



Internal Audit

Interim Report 2016/17

April – September 2016

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Internal Audit
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Internal Audit Interim Report 2016/17 April – September 2016

1 Introduction

- 1.1 In accordance with the United Kingdom Public Sector Internal Audit Standards (PSIAS), the first Internal Audit Interim Report 2016/17 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 2016/17 to date (Section 2)
 - any issues judged particularly relevant to the preparation of the Annual Governance Statement (AGS) (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 2016/17

- 2.1 This is the first 2016/17 interim report on progress against the Internal Audit Plan. A summary comparison of the 2016/17 Audit Plan with actuals for the half year to 30 September 2016 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 2016/17 and Actuals

Area of Plan		Plan		Actuals		Comments on coverage
		Days	%	(to 30/9/16)		
		Days	%	Days	%	
Chargeable Days		1458		597		Reduced availability due to long term absence and vacancy. Additional temporary resource approved for Q3/Q4
Less: Corporate Work		420		193		Includes operational risk management duties
Available Audit Days:		1038	100	404	100	
Corporate Governance and Risk		87	8	20	5	
Anti-Fraud and Corruption	Proactive Reviews	75	7	27	7	Coordination of NFI in preparation for October data upload
	Reactive Investigations	30	3	32	8	Assistance to investigations and testing whistleblowing concerns
Chief Operating Officer (COO)	Key Financial Systems	250	24	63	16	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	115	11	70	29	Majority of work in this area has commenced during this period
Strategic Commissioning	Children's Social Care & Education	95	9	14	4	Planned work due to commence during Q3/Q4
	Adult's Social Care	95	9	30	7	Planned work due to commence during Q3/Q4
	Public Health	10	1	16	4	Work will continue in Q3/Q4
	Communities	50	5	30	7	Includes review of Air Quality Management
Economic Growth & Prosperity		75	7	5	1	Planned work due to commence during Q3/Q4
Providing Assurance to External Organisations		60	6	20	5	See para 2.31-2.34
Advice & Guidance		26	3	15	4	Reactive work based upon demand from services
Other Chargeable Work		70	7	62	15	Includes grant certification work; Bus Service Operators Grant, CWLEP Local Growth Fund, and Family Focus Programme. Some grants require annual certification, some quarterly
Total Audit Days		1038	100	404	100	

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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
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 data extract, submission and investigation of matches.	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 2016/17 with the formal assurance level is included below (some of the audit reports may still be 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.
- 2.7 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.

Summary of reports by assurance level

Assurance Level	Half year to 30/9/16 Audit Reports	Full Year 2015/16 Audit Reports
Good	1	6
Satisfactory	1	5
Limited	6	8
No	1	1
Total	9	20

- 2.8 Further detail is provided on those audits with 'Limited' or 'No' assurance during the period under review.

Limited Assurance Reports

- 2.9 In each case a number of recommendations have been made. When implemented these will address the identified weaknesses and improve the control environment.
- 2.10 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 Annual Governance Statement process.

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Summary of Assurance Reports 2016/17

Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions (for 'Limited' and 'No' Assurance reports)	Management Response
Housing Benefit Fraud Controls	Identified for review as part of the detailed Fraud Risk Assessment	Good	On the whole the identified risks were found to be managed effectively with a small number of lower level actions to further improve the control environment.	All actions agreed Final Report Issued
PATROL ¹	Cheshire East Council is the Host Authority to the PATROL Joint Committee & Bus Lane Adjudication Service Joint Committee.	Satisfactory	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.	Final Report Issued
Children's Direct Payments	Included on Audit Plan due to fraud risk and also identified as potential area for review during planning meetings with Heads of Service.	Limited	Inconsistent level of challenge applied to allocated budgets. Needs and outcomes not consistently recorded or set out in a way that they can be easily monitored and reviewed. No agreed Direct Payment Policy or formal documented procedures in place. Signed Agreements are not in place for all Direct Payments.	All actions agreed Final Report Issued
Contract Management	At the request of the COO to further progress the ongoing work to improve procurement.	Limited	Effective contract management is reliant more upon the skills and initiative of individual commissioners and contract managers, rather than being underpinned by robust processes supported by detailed guidance, training and oversight.	All actions agreed Final Report Issued
PMO Action Plan	Detailed follow up of the consolidated Programme Management Office (PMO) Action Plan that was developed in response to a series of project health checks.	Limited	Although the majority of the actions were in progress some key areas had not been completed. The Action Plan required consideration with Management to ensure that that actions remain valid, appropriate priority levels are allocated to them and a formal monitoring and escalation process undertaken until the outstanding actions are implemented.	All actions agreed Final Report Issued

¹ External Organisation

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Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions (for 'Limited' and 'No' Assurance reports)	Management Response
Attendance Management	The Head of Strategic HR requested an Internal Audit review of attendance management, specifically the reporting, recording and management of sickness	Limited	Although there are policy and procedures in place to manage attendance, testing identified a number of inconsistencies in the application of the prescribed framework and guidance.	All actions agreed Final Report Issued
Key Financial Systems - "Off Oracle" purchasing and payments	Review of feeder systems as part of the 2015/16 Key Financial Systems work	Limited	Lack of training in relation to VAT guidance including the required level of documentation. Difficulties in identifying payments relating to specific children due to issues in Oracle recording unique reference numbers from feeder systems.	All actions agreed Final Report Issued
Adult Social Care Provider Invoices	Significant value of payments processed annually	Limited	Schemes of Delegation required review and update. A standard approach to monitoring credit transactions was required.	All actions agreed Final Report Issued
Air Quality Management	At the request of Chief Executive in response to anomalies being discovered in DEFRA return.	None	The audit confirmed that inaccurate information had been submitted to DEFRA. As part of the audit work, accurate records were produced to inform latest submission. Recommended actions were raised for an external investigation to be carried out. This is currently ongoing.	All actions agreed Draft 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.	Final 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 The School's Audit Programme for 2016/17 will cover the following 3 work areas:
- A thematic review on the effectiveness of performance related pay arrangements at 4 High Schools;
 - A thematic review of purchase card and imprest arrangements at 11 primaries, 1 special school and the Pupil Referral Unit;
 - An audit review of the School's Finance Team.
- 2.13 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. Consolidated findings and recommended actions and improvements are shared with all maintained schools through the "Schools Bulletin".

- 2.14 Findings from all three work areas will inform a consolidated schools report which provides assurance to the Chief Operating Officer and the Director of People. This will also inform the completion of the Annual CFO Assurance Statement by the Chief Operating Officer under Section 151 responsibilities.

Supporting Corporate Governance

- 2.15 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).
- 2.16 During the first half of this financial year Internal Audit has coordinated, on behalf of Management, the production of the Council's AGS for 2015/16 by:
- collecting evidence for and production of the 2015/16 Annual Governance Statement.
 - contribution to and production of Audit & Governance Committee reports on Corporate Governance.
 - Principal Auditor 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 and ensure that the findings have been considered when determining the 2015/16 AGS action plan.

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- Audit work in contribution to and production of CAG reports to Corporate Leadership Team.

Risk Management

- 2.17 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 and roll out of a Risk Management Policy, Strategy and Framework
- 2.18 Formal reports with regard to the risk management process are made throughout the year to Corporate Leadership Team, Cabinet and Audit and Governance Committee.
- 2.19 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 sits within Internal Audit.
- 2.20 Work has been carried out during the first half of the year to embed the Risk Management Policy, Strategy and Framework within the organisation.
- 2.21 It should be noted that as no additional resource had been provided to complete this work it was necessary to allocate

it to a Senior Auditor and that there was therefore a reduction of 0.4 fte in the level of resource available for core assurance work.

- 2.22 However, approval has been granted to appoint a Risk and Business Continuity Officer on a 6 month contract to ensure that Risk Management is progressed effectively.

Counter Fraud

- 2.23 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.
- 2.24 Work has been completed to ensure that the extraction and submission of data was carried out within deadlines for the latest National Fraud Initiative data matching exercise. This was successfully completed on 10 October 2016.
- 2.25 Additional work will continue during quarter 3 to prepare for the receipt and investigation of matches in January 2017 and to ensure that Cheshire East is suitably prepared for supplementary data submissions during December 2016.
- 2.26 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.

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Consultancy and Advice

- 2.27 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.
- 2.28 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

- 2.29 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 During 2016/17 this has included work on the following grants which were successfully signed off and submitted to the appropriate central government department:

Family Focus (year to date)	£57,000
Bus Service Operators Grant 2015-16	£348,000
CWLEP Local Growth Fund 2015-16	£14,520,000
Total	£14,925,000

Work for Other Bodies

- 2.31 In addition to the work described above, Internal Audit carried out the following work for external bodies.
- 2.32 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.
- 2.33 Better Care Fund – joint review of governance arrangements with Mersey Internal Audit Agency.
- 2.34 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.

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Implementation of Audit Recommendations

- 2.35 Throughout 2016/17, 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.
- 2.36 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.
- 2.37 In response to concerns around the low level of implemented recommendations detailed in the Annual Internal Audit Report presented to the June 2016 meeting of Audit and Governance Committee, the COO made a commitment to assist in improving this indicator.
- 2.38 Internal Audit has reacted to this commitment by working proactively with managers to ensure that recommendations

are acted upon and improvements in the control environment implemented.

- 2.39 This has resulted in the highest recorded percentage of recommendations implemented since Cheshire East Council was created and demonstrates a significant improvement since 2015/16 as detailed in the table below:

Implementation of agreed recommendations as at 30 September 2015

On time	After the agreed date	Total implemented	In progress, part implemented or overdue	Superseded or no longer valid
2015/16 ³				
52%	19%	71%	29%	0
2016/17 ⁴				
39%	50%	89%	11%	3

- 2.40 Whilst these figures show that a high percentage of agreed recommendations are implemented, a large proportion are still put in place after the agreed deadline. This is an area for

³ Updated from Annual Report to Include actions issued in 2015/16 but due for implementation in 2016/17

⁴ Revised to take account of actions that were not due for implementation as at 30.09.16

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improvement that will be subject to further attention during the second half of the year.

- 2.41 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 CLT as necessary.

Ongoing Work

- 2.42 The following audits commenced during the first half of the year, with work ongoing in the third quarter of 2016/17:
- Procurement – a piece of work has commenced to review the control and use of Purchase Cards.
 - Schools Audits – Assurance to S151 Officer in accordance with the schools audit programme.
 - Children's Centres – assurance around the level of control in place around financial and performance management.

- School Capacity Return (SCAP) – assurance around the controls in place to ensure that accurate forecasts are produced.
- Highways Asset Revaluation – validation of the data upon which the revaluation is based.

- 2.43 Other planned work, subject to final agreement with management in terms of timing and content, includes:

- Personal Budgets
- Adult Safeguarding
- Key Financial System reviews

Reliance placed on the work of other assurance bodies

- 2.44 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 2016/17 Internal Audit work will be considered in preparing the 2016/17 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	2016/17 Actual	2016/17 Target	2015/16 Actual	Comments on 2016/17 Actuals
% of Audits completed to user's satisfaction	94%	92%	96%	Above Target
% of significant recommendations agreed	100%	90%	100%	Above Target
Productive Time (Chargeable Days)	83%	80%	77%	Above Target
Draft report produced promptly (per Client Satisfaction Form)	90%	95%	97%	Slightly below target as reduced resources caused delay in review process.

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 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 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 In light of the continued absence of the Corporate Manager Governance and Audit and the ongoing vacancy of the Audit

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Manager post, resource within the team remains a risk. As such, approval has been received during the first half of the year to recruit a Senior Auditor and a Risk and Business Continuity Officer on a temporary basis.

- 6.2 Both of these posts have been filled, with the appointments commencing at the beginning of quarter 3.
- 6.3 The high profile audit of procurement and the use of WARNs that has been on hold since December 2015 due to an ongoing police investigation remains outstanding. Additional details relating to this have been provided to members outside of this Interim Report.
- 6.4 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.