management, key control and governance processes. This work comprised a mix of risk-based auditing, regularity, investigations and the provision of advice to officers. The following sections explain the variety of audit work undertaken to support the annual audit opinion.
- 2.2. In addition to the provision of assurance work, the Head of Audit and Risk has been supporting the completion of the work being undertaken by Grant Thornton in fulfilling their responsibilities under the Local Audit and Accountability Act 2014. This has involved locating and managing documentation requested by Grant Thornton, liaison and discussion, and has required the support of other colleagues, including the Audit Manager.

Assurance Work

- 2.3. A summary of the final reports issued to the end of December 2022, by the audit assurance opinion given is included in **Table 1**. Reports issued to this point are similar to this point in the previous year; it is usual for the majority of the audit plan reports to be issued in the last half of the year.
- 2.4. Details of work in progress, covering draft reports issued for agreement with managers, fieldwork in progress and terms of reference stages, is covered in Table 5. It is anticipated that sufficient work in terms of quantity and coverage will be undertaken to deliver the annual opinion for 2022/23, with the number of final reports issued expected to exceed the total number issued in 2021/22.
- 2.5. Figures relating to 2021/22 and 2020/21 have been included in the table below to assist with comparison.

Table 1: Reports to date by assurance level

| Assurance Level | 2022/23 (to 31/12/2022) | 2021/22 (to 31/12/2021) | 2021/22 Full Year | 2020/21 (to 31/12/2020) | 2020/21 Full Year |
|-----------------|-------------------------|-------------------------|-------------------|-------------------------|-------------------|
| Good | 0 | 0 | 2 | 0 | 6 |
| Satisfactory | 2 | 2 | 4 | 0 | 4 |
| Limited | 3 | 2 | 8 | 0 | 3 |
| No Assurance | 1 | 0 | 1 | 0 | 0 |
| Total | 6 | 4 | 15 | 0 | 13 |

2.6. Details of the reports produced to the end of December 2022 are included in Table 2, which includes details of the audit assurance opinion given in each report. Where the opinion given was Limited or No Assurance, a summary of key findings and actions has been provided.

2.7. Those reports included in the previous Q1/Q2 update have been annotated as such.

Table 2: Summary of Final Assurance Reports 2022/23 to 31 December 2022

| Audit Report | Reason for Review | Audit Assurance Opinion | Management Response | Summary of Findings |
|--|---|-------------------------|---------------------|---|
| Deprivation of Liberty Safeguards - detailed follow up | Identified via Audit Plan | Satisfactory | All actions agreed | Included in Q1/Q2 Update |
| Journey First | At the request of management to provide assurance on the operation of this ESF funded project that works with anyone over the age of 15 who face barriers into education, employment, or training | Satisfactory | All actions agreed | Included in Q1/Q2 Update |
| ANSA – review of gritting arrangements | To seek assurance around the arrangements to manage gritting services | No Assurance | All actions agreed | The review identified the following issues: <ul style="list-style-type: none"> • Additional public highway gritting activities were undertaken without seeking advice or approval from the Council • Potential that this activity was not covered by the Council's insurers |

| Audit Report | Reason for Review | Audit Assurance Opinion | Management Response | Summary of Findings |
|-------------------------------------|---------------------------|-------------------------|---------------------|---|
| | | | | <ul style="list-style-type: none"> • Potential for challenge from Town and Parish Councils who have not received this service • Delays in initiating gritting activity due to not having access to real time information • Gritting records did not contain sufficiently detailed information <p>It was recommended that the additional gritting activities on public highways are not continued.</p> <p>Included in Q1/Q2 Update</p> |
| Gifts and Hospitality - Members | Identified via Audit Plan | Limited | All actions agreed | <p>The review concluded that improvements could be made to the process but acknowledged that the updated Code of Conduct would address most of the issues raised.</p> <p>Included in Q1/Q2 Update</p> |
| Declarations of Interest - Members | Identified via Audit Plan | Limited | All actions agreed | <p>The review concluded that improvements could be made to the process but acknowledged that the updated Code of Conduct would address most of the issues raised.</p> <p>Included in Q1/Q2 Update</p> |
| Schools Consolidated Report 2021/22 | Identified via Audit Plan | Limited | All actions agreed | <p>The report identified common issues identified during the school audit</p> |

| Audit Report | Reason for Review | Audit Assurance Opinion | Management Response | Summary of Findings |
|--------------|-------------------|-------------------------|---------------------|---|
| | | | | programme to be shared with all schools |

- 2.8. The assurance levels reported include a combination of opinions at a broad level for the Council as a whole (macro-level opinion) and opinions on individual business processes or activities within a single organisation, department or location (micro-level opinion).
- 2.9. Where control weaknesses are identified, recommended actions are agreed with management to ensure that the control environment is improved to an acceptable level. Through the follow up process, Internal Audit continues to obtain assurance that actions have been implemented, especially those deemed high priority.
- 2.10. It should be noted that Internal Audit’s risk-based approach includes focussing on areas where issues are known or expected to exist. Clearly this approach adds value to the organisation, but, by its nature, may also result in lower overall assurance levels.
- 2.11. Where a final report is issued with a “Limited” or “No Assurance” opinion, improvement recommendations will be made. When implemented these will address the identified weaknesses and improve the control environment.
- 2.12. All actions from these audits have been agreed with management and progress on implementation will be monitored through the follow up process. Draft reports are agreed with the appropriate managers, and Final reports are shared with the relevant Executive Director and the Chief Executive.
- 2.13. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the Annual Governance Statement process.
- 2.14. The Audit Plan is subject to regular review to reflect the current resources available to the team. The team continue to employ a temporary Principal Auditor and it is hoped that a permanent Auditor post will be filled shortly to support the delivery of the school audit programme. With these additional resources it is anticipated that the team will complete sufficient direct assurance work supported by assurances gained through other areas of internal audit work to deliver the Annual Internal Audit Opinion for 2022/23.

Schools

- 2.15. The Department for Education requires the Council’s Section 151 Officer to sign off an Annual Assurance Statement. That statement confirms:

- the number of School's Financial Value Standard (SFVS) self-assessment returns received; and
 - that an appropriate audit programme is in place to provide adequate assurance over the standard of financial management, and the regularity and propriety of spending in schools.
- 2.16. The School's Audit Programme for 2022/23 has been agreed by both the Director of Finance and Customer Services (Section 151 Officer) and the Director of Education and 14-19 Skills and will cover procurement, including the use of purchase cards, and HR arrangements including payroll.
- 2.17. The work is planned to be completed during quarters 4 of the current year and quarter 1 of 2023/24 and is timed to provide assurance to the Section 151 Officer and facilitate the signing of the Annual Assurance Statement in May 2023.
- 2.18. Individual reports are produced and issued to schools detailing any areas of weakness identified and any actions required to address these weaknesses and improve the control environment. School reports include an assurance opinion on the arrangements, in line with other audit reports.
- 2.19. Consolidated findings and recommended actions and improvements are shared with all maintained schools through the "Schools Bulletin" and the "Director's Report".
- 2.20. Findings from all areas inform a consolidated schools report which provides assurance to the Director of Finance and Customer Services (Section 151 Officer) and the Director of Education and 14-19 Skills.

Supporting Corporate Governance

- 2.21. In accordance with Regulation 6 of the Accounts and Audit Regulations 2015 the Council is required, each financial year, to conduct a review of the effectiveness of the system of internal control and publish an Annual Governance Statement (AGS).
- 2.22. During this financial year, and as previously reported in the 2021/22 Internal Audit Annual Report, Internal Audit has coordinated, on behalf of Management, the production of the Council's AGS for 2021/22.
- 2.23. Audit and Governance Committee approved the Draft AGS 2021/22 at their September meeting, in line with statutory deadlines. The Final AGS 2021/22 will be presented to a future meeting of the Audit and Governance Committee along with the Statement of Accounts.

Counter Fraud and Investigations

- 2.24. Internal Audit has continued to keep abreast of the latest fraud threats, and where appropriate coordinated awareness raising via the Council's social media streams.
- 2.25. Internal Audit has coordinated the Council's participation in the biennial National Fraud Initiative (NFI) exercise and ensured that services have uploaded the required data sets in accordance with deadlines. Matches were received in January 2023 and services are being supported to investigate matches and record the results on the NFI website.

Consultancy and Advice

- 2.26. During the year, Internal Audit has continued to support management with the provision of advice - at the specific request of management. The nature and scope of these engagements are generally aimed at improving governance, risk management and control and contribute to the overall audit opinion as well as building good relationships across the Council.
- 2.27. In the year so far, advice and guidance has been provided on:
- Suspected scams and attempted frauds.
 - Design and application of controls in new/proposed systems.
 - Interpretation of Finance and Contract Procedure Rules.
- 2.28. By providing this service, internal audit can ensure that processes are supported by appropriate controls to mitigate identified risks associated with the particular activity at the outset of change or development, providing far more valuable input to the service and wider control environment overall.

Grant certifications

- 2.29. Internal Audit is often required to certify statutory returns and grant claims. This may be related to funding provisos or similar. In most cases the work required is either an audit or an assurance statement on a specific programme/project.
- 2.30. In 2022/23 to date, this has included work on the following grants, which were successfully signed off and submitted to the appropriate funding body:

Table 3: Grants Certified during 2022/23 as at 31 December 2022

| Grant Certified | Funding Body | Amount |
|---|--------------|-----------------------|
| Family Focus (year to date) | DLUHC | £195,200.00 |
| CWLEP Growth Hub Grant | BEIS | £462,000.00 |
| CWLEP Peer Network Grant | BEIS | £150,000.00 |
| Bus Service Operators Grant | DfT | £347,865.00 |
| Local Transport Capital Block Funding | DfT | £15,051,000.00 |
| Energy Efficiency – Green Homes (Phase 1) | BEIS | £2,135,885.00 |
| Energy Efficiency – Green Homes (Phase 2) | BEIS | £1,523,750.00 |
| Disabled Facilities Grant | DLUHC | £2,342,241.00 |
| Contain Outbreak Management (COVID) | DHSC | £11,195,670.48 |
| Test and Trace Service Support (COVID) | DHSC | £1,533,331.15 |
| Self-Isolation Support Payment (COVID) | DHSC | £2,213,620.60 |
| COVID-19 Bus Service Support Grant | DfT | £1,219,984.52 |
| Protect & Vaccinate (COVID) | DLUHC | £81,005.00 |
| Total | | £38,451,552.75 |

- 2.31. It should be noted that the level of work required to complete grant sign offs is not always proportionate to the value of the grant; grant funding conditions are set by the funding body, and it is this which determines the amount of testing and validation required to inform the sign off.
- 2.32. Over the past two years, the level of testing required to provide assurance that grants have been used in accordance with the grant conditions has increased. This is taking up an increasingly large amount of Internal Audit resource and in order to manage this demand, Internal Audit has coordinated a grant register that details the nature of each grant and any reporting and sign off details. Lead officers have been identified for each of the grants and work undertaken to ensure that all returns have been completed within deadlines.
- 2.33. Work is continuing in this area to ensure that the Council is aware of all requirements and deadlines associated with the many grants that it receives and administers. Work is also planned in the 23/24 audit plan to examine arrangements where sign off from Internal Audit is not required ahead of the submission to the funding body, in order to ensure all grants are subject to appropriate management and scrutiny.

Work for Other Bodies

- 2.34. Since 2013, Cheshire East Council has been the host authority for the PATROL (Parking and Traffic Regulations Outside London) Adjudication Joint Committee and Bus Lane Adjudication Joint Committee, and as part of this, we provide an Internal Audit service.
- 2.35. Having carried out this work remotely during the pandemic, it was possible to return to an on-site audit for the current year. The outcome of the internal audit work is reported to the PATROL Committees directly and does not inform the annual internal audit opinion for Cheshire East Council.
- 2.36. The work was completed, and a report issued during June 2022, which is then considered by the Patrol Committee.
- 2.37. Cheshire East also provide internal audit services to the Cheshire and Warrington Local Enterprise Partnership. This involves the completion audit work to facilitate the sign off and submission of grant funding returns along with assurance as to the effectiveness of the local assurance framework.
- 2.38. Work is undertaken throughout the year and regular updates presented to the CWLEP Finance and Audit Committee.

Implementation of Audit Recommendations

- 2.39. Internal Audit continually carries out a range of follow up exercises to ensure recommendations are implemented. This work is done in a number of different ways:
- Major pieces of audit work, such as the AGS have detailed action plans which are monitored and reported separately to the Committee.
 - Investigations – follow up work is usually dependent on both the nature of the investigation and any recommendations made e.g. a follow up audit may be done at the request of management.
 - Formal assurance audits: recommendations are monitored in line with our follow up process.
- 2.40. Audits with 'limited' or 'no' assurance are subject to more detailed review. In addition, key systems (e.g., Payroll, Accounts Payable) are audited on a regular, cyclical basis with recommendations followed up as part of the work.
- 2.41. The Committee have previously been advised of the work undertaken by Internal Audit, supported by senior management to raise the profile of audit recommendations. This has included the agreement of "SMART" recommendations and the inclusion of performance measures in the Corporate Scorecard.

2.42. The implementation of agreed recommendations for reports issued in 2020/21, 2021/22 and the current year to date is detailed in the table below.

Table 4: Implementation of agreed recommendations as at 31 December 2022

| On time | After the agreed date | Total implemented | In progress, or overdue | Agreed actions subsequently not implemented |
|---------|-----------------------|-------------------|-------------------------|---|
| 2020/21 | | | | |
| 100% | 0% | 100% | 0% | 0% |
| 2021/22 | | | | |
| 100% | 0% | 100% | 0% | 0% |
| 2022/23 | | | | |
| 100% | 0% | 100% | 0% | 0% |

2.43. These high implementation figures over several years have been achieved as a result of significant effort by the Internal Audit team in carrying out follow ups with managers along with support from senior managers in raising the profile of audit actions.

2.44. In agreeing implementation dates, managers are encouraged to be realistic with regards to when actions can be completed whilst ensuring that issues are addressed in a timely manner. It is pleasing to report that senior management have continued to support Internal Audit by challenging their service managers around implementation of actions.

2.45. The timely implementation of audit recommendations is a good indicator of both the effectiveness of Internal Audit in securing action and the Council's commitment and capacity to improve.

Ongoing Work

2.46. The following audits were ongoing at the time of reporting:

Table 5: Ongoing Internal Audit Assignments as at 31 December 2022

| Audit | Scope of Review | Status |
|-----------------------------------|---|---|
| Community Infrastructure Levy | To review the processes and controls around the requests, collection, management, implementation, and expenditure on CIL schemes. | Draft Report agreed but on hold pending completion of Section 106 audit |
| Safeguarding Children Partnership | To review the adequacy of funding and budget management arrangements of the partnership to ensure it meets statutory | Draft report with management to agree actions |

| | | |
|---|---|---|
| | requirements of the partnership as defined in Working Together 2018. | |
| Gifts and Hospitality – Officers | To review the processes and controls in place to manage the officers register of gifts and hospitality | Draft report with management to agree actions |
| Declarations of Interest - Officers | To review the processes and controls in place to manage declarations of interest from officers. | Draft report with management to agree actions |
| Land Transactions | To review the effectiveness of current arrangements in place to manage the sale and disposal of land assets taking into account historic police referrals and subsequent internal audit work in this area. | Fieldwork underway with report to be issued during quarter 4. |
| Management of Commissioned Services | A review of the arrangements in place to manage the domiciliary care contract | Report being drafted |
| Adult Mental Health Professional Standards | To review the adequacy and effectiveness of the policies, systems, and procedures in place to demonstrate compliance with the service standards and provide assurance that the Council's legal responsibilities are fulfilled | Report being drafted |
| Section 106 | To review the arrangements for the agreement, collection, management, implementation, and expenditure of S106 schemes, including the strategic oversight of the schemes. | Fieldwork nearing completion |
| ERP Replacement – post implementation reviews | Work is ongoing to ensure that appropriate key controls are in place within the Unit 4 system. Additional work is also ongoing in relation to governance of business-as-usual activity. | Fieldwork underway with CWAC colleagues |
| Accounts Payable | To review the use of Exception Payment Forms for raising | Terms of reference issued |

| | | |
|--|--|---------------------------|
| | payments and to ensure that this is appropriate and in accordance with policies and procedures | |
| Council Tax Discounts and Eligibility | To review the processes and controls around the application and award of discounts | Terms of reference issued |
| Non-Domestic Rates Discounts and Eligibility | To review the processes and controls around the application and award of discounts | Terms of reference issued |
| Use of Agency Workers | To ensure that the use of agency workers is subject to approval and that they are subject to the same policies and procedures as CEC employees | Terms of reference issued |

Table 6: Planned work not yet started as at 31 December 2022

| Audit | Scope of Review |
|--------------------------------|---|
| Key Financial Systems | This will involve several reviews which will be undertaken during quarter 4. It will cover key systems such as Council Tax and Non-Domestic Rates. |
| CWLEP | Completion of the internal audit plan for the Local Enterprise Partnership will take place during February and March 2023 in line with reporting requirements. This does not directly inform the Annual internal audit opinion and is undertaken as Cheshire East are the accountable body. |
| School Audit Programme 2022/23 | A series of school audits undertaken to provide assurance to the Section 151 Officer and Director of Education as to the effectiveness of financial management within Cheshire East schools. To commence in quarter 4 and conclude in quarter 1 of 2023/24. |
| HR/Payroll | To examine and review the effectiveness of the arrangements in place for new starters, changes to contractual terms and leavers. |
| Debt Management and Recovery | To review the effectiveness of arrangements for the management and recovery of debt across the whole of the Council. |

2.47. It is also possible that other, unplanned reviews may be undertaken at the request of management.

3. Internal Audit Performance

- 3.1. Internal Audit's performance is measured against a number of performance indicators which are detailed in Table 8.
- 3.2. The performance relating to the implementation of recommendations is detailed earlier in this report.

Table 7: Performance Indicators to date

| Performance Indicator | 2022/23 Actual (as at 31/12/22) | 2022/23 Target | 2021/22 Actual | Comments on 2022/23 Actuals |
|---|---------------------------------|----------------|----------------|-----------------------------|
| % of Audits completed to user's satisfaction | 96% | 95% | 95% | Above target |
| % of significant recommendations agreed | 100% | 95% | 100% | Above target |
| Draft report produced promptly (per Client Satisfaction Form) | 95% | 95% | 90% | On target |

4. Compliance with the Public Sector Internal Audit Standards

- 4.1. Regulation 6 of the Accounts and Audit Regulations 2015 requires relevant bodies to conduct an annual review of the effectiveness of its internal audit and for a committee of the body to consider the findings.
- 4.2. This review is carried out by self-assessing compliance with the Public Sector Internal Audit Standards (PSIAS) which were updated with effect from 1 April 2017. The PSIAS require Internal Audit to have in place a quality assurance and improvement programme which must include both internal and external assessments.
- 4.3. The self-assessment for 2022/23 is scheduled for completion within Quarter 4 and the results will be reported to the Committee following its completion.