



Internal Audit Annual Report 2014-2015

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1 Introduction

- 1.1 From 1 April 2013, the Public Sector Internal Audit Standards (**PSIAS**) and accompanying Local Government Application Note became the standards by which all Local Government Internal Audit Sections must comply.
- 1.2 This is, in accordance with the standards, the Corporate Manager Governance and Audit's annual report. It is timed to support the Council's Annual Governance Statement (AGS) and will be presented to the audit and governance committee on the 25 June 2015. The report includes the following Public Sector requirements set out in PSIAS 2450:
- an annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
 - a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies); and
 - a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP).
- 1.3 The report also includes the following mandatory elements of the Institute of Internal Auditors (IIA)

International Professional Practices Framework (IPPF) set out in PSIAS 2450:

- disclosure of any qualifications to that opinion, together with reasons;
- disclosure of any impairments ('in fact or appearance') or restriction in scope;
- a comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets;
- any issues the Corporate Manager Governance and Audit judges particularly relevant to the preparation of the annual governance statement; and
- progress against any improvement plans resulting from any QAIP external assessment.

2 Background to the annual internal audit opinion

- 2.1 Like much of the public sector the Council continues to face on-going and unprecedented financial and service delivery challenges. During 2014/15 the Council continued its journey to develop 'Best Fit' solutions for service delivery. This included setting up 7 new Alternative Service Delivery Vehicles (ASDVs) as part of the remodelling of services that provide the best possible outcomes for the residents of Cheshire East.

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2.2 The scale and change of pace is unprecedented and is not without risk. The Council's governance processes have continued to develop to ensure that change is managed in a structured and co-ordinated manner with risks identified and mitigated and reviewed regularly.

2.3 For 2014/15 the Council agreed an additional outcome to ensure that it was able to monitor and demonstrate its proper governance and stewardship of public money. Outcome 6 is summarised as a "A Responsible, Effective and Efficient Organisation" through;

- efficient Use of Assets;
- effective Processes;
- enhanced Leadership and Governance; and
- effective Financial Control.

Throughout 2014/15 this new outcome has been included in the Council's regular performance reports. Whilst these reports are not subject to any detailed internal audit review, they are an important part of the Council's performance management arrangements.

2.4 Internal audit plays a vital part in:

- advising the Council that these performance management arrangements are in place and operating properly; and

- where audit does not consider this to be the case prompting Management to take action to ensure any shortcomings are rectified promptly.

2.5 The Council's response to internal audit activity should, therefore, lead to ensuring that the governance, risk and system controls (the control environment) are robust and assist the Council in achieving its objectives.

2.6 The provision of assurance is the primary role for internal audit. It requires Internal Audit to provide:

- engagement opinions - an opinion on the risk and controls of the area under review
- an annual overall opinion - the professional judgement of the Corporate Manager Governance and Audit,. This is based upon the adequacy and effectiveness of the Council's framework of governance, risk management and control as evidenced by individual engagements and other activities including project health checks and anti fraud and corruption work.

2.7 In the context of the PSIAS, 'opinion' does not simply mean 'view', 'comment' or 'observation'. It means that internal audit will have done sufficient, evidenced work to form a supportable conclusion about the activity that it has examined. The provision of assurance is never absolute because it is impossible to examine every

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activity and every transaction as any audit review is at a point in time. Internal Audit provides reasonable assurance that there are no major weaknesses, or that the weaknesses identified have been or are being addressed.

3 Internal audit opinion 2014/15

- 3.1 The Council continues to make changes to its organisational structures and ways of working in a number of services as the scale of the Council's transformation programme increased, as part of the agenda to become a commissioning Council and to achieve its savings proposals. This has increased the challenges to the internal control environment with changes to staffing structures and delivery models.
- 3.2 Our work has confirmed that adequate management arrangements are in place to ensure that services are being delivered and agreed savings proposals are being realised. Findings are delivered through formal audit reports and action plans and this is complimented by regular meetings with departmental management teams to provide updates on audit, internal control, risk and governance issues as well as a programme of recommendation follow ups.

Corporate Manager Governance and Audit opinion on the Council's control environment.

The Council's framework of risk management, control and governance is assessed as adequate for 2014/15.

On the basis of our programme for the year, I can provide assurance that there is a generally sound system of internal control adequately designed to meet the Council's objectives and key controls are generally being applied consistently.

However some weaknesses in the design and inconsistent application of controls put the achievement of particular objectives at risk in some of the minor systems we have reviewed this year. I note the positive engagement with Management in working towards the implementation of specific recommendations. All of the issues raised by internal during the year have been discussed with the relevant service management teams and with senior management.

Action plans have been agreed and recommendations are being implemented. We will follow up our findings during the course of 2015/16 and, where appropriate, provide support to management to develop and implement solutions to the control issues identified.

This opinion is based upon:

- the programme of internal audit reviews - including opinion based work undertaken during the year;

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- Management's response to advice and recommendations;
- the process of producing the Council's annual governance statement; and
- the Council's Risk Maturity Assessment.

4 Summary of Audit Work 2014/15

- 4.1 A risk based Internal Audit plan is produced each year to ensure that:
- the scale and breadth of audit activity is sufficient to allow the Corporate Manager Governance and Audit to provide an independent and objective opinion to the Council on the control environment; and
 - audit activity focuses on areas where assurance is most needed i.e. risk based coverage.
- 4.2 In preparing the risk based plan for 2014/15 Internal Audit consulted with the Corporate Leadership Board and the Audit and Governance Committee. They also considered:
- the adequacy and outcomes of the Council's risk management, performance management and other assurance processes;
 - their own risk assessment;
 - the Council's Three Year Plan 2014/2017; and
 - discussion with key stakeholders including external audit, the internal audit team and also the Cheshire

West and Chester internal audit team in relation to shared services.

- 4.3 The plan was broadly split into two main areas:
- those audits that deliver an opinion report on the risks and controls of the area under review and inform the annual Internal Audit Opinion; and
 - work that will not deliver an opinion report but helps inform the Annual Internal Audit Opinion, for example project health checks, audit of statutory returns and advice and assistance work.
- 4.4 The plan is reviewed and adjusted, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, and controls. Significant changes are communicated to both the Corporate Leadership Board and the Audit and Governance Committee.
- 4.5 During 2014/15, interim reports on progress against the Internal Audit Plan were regularly brought to this Committee. A summary comparison of the 2014/15 Audit Plan with actuals for the year is shown on page 6.
- 4.6 A summary of the audit work carried out during the year, from which the annual Internal Audit Opinion is derived, and the relative outputs from that work is shown on page 7.

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Summary Comparison of Audit Plan 2014/15 and Actuals

Area of Plan		Plan		Actuals		Comments on coverage
		Days	%	Days	%	
Chargeable Days		1450		1428		Reflects the revised resource position (see para 4.5).
Less: Corporate Work		(70)		(76)		Executive Monitoring Board(EMB) Performance Development Reviews, Next Generation Desktop roll out, FOI requests
Available Audit Days:		1380	100%	1352	100%	
Corporate Governance and Risk Management		380	27%	340	25%	Support to A & G Committees including Member /Officer Groups production of assurance reports. Leading the AGS process including reporting. Includes Operational risk management.
Anti-Fraud and Corruption	Proactive Reviews	80	6%	132	10%	Unforeseen work when drafting the plan including; extra work on National Fraud Initiative (NFI) and a successful bid to the Counter Fraud Fund.
	Reactive Investigations	50	4%	87	7%	Reactive investigation work agreed with senior officers and members.
Chief Operating Officer (COO)	Key Financial Systems	195	14%	241	18%	Original budget for schools audit work proved insufficient.
	Corporate Core & Cross Service	190	13%	190	14%	FOI, Healthchecks, Business Continuity etc.
Strategic Commissioning	Children's Social Care & Education	75	6%	27	2%	Budget for planned thematic work on schools used to support Schools Financial Value Standard (SFVS) audits included in key financial systems.
	Adult's Social Care	95	7%	62	5%	Work commenced in 4th quarter and continuing into 15/16.
	Public Health	40	3%	18	1%	
	Communities	20	1%	14	1%	
Economic Growth & Prosperity		75	6%	71	5%	
Providing Assurance to External Organisations		75	6%	87	6%	Includes PATROL, LEP, Cosocious, Orbitas
Advice & Guidance		60	4%	53	4%	
Other Chargeable Work		45	3%	30	2%	Included follow up, Grant Certification (various).
Contingency		-	-	-	-	No contingency was planned.
Total Audit Days		1380	100%	1352	100%	

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Summary of Audit Work to support the overall opinion

Area of Plan	Description of Audit Work	Output
Assurance Work (para 4.7)	Audits with formal assurance level (included in COO, Strategic Commissioning, Economic Growth & Pro Active Reviews).	Audit Reports
Schools (included in key financial systems) (para 4.24)	Assessment against Schools Financial Value Standard.	Audit Reports
Project Health Checks (included in corporate core & cross service) (para 4.29)	Assessment of whether the required elements to deliver projects successfully are in place and operating effectively.	Audit Reports
Corporate Governance and Risk Management (para 4.32 & 4.34)	Support and contribution to production of the Annual Governance Statement, including assurance statements from Heads of Service.	Annual Governance Statement, and supporting evidence
	Support and contribution to the Corporate Governance Group and latterly Corporate Assurance Group (CAG).	Reports to CAG and the Corporate Leadership Board
	Support and contribution to overall assurance e.g. AGS Action Plan, Compliance with Contract Procedure Rules reports.	Report to Audit & Governance Committee
	Support and Contribution to the Corporate Risk Management Group and latterly CAG including update reports. Operational risk management from July 2014.	Reports to CMRG, CAG, CLB and Audit & Governance Committee
	Support and contribution to Technical Enabler Group (TEG) and the Executive Monitoring Board (EMB).	Gateway Progress Report detailing TEG Outcome for use by EMB.
Anti- Fraud and Corruption (para 4.40)	Review of Anti-Fraud and Corruption and Whistleblowing arrangements.	Report to Audit & Governance Committee
	National Fraud Initiative – co-ordination of matches and investigation work.	Update reports to Corporate Assurance Group /Investigation Reports.
	Investigations that can inform opinion and IA work programme	Investigation Reports
Advice & Guidance (4.47)	Ad-hoc consultancy and advice provided to services.	Various – reports etc.
Other Chargeable Work (para 4.48)	Statutory Returns/ Grant Claims - Audit/assurance work on programme/project and subsequent report to statutory/funding body.	Return/Claim sign off
	Implementation of Recommendations - Targeted follow up of audit recommendations based on audit opinion/recommendation.	Follow up reports/action plans/Key Corporate Indicator

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Assurance Work

4.7 Given the maturity and effectiveness of the Council’s key financial and significant systems the Internal Audit plan is increasingly focussed on those areas of potential increased risk and includes areas where issues are known or service managers expect to exist. This means audit activity is now aimed at areas where assurance is needed most. Clearly this approach adds value to the Council, but, by its nature, may also result in a higher number of limited assurance reports and a lower overall assurance level. This is to be expected and does not detract from an overall level of good internal control.

Summary of reports by assurance level

Assurance Level	Full year to 2014/15 Audit Reports	Full Year 2013/14 Audit Reports
Good	2	2
Satisfactory	7	5
Limited	11	16
No	0	0

Note: includes assurance levels on Project Health checks. Implementation of these recommendations is monitored by Executive Monitoring Board (EMB) (see 4.29 – 4.31)

4.8 These assurance levels reported include a combination of opinions at a broad level for the Council as a whole

and opinions on individual business processes or activities within a single department or location. An explanation of the various assurance levels is given in appendix B.

4.9 All actions from these audits have been, or are currently being, agreed with management and progress on implementation is monitored through normal processes. The issues arising from audit activity and the implementation of associated recommendations has been considered as part of the 2014-15 Annual Governance Statement process.

Limited Assurance Reports

4.10 A brief summary of the audit reports that relate to work undertaken in the last six months of 2014/15 is shown below. Further detail is provided on those audits with limited assurance during the period. The summary of audit reviews undertaken in the first six months of 2014/15 was included in the interim report to this Committee in November 2014.

4.11 In each case a number of recommendations have been made and departments have agreed to prompt implementation. This will address the identified weaknesses and improve the control environment and service area.

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Summary of Assurance Reports October 14 – March 15

Audit Report	Driver/ Background	Assurance Level¹	Management Response
NDR Billing Reconciliation	Key Financial System	Good	All actions agreed. Final report issued.
Council Tax Billing Reconciliation	Key Financial System	Good	All actions agreed. Final report issued.
NDR 2014/15	Key Financial System	Satisfactory	All actions agreed. Final report issued.
Council Tax 2014/15	Key Financial System	Satisfactory	All actions agreed. Final report issued
Treasury Management	Key Financial System	Satisfactory	All actions agreed. Final report issued
Emergency AssistanCE	Key departmental and service risk.	Limited	All actions agreed. Final report issued.
Management of Corporate Appointeeships	Key departmental and service risk.	Limited	All actions agreed. Final report issued.
Taxi Licensing	Requested by Head of Communities as viewed as high risk area	Limited	All actions agreed. Final report issued.
Procurement over £5k	Request from CLB	Limited	Draft Report issued

¹ For Key to assurance level see Page 11.

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- 4.12 **Emergency Assistance** – this audit reviewed the scheme introduced by Cheshire East Council following the changes to the Social Fund by the Department for Work and Pensions (DWP) from April 2013. Following the abolition of Community Care Grants and Crisis Loans, the Council has developed this policy to provide support for the most vulnerable facing immediate short-term needs in an emergency or as a consequence of a disaster, to prevent a serious risk to the health and safety of themselves or their family.
- 4.13 The audit confirmed that the Council needs to further develop its commissioning strategy that includes clear guidance on awarding grants and contracts that meet central government’s social value requirements and also capture and reflect the voluntary community faith framework.
- 4.14 The action plan has been agreed with the relevant senior officers and all high and medium recommendations have been implemented at the date of this report.
- 4.15 **Management of corporate appointeeships** - The Council provides an appointeeship service for service users who lack capacity to manage their own finances. It covers managing and accounting for the receipt of benefits, the payment of bills and providing personal allowances. A new arrangement for the provision of this service was set up in 2014 with the establishment of a new Barclays bank account and use of an on-line management facility linked to the account.
- 4.16 The audit recommended that documentation and evidencing of key assessments and reviews need to be improved. These include better evidencing of the appropriateness of the Council acting and continuing to act as appointee.
- 4.17 The action plan has been agreed with the relevant senior officers and all high and medium recommendations have been implemented at the date of this report.
- 4.18 **Taxi Licensing** - The review was requested by the Head of Communities. The purpose of the audit was to obtain assurance as to the effectiveness of the Taxi Licensing policy and practice, following on from an externally commissioned review that highlighted some concerns.
- 4.19 The audit concluded that there was a lack of a consolidated taxi licensing policy to stipulate conditions for license holders. There was also an inconsistent level of detail recorded on the licensing system in relation to drivers and operators and no formally documented inter-authority protocol for data and intelligence sharing with neighbouring authorities.
- 4.20 The department agreed the action plan promptly and to implement the recommendations. The audit will be followed

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up during the first part of 2015/16. The Head of Communities has also commissioned some support from the Council's Business Improvement team and a national lead on policy development. All high and medium recommendations have been implemented, since the completion of the audit.

4.21 **Procurement over £5k** – the audit reviewed procurement data input to the oracle system to ensure that;

- Spending was for the authorised item;
- Payment was to the right person at the right time;
- Costs are within the intended budget;
- Authorisation was appropriate for the transaction; and
- Published material is understandable for all users.

4.22 The audit review highlighted that governance and control of procurement transactions continues to be developed. This includes work on Schemes of Financial Delegation and to ensure they are up to date and that Purchase Orders in oracle are approved by the relevant service budget holder.

4.23 The action plan is currently being agreed with the relevant senior officers. Internal Audit will follow up progress of all high and medium recommendations to confirm implementation.

Schools

4.24 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.

4.25 The 2014/15 Schools Audit Programme included risk based audit visits to seven schools. Two Secondary Schools were subject to full 'Keeping Your Balance' audits and Schools Financial Value Standard (SFVS) audits were carried out at 5 Primary Schools.

4.26 The schools subject to audit were selected using a risk assessment which took into account the following:

- Ofsted rating;
- Size of school (number of pupils);
- Budget management;
- Recent audit reports;
- School buildings projects; and

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- Internal knowledge provided by the School Finance Team.

- 4.27 Individual audit reports were issued to the Headteacher and Chair of Governors of each school along with a detailed action plan to enable the school to improve its control environment.
- 4.28 The work undertaken by Internal Audit provides assurance that the majority of controls relating to high risk areas are operating effectively. While some inconsistencies in the application of controls were highlighted, these are not considered to be significant issues. They have been reported to the relevant schools and also shared with all schools using our established network.

Project Health Checks

- 4.29 Under the Constitution, the Executive Monitoring Board (EMB) takes on a challenge role at a strategic level in monitoring the delivery of projects and programmes. To assist them with this process EMB has commissioned Internal Audit to undertake a series of “health checks” on specific projects/programmes and issues. The project health check process provides an independent assessment of whether the required elements to deliver projects successfully, e.g. good

project management practices, appropriate resources, are in place and operating effectively.

- 4.30 The results of assessments undertaken in the first half of the year were reported to the Audit and Governance Committee in November 2014. The findings of these health checks have informed an action plan which is being used by the Corporate Programme Management Office (PMO) to support the on-going development of the Council’s programme and project management framework.
- 4.31 During the final quarter of 2014/15 work commenced on obtaining assurance that the PMO action plan is being effectively implemented.

Supporting Corporate Governance

- 4.32 In accordance with Regulation 4 of the Accounts and Audit (England) Regulations 2011 the Council is required to conduct a review at least once a year of the effectiveness of its governance arrangements and publish an Annual Governance Statement (AGS).
- 4.33 Internal Audit has assisted Management in the production of the Council’s AGS for 2014/15 by:

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- collecting evidence for and production of the draft 2014/15 Annual Governance Statement;
 - contribution to and production of Audit & Governance Committee reports on Corporate Governance;
 - representation on and contribution to the Corporate Governance Group (CGG) and latterly the Corporate Assurance Group (CAG) to advise on risk management, control, and governance issues identified through audit work; and
 - Audit work in contribution to and production of CGG and CAG reports to Corporate Leadership Board.
- responsibility for monitoring and facilitating the implementation of effective risk management practices and reporting risk-related information up and down the organisation passed to Internal Audit;
 - in order to provide a high level focus on risk management, control and governance arrangements in an efficient and cost effective manner the Corporate Governance and Risk Management Groups merged in November 2014 to become the Corporate Assurance Group (CAG); and
 - the Corporate Manager Governance and Audit, appointed in December 2014, assumed responsibility for managing the corporate Risk Management function.²

Risk Management

4.34 During the first half of the year Internal Audit assisted in the Management of Risk through:

- Delivery of a risk based audit plan; and
- Representation on and contribution to the Corporate Risk Management Group (CRMG) - to advise on risk management, control, and governance issues identified through audit work.

4.35 There were a number of significant developments in Risk Management arrangements later in the year:

4.36 Terms of Reference and membership need to be finalised and a comprehensive work programme developed to ensure that the CAG fulfils its responsibilities. These include:

- helping deliver best practice in governance and risk management with strong controls embedded in the Council's regular business routines;

² In order to maintain independence and objectivity in line with the PSIAS any assurance activity in areas where the Corporate Manager Audit and Governance has operational responsibility will be carried out by auditors with no involvement in the process and overseen by the Head of Corporate Resources and Stewardship.

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- assurance regarding the robustness of the risk management approach; this includes ensuring that all risk activities/disciplines are integrated into corporate governance processes;
- overseeing the risk maturity assessment and monitoring progress on associated improvement plans; and
- ensuring that the Annual Governance Statement (AGS) is an adequate reflection of the risk environment.

The Council's risk maturity assessment

4.37 We reported to the January 2015 to the Audit and Governance Committee that the Council has been assessed as between risk aware³ and risk⁴ defined with Cabinet setting a target minimum standard of risk managed⁵. Planned work to move the Council towards the minimum target standard has commenced including:

- Revising the Risk Management Policy to provide greater clarity;
- Ensuring that risk management is fully integrated with the Service Planning process;

³Scattered silo based approach to risk management using standalone processes, reactive approach.

⁴Risk appetite defined. Strategy and policies in place and communicated. Some understanding and application but passive acceptance and compliance with reliance on risk registers

⁵Enterprise approach to risk management developed and communicated, risk embedded in key processes. Active engagement and risk based decision making.

- Improving guidance material to support those tasked with identifying and managing risks on behalf of the Council, this includes the risk management section in published reports; and
- ensuring changes are underpinned through the induction process and by new learning and development opportunities.

Corporate Risk Register

4.38 Internal Audit has also commenced work on a comprehensive review of the Council's Corporate Risk Register which will include CAG and Risk Managers and Owners. The outcomes of this review will form the basis of discussion with Corporate Leadership Board and Cabinet, and an agreed Corporate Risk Register for 2015/16 and beyond.

Technical Enabler Group (TEG)

4.39 In addition to the Project Health Check work outlined above, Internal Audit also sits on the Technical Enabler Group (TEG) which supports EMB. TEG comprises senior officers representing key corporate enablers. They review major projects providing professional advice and challenge. It provides detailed feedback to project managers and owners.

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This is also summarised for EMB. In 2015/15 its workplan included major projects such as Congleton Lifestyle centre, Connecting Cheshire phase 2 and the schools' capital programme.

Counter Fraud

- 4.40 Internal Audit has, throughout the year, carried out a small number of investigations in association with Human Resources colleagues and action has been taken in accordance with the appropriate policies. There are no significant issues arising from this work to bring to the attention of the Committee.
- 4.41 Internal Audit worked closely with colleagues from Cheshire West & Chester, Halton and Warrington Councils to develop a collaborative Counter Fraud Fund bid. This bid, entitled Fighting Fraud in Cheshire, was successful and a new Counter Fraud Analyst was appointed in March 2015 by Warrington Borough Council.
- 4.42 The Analyst will be responsible for proactive work across the four Cheshire authorities to identify and prevent fraud in high risk areas. Initially the focus will be on procurement fraud and insurance fraud.
- 4.43 In addition, the Council was also part of the bid led by the London Borough of Bromley to develop a smart phone app to raise awareness of fraud and provide an accessible way of reporting concerns. Development of the app is now underway and it is expected to be released during quarter 1 of 2015/16.
- 4.44 The biennial National Fraud Initiative (NFI) data matching exercise took place during the year. Internal Audit successfully coordinated the extract and upload of data sets in October 2014 in accordance with the Audit Commission timetable.
- 4.45 Internal Audit also coordinated an additional match of Council Tax data against the Electoral Roll in December 2014 to identify single person's discount fraud. The results of the matches from both exercises were released during January 2015 and investigations have commenced within the appropriate services to identify fraud and error.
- 4.46 The administration of the NFI data collection has now become the responsibility of the Cabinet Office, following the demise of the Audit Commission at the end of March 2015.

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Consultancy and Advice

4.47 During the year, Internal Audit provided 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 Head of Audit's overall opinion. This year advice was given on audit procedures within schools, the application of Finance & Contract Procedure Rules and projects and programmes.

Statutory Returns/Grant Claims

4.48 Internal Audit is sometimes 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. During 2014/15 this has included work on the Care Bill, the Adoption Reform Grant and Cheshire East Council's Family Focus programme. There were no significant amendments to the grant claims as a result of the audits.

Implementation of Audit Recommendations

4.49 Throughout 2014/15, Internal Audit has continued to carry 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; and
- Formal assurance audits (see 4.7 – 4.11).

4.50 Audits with limited assurance are subject to more detailed review. In addition, key systems (e.g. Payroll, Accounts Payable) are audited each year with recommendations followed up as part of the work.

4.51 Internal Audit also report on the implementation of audit recommendations within timescale. This is now a key indicator contributing to the Council's Outcome 6: 'A Responsible, Effective and Efficient Organisation.

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2014/15 implementation of agreed recommendations

On time	After the agreed date	Total implemented	In progress, part implemented or overdue
2014/15 ⁶			
26%	46%	72%	28%
2013/14 ⁷			
27%	54%	81%	19%

4.52 The indicator shows that a high percentage of recommendations continue to be implemented. However too are implemented beyond the agreed timescale. Internal audit continues to work with senior managers to understand the reasons for any delays.

4.53 Common themes that led to delays included:

- the ownership of actions. Structural changes mean that actions now rest with different managers not involved in the original audit work. In most cases there is no formal handover of actions when a manager leaves the

⁶ Excludes actions agreed but not yet due for implementation as at 1 April 2015

⁷ Revised to take account of actions that were not due for implementation as at 01.04.14

authority or moves to a different role. We have agreed to meet with the new manager to agree the implementation arrangements; and

- Actions linked to changes in processes beyond the direct control of an individual manager. These then take time, particularly where system change is needed.

4.54 In some cases the scale of change now means that the original recommendation is no longer appropriate. In these circumstances Internal Audit liaises with managers to agree a more appropriate action.

4.55 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. Internal Audit will continue to work with senior managers to improve this important indicator, by:

- Keeping the Consolidated Action Plan, summarising outstanding recommendations, up to date providing regular performance reporting to CAG and Corporate Leadership Board; and
- Escalating common themes or emerging patterns in relation to agreed recommendations (high and medium rated) that are not being progressed, to the COO, CAG and CLB as necessary.

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Ongoing Work

4.56 The following audits commenced during 2014/15 of the year, with work ongoing in the first quarter of 2015/16:

- Schools Audits consolidated report – Assurance to S151 Officer;
- Salary Overpayments; and
- 16+ Care Leavers.

Reliance placed on the work of other assurance bodies

4.57 Internal Audit place assurance on the work of the Council's external auditors, OFSTED and other external bodies, where appropriate.

5 Annual Governance Statement

5.1 Each year the Council produces an Annual Governance Statement that explains how it makes decisions, manages its resources and promotes its values and high standards of conduct and behaviour. Any significant issues that are assessed as falling short of the Council's expected high standards are reported in the Annual Governance Statement, (AGS).

5.2 The findings and opinions of 2014/15 Internal Audit work has been considered in preparing the 2014/15 AGS.

5.3 The Council's assessment of its governance arrangements in 2014/15 has not identified any significant governance issues. The AGS does however identify a small number of areas that will be reviewed on an on-going basis during 2015/16. It also acknowledges emerging governance issues for the Council. These will be monitored by the Corporate Assurance Group during 2015/16. They will be escalated, if necessary, to the Corporate Leadership Board, Audit and Governance Committee and/or Cabinet.

6 Internal Audit Performance

6.1 Internal Audit's performance is measured in a number of ways. Its performance against implementation of agreed recommendations is reported in paragraph 4.48.

6.2 The internal audit team's performance overall is summarised below and is above target and also above the levels achieved in 2013/14.

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Performance Indicator	2014/15 Actual	2014/15 Target	2013/14 Actual	Comments on 2014/15 Actuals
Percentage of Audits completed to user's satisfaction	96%	92%	89%	Above target.
Percentage of significant recommendations agreed	99%	90%	93%	Above target.
Productive Time (Chargeable Days)	82%	80%	82%	Above target.
Draft report produced promptly (per Client Satisfaction Form)	94%	95%	78%	

Benchmarking

- 6.3 Benchmarking is an important tool to help identify areas for review, drive improvement and deliver better value for money. The Internal Audit Section has taken part in the 2015 CIPFA Benchmarking Club which looks at 2014/15 actual costs and days and 2015/16 planned costs and days.
- 6.4 Through the Benchmarking Club, staffing cost data is collected for the internal audit function in order to derive the number of audit days available and the cost per audit

day. The number of audit days per £million authority gross revenue turnover is compared and further analysed by type of audit, system audited and type of risk. There is also comparison and analysis of the cost per auditor and the number of chargeable days per auditor.

- 6.5 This year's exercise has been completed and submitted, with the results due in August 2015. These will be used to inform the 2015/16 detailed audit plan and shared with the Committee and relevant Member/Officer Group, as appropriate.

7 Compliance with the Public Sector Internal Audit Standards (PSIAS)

- 7.1 Regulation 6 of the Accounts and Audit Regulations 2011 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. This review has been carried out by self-assessing compliance with the Public Sector Internal Audit Standards (PSIAS).
- 7.2 The review, completed by the Audit Manager concluded that, although there are areas for improvement, the internal audit service is being delivered to the required standard. This contributes to the assurances received for the AGS and was shared with members of the Committee as part of the AGS process in September.

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- 7.3 During 2014/15 the North West Chief Audit Executives' Group has been exploring a 'peer review' process to be developed, managed and operated by the constituent authorities to address this requirement. It is anticipated that two pilot reviews will take place in the first half of 2015/16 before a wider roll out to the rest of the Group. The Audit & Governance Committee will continue to be appraised of progress in this matter.

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Key to Assurance Level

Assurance Level	Explanation
Good Assurance	Controls are in place to mitigate against the risks identified in the terms of Reference. Testing has shown that controls are working effectively and consistently to ensure that key risks are well managed. No high level recommendations have been made although there may be a small number at medium level. Some changes in the control environment may be beneficial to enhance performance and realise best practice.
Satisfactory Assurance	Controls are adequate to address the risks identified in the terms of reference. Testing has shown that there are some inconsistencies in the application of the controls, and attention is needed to improve the effectiveness of these controls. Recommendations will normally be no higher than medium level.
Limited Assurance	Controls are either not designed to mitigate the risks identified in the terms of reference, or testing has shown there to be significant non-application of controls. There are likely to be a number of high priority recommendations and/or a large number at the medium level. Attention is needed to improve the quality and effectiveness of the control environment in order to ensure key risks can be managed well.
No Assurance	There is an absence of controls to mitigate against the risks identified in the terms of reference. The majority of recommendations made are high priority, and key risks are not being properly managed. Urgent attention is required by management to improve the control environment. This area may be considered for inclusion in the organisation's Annual Governance Statement. It may also be appropriate for this area to be included in the sections/directorate Risk Register, and for the action plan to address these fundamental weaknesses to become part of the Service Delivery Plan.