



Internal Audit

Interim Report 2015/16

April – September 2015

www.cheshireeast.gov.uk

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Internal Audit Interim Report 2015/16 April – September 2015

1 Introduction

- 1.1 In accordance with the United Kingdom Public Sector Internal Audit Standards (PSIAS), the first Internal Audit Interim Report 2015/16 for Cheshire East Council contains “emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 1.2 Internal Audit is required, at the end of the year, to form an 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 that have been identified.
- 1.3 The interim report contains the following:
- a summary of the audit work carried out in 2015/16 to date (Section 2)
 - any issues judged particularly relevant to the preparation of the Annual Governance Statement (AGS) (See Sections 2.08-2.10 and Section 3)
 - 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 (Section 4)
 - comments on compliance with these standards and communication of the results of the internal audit quality assurance programme (Section 5)

- other developments, including the Internal Audit Charter (Section 6)

2 Summary of Audit Work 2015/16

- 2.1 This is the first 2015/16 interim report on progress against the Internal Audit Plan. A summary comparison of the 2015/16 Audit Plan with actuals for the half year to 30 September 2015 is shown on page 3 (with comments on variances).
- 2.2 During the first half of the year, 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.

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Summary Comparison of Audit Plan 2015/16 and Actuals¹

Area of Plan		Plan		Actuals		Comments on coverage
		Days	%	(to 30/9/15)		
		Days	%	Days	%	
Chargeable Days		1366		643		
Less: Corporate Work		350		201		Includes operational risk management duties
Available Audit Days:		1016	100	442	100	
Corporate Governance and Risk		56	6	32	7	
Anti-Fraud and Corruption	Proactive Reviews	75	7	41	9	Ongoing work on corporate arrangements including detailed risk assessment to assist planning of further work
	Reactive Investigations	30	3	17	4	Mainly assistance to HR investigations and testing whistleblowing concerns
Chief Operating Officer (COO)	Key Financial Systems	227	22	61	14	Schools Audit Programme commenced in September and the majority of audits will take place in the second half of the year.
	Corporate Core & Cross Service	135	13	65	15	Additional work on Procurement as per para 2.48/2.50
Strategic Commissioning	Children's Social Care & Education	78	8	53	12	Majority of work in this area has commenced during this period
	Adult's Social Care	115	11	26	6	Planned work due to commence during Q3/Q4
	Public Health	30	3	0	0	Planned work due to commence during Q3/Q4
	Communities	15	2	6	1	Ongoing review commenced end of Q2
Economic Growth & Prosperity		55	6	47	11	Additional work was completed on LEP
Providing Assurance to External Organisations		75	7	45	10	See para 2.36-2.40
Advice & Guidance		30	3	21	5	Reactive work based upon demand from services
Other Chargeable Work		95	9	28	6	Includes grant certification work; Bus Service Operators Grant, Transport Development Excellence for the LEP, various Highways grants and Family Focus Programme. Some grants require annual certification, some quarterly.
Total Audit Days		1016	100	442	100	

¹ The allocation of chargeable days figures have been reviewed since it was reported to Committee to reflect best practice as identified by benchmarking exercise.

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Summary of Audit Work to support the overall opinion

Area	Description of Audit Work	Output
Assurance Work	Audits with formal assurance level.	Audit Reports
Project Health Checks	Assessment of whether the required elements to deliver projects successfully are in place and operating effectively.	Audit Reports
Schools	Assessment against Schools Financial Value Standard and completion of thematic reviews.	Audit Reports
Supporting Corporate Governance	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 update reports from the Corporate Governance Group.	Reports to Management Group Board
	Support and contribution to AGS Action Plan, Compliance with Contract Procedure Rules reports etc.	Report to Audit & Governance Committee
Risk Management	Development of Strategy, Policy and Framework Support and Contribution to the Corporate Assurance Group including update reports.	Reports to Audit & Governance Committee
Counter Fraud	Review of Anti-Fraud and Corruption arrangements.	Report to Audit & Governance Committee
	National Fraud Initiative – co-ordination of matches and investigation work.	Results published on Cabinet Office website/update reports to Corporate Assurance Group/Investigation Reports.
	Investigations	Investigation Reports
Technical Enabler Group (TEG)	Support and contribution to TEG, which supports the Executive Monitoring Board (EMB).	Gateway Progress Report detailing TEG Outcome for use by EMB.
Consultancy & Advice	Ad-hoc consultancy and advice provided to services.	Various – reports etc.
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 (see: Implementation of Audit Recommendations, (2.41 to 2.47)

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Assurance Work

- 2.3 A summary of the reports produced in the first half of 2015/16 with the formal assurance level is included below (some of the audit reports are still at draft stage i.e. awaiting management comments).
- 2.4 The assurance levels reported in the table below 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).
- 2.5 Where control weaknesses are identified recommended actions are agreed with management to ensure that the control environment is improved to an acceptable level.
- 2.6 Internal Audit continues to obtain assurance that actions have been implemented, especially those deemed high priority.

Summary of reports by assurance level

Assurance Level	Half year to 30/9/15 Audit Reports	Full Year 2014/15 Audit Reports
Good	0	2
Satisfactory	0	7
Limited	6	11
No	1	0

- 2.7 Further detail is provided on those audits with ‘Limited’ or ‘No’ assurance during the period under review.

Limited Assurance Reports

- 2.8 In each case a number of recommendations have been made. When implemented these will address the identified weaknesses and improve the control environment.
- 2.9 All actions from these audits have been, or are currently being, agreed with management and progress on implementation will be monitored through normal processes. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the 2015-16 Annual Governance Statement process.
- 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.

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Summary of Assurance Reports 2014/15

Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions (for 'Limited' and 'No' Assurance reports)	Management Response
Salary Overpayments	Macro system subject to review due to concerns raised by management about the level of overpayments.	Limited	Concerns around the timely notification of leavers leading to salary overpayments. Lack of detailed guidance for the recovery of salary overpayments through salary deductions, resulting in ad-hoc and often inappropriately long instalment arrangements. Actions have been raised to minimise the level of overpayments going forward, identify any overpayments in a timely manner and to formalise the recovery process.	All actions agreed Final Report Issued
Care Leavers	Micro system subject to review due to complex qualification criteria for payments and no previous audit coverage.	Limited	The arrangements in place for identifying and categorising Care Leavers are operating well. However, the risks around administering and accounting for payments to Care Leavers are not being sufficiently managed. A number of recommended actions to further improve the control environment and provide effective governance over the payments to Care Leavers were agreed.	All actions agreed Final Report Issued
Planning Follow up	Detailed follow up due to nature of findings in previous audit review.	Limited	Only three of the eight previously agreed actions had been implemented fully and although action has been taken to implement each of the remaining five actions, elements are outstanding. There, therefore, remains a risk of the Council not providing a complete, accurate and up to date Public Register of Planning Applications in accordance with the Town & Country Planning Act. Actions were agreed with management to ensure that the remaining issues from the previous audit are addressed and the recommendations fully implemented.	All actions agreed Final Report Issued
Free Early	Micro system subject to	Limited	Although many of the areas tested were well managed, the	All actions agreed

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Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions (for 'Limited' and 'No' Assurance reports)	Management Response
Education Entitlement	review due to high value of payments processed and risk of fraudulent payment requests.		risk of exposure to fraudulent claims was not fully mitigated by the processes in place and the design of the current controls. As such, a small number of recommended actions to further improve the control environment and governance arrangements were made.	Final Report Issued
Procurement >£5k	Macro system with work requested by MGB to provide assurance that procurement processes are subject to robust controls.	Limited	Controls to ensure adherence with the Council's 5 key principles of control and transparency are being adhered to require further development. The review also highlighted issues around Schemes of Delegation and Oracle workflow requirements in terms of budget holder authorisations. A number of actions were agreed with management to improve the robustness of controls operating in relation to Procurement transactions.	All actions agreed Final Report Issued (previously reported to Committee as draft but further work carried out in agreeing actions with management)
Right To Buy	Micro system identified nationally as a growing fraud risk. Subject to review to confirm, and address, concerns that no controls were in place.	None	Appropriate arrangements were not in place to provide assurance that the risk of RTB fraud is mitigated by the organisations that process applications to purchase properties. Further to this, controls are not in place within the Council to ensure that all income due from Registered Social Landlords for the sale of former council houses is received.	All actions agreed Final Report Issued
Local Enterprise Partnership - Accountable Body ²	Review carried out as part of the duties as the accountable body.	No Opinion was given	There had been insufficient operational implementation to give a formal audit opinion on the effectiveness of the recently introduced framework. However, our review of the framework identified a number of specific points which could benefit from further definition to ensure greater clarity about roles and responsibilities in its operation	Draft report issued

² External Organisation

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Schools

- 2.11 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.
- 2.12 During Quarter 1 of this financial year a Consolidated Schools Report was issued that confirmed the audit approach and summarised the findings of the work undertaken by Internal Audit during 2014/15.
- 2.13 The report concluded that the majority of controls reviewed were operating effectively within schools and that the SFVS returns, on the whole are an accurate reflection of the controls and processes in operation at schools with only minor amendments required. This provided the Section 151 Officer with sufficient assurance to facilitate the sign of the Annual CFO Assurance Statement.
- 2.14 Work is now underway on the 2015/16 Schools Audit Programme which will conclude the 3 year cycle to carry out a full 'Keeping Your Balance' audit at our secondary schools.

- 2.15 Thematic reviews are also taking place at a number primary schools to obtain assurance around the application of the recently introduced performance related pay for teachers.
- 2.16 A total of 22 schools will be visited during the second half of the year. Individual reports will be produced and issued to schools detailing any areas of weakness identified and any actions required to address these weaknesses and improve the control environment.

Supporting Corporate Governance

- 2.17 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).
- 2.18 During the first half of this financial year Internal Audit has assisted Management in the production of the Council's AGS for 2014/15 by:
- collecting evidence for and production of the 2014/15 Annual Governance Statement.
 - contribution to and production of Audit & Governance Committee reports on Corporate Governance.
 - Audit Manager representation on and contribution to the Corporate Assurance Group (CAG) in order to advise on risk management, control, and governance issues that have been identified through audit work

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and ensure that the findings have been considered when determining the 2014/15 AGS action plan.

- Audit work in contribution to and production of CAG reports to Management Group Board.

Risk Management

- 2.19 Internal Audit assisted in the Management of Risk through:
- Delivery of a risk based audit plan; and
 - Audit Manager representation on and contribution to the Corporate Assurance Group (CAG) - to advise on risk management, control, and governance issues identified through audit work.
 - Development of a Risk Management Policy, Strategy and Framework
- 2.20 Formal reports with regard to the risk management process are made throughout the year to Management Group Board, Cabinet and the Audit and Governance Committee.
- 2.21 As previously reported, responsibility for monitoring and facilitating the implementation of effective risk management practices and reporting risk-related information up and down the organisation now sits within Internal Audit.
- 2.22 Work has been carried out during the first half of the year to develop a Risk Management Policy, Strategy and Framework.

- 2.23 It should be noted that as no additional resource has been provided to complete this work it has been necessary to allocate it to a Senior Auditor and that there is therefore a reduction of 0.4 fte in the level of resource available for core assurance work.

Counter Fraud

- 2.24 Internal Audit has provided advice and guidance to both Human Resources colleagues and Service Managers to support them in the completion of a small number of investigations. Where required, 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.
- 2.25 As previously reported, following a successful bid to the Government's Counter Fraud Fund during 2014/15, a Counter Fraud Analyst was appointed by Warrington Borough Council to work on behalf of Cheshire East, Cheshire West and Cheshire, Warrington and Halton Councils. This officer is now in post and is currently coordinating a data sharing protocol between the 4 authorities that will allow data matching to be carried out to identify suspected fraudulent activity in Procurement and Insurance.
- 2.26 The smart phone app that was also subject to funding from the Counter Fraud Fund is currently at the prototype stage and is expected to be available before the end of the year.

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- 2.27 Work continued in ensuring that the matches received as part of the National Fraud Initiative data matching exercise are being investigated by the appropriate services.
- 2.28 A detailed fraud and bribery risk assessment has been produced by Internal Audit in conjunction with appropriate managers. This has raised awareness of fraud across the Council and provided managers with the opportunity to consider whether they have appropriate controls in place to mitigate the identified risks. A number of pieces of assurance work are currently underway to test the effectiveness of controls detailed in the assessment.
- 2.29 Work is also underway to review Cheshire East's wider counter fraud arrangements in light of the transfer of Housing Benefit Fraud team to the DWP in December 2015. This will require the production of a new Fraud and Corruption Policy, a Counter Fraud Strategy and a Fraud Response Plan.
- 2.30 A detailed update on all fraud related activities will be provided to Members in the Annual Fraud Report which will be presented to the March 2016 meeting of this Committee.

Technical Enabler Group (TEG)

- 2.31 Internal Audit continues to be a key member of the Technical Enabler Group (TEG) which supports EMB and

comprises senior officers representing key corporate enablers.

Consultancy and Advice

- 2.32 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.
- 2.33 So far this year, advice and guidance has included the application of Finance and Contract Procedure Rules, suspected scams/frauds in schools and across the council, management of client monies in social care settings and the development of performance management information to support the sign off of grant claims.

Statutory Returns/Grant Claims

- 2.34 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.

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2.35 During 2015/16 this has included work on the following grants which were successfully signed off and submitted to the appropriate central government department:

Family Focus 1 st quarterly Return	£1,600
Flood Defence Scheme	£5,000
Transport Development Excellence Grant	£42,000
Bus Service Operators Grant 2014-15	£347,865
Local Transport Plan Block Grant 2014-15	£10,956,000
Additional Highways Maintenance Grant 2014-15	£795,000
Pothole Specific Grant 2014-15	£1,862,407
Total	£14,009,872

Work for Other Bodies

2.36 In addition to the work described above, Internal Audit carried out the following work for external bodies.

2.37 PATROL (Parking and Traffic Regulations Outside London) – Cheshire East Council is the Host Authority to the PATROL Joint Committee & Bus Lane Adjudication Service Joint Committee. In accordance with the Service Level Agreement the Council has delivered the Body's Internal Audit service and is responsible for the completion of Section 4 of the Small Bodies Annual Return

2.38 Better Care Fund – joint review of governance arrangements with Mersey Internal Audit Agency.

2.39 Orbitas – detailed audit review of Macclesfield Cemetery and provision of Investigating Officer for associated disciplinary investigation and hearing.

2.40 Leisure Centre Contracts - a review is underway into the status of a contract for the use of a leisure centre and the associated funding requirements. The report is currently being drafted.

Implementation of Audit Recommendations

2.41 Throughout 2015/16, 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.
- Formal assurance audits.

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2.42 Audits with ‘limited’ or ‘no’ 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.

Implementation of agreed recommendations as at 30 September 2015

On time	After the agreed date	Total implemented	In progress, part implemented or overdue
2014/15 ³			
36%	39%	75%	25%
2015/16 ⁴			
57%	14%	71%	29%

2.43 The figures detailed above show that whilst a high percentage of agreed recommendations are implemented, a large proportion are put in place after the agreed deadline.

2.44 A common theme that continues to lead to delays in implementation of audit recommendations is the ownership of actions. Structural changes mean that actions transfer to

managers not involved in the original audit work. In most cases there is no formal handover of actions when a manager leaves the authority or moves to a different role.

2.45 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.

2.46 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, to include the escalation of common themes or emerging patterns in relation to agreed recommendations (high and medium rated) that are not being progressed, to the COO, Corporate Assurance Group and MGB as necessary.

2.47 As previously reported the COO has made a commitment to further improve this indicator. He will work with Internal Audit and the Management Group Board to ensure this happens.

Ongoing Work

2.48 The following audits commenced during the first half of the year, with work ongoing in the third quarter of 2015/16:

³ Updated from Annual Report to include actions issued in 2014/15 but due for implementation in 2015/16

⁴ Revised to take account of actions that were not due for implementation as at 30.09.15

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- Procurement – a piece of work has commenced upon the request of the Chief Executive around compliance with Contract Procedure Rules and the use of WARN's.
 - Schools Audits – Assurance to S151 Officer in accordance with the schools audit programme.
 - HR Policy – second line of defence review to obtain assurance around the effectiveness of HR policies.
 - Council Tax Fraud Controls – assurance around the effectiveness of controls identified as part of the fraud risk assessment process.
 - NDR Fraud Controls – as per Council Tax above.
 - Payments > £5k – assurance around the level of challenge applied by Heads of Service to monthly expenditure reports.
 - Foster Care Payments – assurance around the controls in place for what is a high value and complex payment system.
 - Parking Enforcement – requested by Head of Communities.
- 2.49 Other planned work, subject to final agreement with management in terms of timing and content, includes:
- Personal Budgets
 - Adult Safeguarding

- Monitoring of Provider Invoices
- Performance Management
- Key Financial System reviews

2.50 The review of procurement detailed above has taken priority over other pieces of work and taken up resources that were not planned. As such, the audit plan will need to be reviewed and areas to be audited re-assessed and prioritised to ensure that there is a clear focus on assurance work for the remainder of the year. The changes will be reported in the interim report to this Committee in March 2016.

Reliance placed on the work of other assurance bodies

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

3 Annual Governance Statement

3.1 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.

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- 3.2 The findings and opinions of 2015/16 Internal Audit work will be considered in preparing the 2015/16 AGS. The contents of this interim report will form part of that process.

4 Internal Audit Performance

- 4.1 Internal Audit's performance is measured against a number of performance indicators which are detailed in the table below. The performance relating to the implementation of recommendations is detailed earlier in this report.

Performance Indicator	2015/16 Actual	2015/16 Target	2014/15 Actual	Comments on 2015/16 Actuals
% of Audits completed to user's satisfaction	95%	92%	96%	Above target
% of significant recommendations agreed	100%	90%	99%	Above target
Productive Time (Chargeable Days)	75%	80%	82%	Will increase in Q3/Q4 due to focus on assurance work
Draft report produced promptly (per Client Satisfaction Form)	100%	95%	94%	Above target

Benchmarking

- 4.2 Benchmarking is an important tool to help identify areas for review, drive improvement and deliver better value for money. In recognition of this, Internal Audit is a member of the CIPFA Benchmarking Club.
- 4.3 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.
- 4.4 This year's exercise has been completed and the results received. The results are currently being analysed and an improvement plan drawn up. Progress on improvements will be shared with the Committee as part of the regular Internal Audit reports.

5 Compliance with the Public Sector Internal Audit Standards

- 5.1 Regulation 6 of the Accounts and Audit Regulations 2015 requires the Council to conduct an annual review of the effectiveness of its system of internal control and prepare an annual governance statement. A review of internal audit that includes the contribution made by the audit committee

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should form part of the review of internal control required by Regulation 6.

- 5.2 This review has been carried out by self- assessing compliance with the Public Sector Internal Audit Standards (PSIAS).
- 5.3 The review, completed by the Audit Managers 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.
- 5.4 An improvement action plan has been drawn up and will be monitored on an ongoing basis. Progress on improvements will be shared with the Committee as part of the regular Internal Audit reports.

6 Other Developments (including Internal Audit Charter)

- 6.1 As Members will be aware, the Head of Corporate Resources and Stewardship left the Council during September 2015. This has impacted upon the reporting lines for the Head of Governance and Audit and interim arrangements have been put in place until a new Director of Resources has been appointed.
- 6.2 These interim arrangements are that the Corporate Manager Governance and Audit will therefore report to the Corporate Manager Professional and Commercial Services.

- 6.3 The Internal Audit Charter was approved by the Committee in November 2014, with review due on an annual basis. A revised and updated version, that takes account of changes in structural and operational responsibility, is included as Appendix B.