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# Internal Audit Annual Report 2016-17

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## Cheshire East Council - Internal Audit Annual Report 2016/17

### 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 As set out in the PSIAS, the Council's Corporate Manager Governance and Audit must provide an annual report to the Audit and Governance Committee - timed to support the annual governance statement. This must include:
- an annual internal audit opinion on the overall adequacy and effectiveness of the organisation'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 It should also include:
- disclosure of any qualifications to that opinion, together with the reasons for the qualification;
  - 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 target;

- any issues judged particularly relevant to the annual governance statement; and
- progress against any improvement plans resulting from QAIP external assessment.

- 1.4 This report has been prepared by the Council's Principal Auditors as the Corporate Manager Governance and Audit has recently left the Council following an extended period of absence. Support and sign off has been provided by the Director of Finance and Procurement who has line management responsibility for Internal Audit and the approach has been validated with the Council's External Auditors.

### 2 Background and Context

- 2.1 In common with all other public bodies, the Council continues to face increasing financial and service delivery challenges, the scale of which are illustrated within the medium term financial strategy.
- 2.2 Expected gross expenditure in 2016/17 by the Council was £583m, with a capital programme of £183.7m. This annual expenditure supports service delivery to over 370,000 residents, in line with our 5 stated outcomes for residents.

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- 2.3 During 2016/17 the Council continued to develop innovative solutions for service delivery including setting up a further Alternative Service Delivery Vehicle (ASDV) as part of the remodelling of services to provide the best possible outcomes for the residents of Cheshire East at a competitive price.
- 2.4 The Council's 2016/17 audit plan reflected this context through the areas selected for review and the changes made during the year to ensure resources were focussed in the right areas.
- 2.5 In preparing, reviewing and updating the plan during the year, the following were taken into account:
- Adequacy and outcomes of the Authority's risk management, performance management and other assurance processes.
  - Internal Audit's own risk assessment.
  - Cheshire East Council's Corporate Plan 2016-2020.
  - Consultation with key stakeholders e.g. Corporate Leadership Team (CLT), Senior Management including Strategic Risk Owners/Managers, External Audit, Internal Audit staff, Cheshire West and Chester Internal Audit.
- 2.6 Staffing resource for Internal Audit has been limited during 2016/17. This was due to the long term absence of the Corporate Manager Governance and Audit and the vacant Audit Manager post. This situation has required the Principal Auditors to carry out the senior

management roles within the team and as a result there was a reduction in capacity to carry out audit assignments and for the review and quality assurance of audits completed by the rest of the team.

- 2.7 Despite this reduction in audit resource, the team has delivered sufficient coverage, to the appropriate standard, to enable an informed opinion to be provided on the control environment.

### 3 Opinion on the Control Environment

- 3.1 Internal Audit is required to form an annual opinion on the adequacy and effectiveness of the Council's internal control environment. This includes consideration of any significant risk or governance issues and control failures that have been identified.
- 3.2 In the context of the PSIAS, 'opinion' does not simply mean 'view', 'comment' or 'observation'. It means that internal audit have done sufficient, evidenced work to form a supportable conclusion about the activity that it has examined.
- 3.3 Assurances given by Internal Audit are never absolute. It is impossible to examine every activity and every transaction and, audit reviews are at a point in time. The most Internal Audit can provide is a reasonable assurance that there are no major weaknesses, or that

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the weaknesses identified have been highlighted, and improvement plans agreed with a timetable for implementation.

- 3.4 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 and improvement programme is implemented. This has increased the challenges to the internal control environment with changes to staffing structures and delivery models.
- 3.5 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.

### Internal Audit Opinion on the Council's control environment

#### The Council's framework of risk management, control and governance is assessed as Adequate for 2016/17.

The Internal Audit work carried out this year provides reasonable assurance that the Council has in place a satisfactory framework of governance and internal control designed to meet the Council's objectives and that key controls are generally being applied consistently.

Where weaknesses in the design and inconsistent application of controls have been identified it is pleasing to note the positive engagement with Management in agreeing recommendations. Action plans are in place to address all weaknesses identified during the year.

This opinion is based upon:

- the programme of internal audit reviews - including opinion based work undertaken during the year;
- Management's response to advice and recommendations
- the process of producing the Council's annual governance statement; and
- the Council's Annual Report on its Risk Management Arrangements

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### 4 Summary of Audit Work 2016/17

- 4.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the organisation that these arrangements are in place and operating properly.
- 4.2 The provision of assurance is, therefore, the primary role for internal audit. This role requires the Corporate Manager Governance and Audit to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.
- 4.3 A risk based Internal Audit plan is produced each year to ensure that:
- the scale and breadth of audit activity is sufficient to allow Internal 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.
  - In preparing the risk based plan for 2016/17 Internal Audit consult with the CLT and the Audit and Governance Committee. They also consider:
    - the adequacy and outcomes of the Council's risk management, performance management and other assurance processes;
    - their own risk assessment;
    - the Council's Corporate Plan 2016-2020; 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.
- 4.4 The plan is broadly split into two main areas:
- those audits that deliver an opinion report on the risks and controls of the area under review and will inform the Annual Internal Audit Opinion; and
  - work that will not deliver an opinion report but will help inform the Annual Internal Audit Opinion.
- 4.5 The plan is reviewed and adjusted, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, and controls. Any significant changes are communicated to both CLT and the Audit and Governance Committee.
- 4.6 Interim reports on progress against the Internal Audit Plan and work carried out by the team were presented to Audit and Governance Committee in December 2016 and March 2017.
- 4.7 A summary comparison of the 2016/17 Audit Plan with actuals for the year is shown on page 5.

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- 4.8 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 against actual 2016/17

Area of Plan		Plan		Actuals		Comments on coverage
		Days	%	Days	%	
<b>Chargeable Days</b>		<b>1458</b>		<b>1250</b>		Reflects absence of Corporate Manager Governance and Audit and vacant Audit Manager post.
Less: Corporate Work		420		266		Includes operational risk management duties
<b>Available Audit Days:</b>		<b>1038</b>	<b>100</b>	<b>984</b>	<b>100</b>	
Corporate Governance and Risk		87	8	108	11	Reflects higher than anticipated involvement in cross-cutting activity and producing Committee reports
Anti-Fraud and Corruption	Proactive Reviews	75	7	81	8	Broadly as planned
	Reactive Investigations	30	3	79	8	Not possible to accurately predict the level of reactive work
Chief Operating Officer (COO)	Key Financial Systems	250	24	156	16	Lighter touch reviews completed to ensure coverage
	Corporate Core & Cross Service	115	11	137	13	Broadly as planned
Strategic Commissioning	Children's Social Care & Education	95	9	65	7	Broadly as planned with some work carried forward to 2017/18
	Adult's Social Care	95	9	64	7	Less than planned due to completion of work in April 2017
	Public Health	10	1	27	3	
	Communities	50	5	30	3	Broadly as planned
Economic Growth & Prosperity		75	7	73	7	Broadly as planned
Providing Assurance to External Organisations		60	6	24	2	Reduced to ensure core assurance work completed
Advice & Guidance		26	3	37	3	Reactive work based upon demand from services
Other Chargeable Work		70	7	103	12	Includes grant certification and increased follow up work.

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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 matches and investigation work.	Results published on Cabinet Office website/update reports to Corporate Assurance Group/Investigation Reports.
	Investigations	Investigation Reports
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

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### Summary of Assurance Reports October 16 – March 17<sup>1</sup>

Audit Report	Driver/ Background	Assurance Level	Management Response
Air Quality Management	At the request of management	No Assurance	Final Report issued
Primary Schools Consolidated Report 2016/17	Assurance to s151 Officer	Limited	Final Report issued
LEP - Assurance Framework Follow-Up 2016/17	Assurance to an outside body	Limited	Final Report Issued
Public Health Procurement and Commissioning	Risk area identified by management	Satisfactory	Final Report Issued
NNDR Billing Reconciliation 2017/18	Key Financial System	Good	Final Report Issued
Council Tax Billing Reconciliation 2017/18	Key Financial System	Good	Final Report Issued
Children's Centres	At the request of management	Limited	Draft Report Issued
Member's Expenses	To seek wider assurance following an investigation	Limited	Draft report issued
Purchase Card Review	Risk area identified by management	Limited	Draft Report Issued
Direct Payments	Risk area identified by management	Limited	Draft Report Issued
Personal Budgets	Risk area identified by management	Satisfactory	Draft Report Issued
Facilities Management	Risk area identified by management	Satisfactory	Draft Report Issued
Schools Capacity Survey (SCAP)	Risk area identified by management	Satisfactory	Draft Report Issued
Final High Schools Consolidated Report 2016/17	Assurance to s151 Officer	Satisfactory	Draft report issued
School's Finance Team	Assurance to s151 Officer	Satisfactory	Draft Report Issued

<sup>1</sup> Summary of Assurance Reports issued between April and October 2017 was reported in the Internal Audit Interim Report in December 2016

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### Assurance Work

- 4.9 In accordance with best practice Internal Audit's focus is on higher risk areas and areas where issues were known or expected to exist, for example through manager self-assessment. Clearly this approach adds value to the organisation, but, by its nature, may also result in lower overall assurance levels.
- 4.10 The exception to this approach is with regards to the cyclical review of the Council's key financial systems which, despite being deemed to be low risk, are subject to review due to the volume of transactions processed. It is pleasing to note that the key systems reviewed were provided with either Good or Satisfactory Assurance.

#### Summary of reports by assurance level

Assurance Level	Audit Reports 2016/17	Audit Reports 2015/16
Good	3	6
Satisfactory	7	5
Limited	12	8
No	1	1
Total	23	20

- 4.11 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.

- 4.12 Management has responsibility for ensuring that the agreed actions for improvement are implemented. All actions from these audits have been, or are currently being, agreed with management and progress on implementation will be monitored through agreed processes.
- 4.13 The issues arising from audit activity and the implementation of associated recommended actions have been considered as part of the 2016/17 Annual Governance Statement process.

### Limited Assurance Reports

- 4.14 A brief summary of the audit reports that relate to work undertaken during quarters 3 and 4 of 2016/17 is shown on page 7. With further detail of the 'limited assurance' reports included later in this section.
- 4.15 The summaries of other 'limited and no assurance' reviews were included in the interim report to this Committee in December 2016.
- 4.16 **Air Quality Management** – During the preparation of the 2015 Air Quality Annual; Status Report (ASR), anomalies were discovered between the data recorded on the Council's systems and the source data provided by the laboratory that analyses the monitoring equipment.

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- 4.17 Initial analysis by management identified multiple anomalies in both the latest figures and those used to complete the previous return submitted in 2015.
- 4.18 As such, the Chief Executive requested that Internal Audit carry out a review of the data returns and the processes in place for the monitoring, recording and dissemination of air quality data.
- 4.19 The review concluded that effective Air Quality Management policies, procedures and quality assurance mechanisms were not in place and communicated to staff, resulting in a significant number of errors in the reporting of statutory air quality data to DEFRA and other stakeholders, both internal and external, for a number of years.
- 4.20 Accurate records were produced as part of the review to inform the submission of the ASR and recommendations were made to improve the control environment.
- 4.21 It was also recommended that an external investigation be carried out which is currently ongoing.
- 4.22 **Primary Schools Consolidated Report** – this report provided a summary of findings from the thematic reviews of Imprest and purchase cards carried out at 11 primary schools a special school and the Pupil Referral Unit.
- 4.23 The audit concluded that controls and processes were in place to administer both Imprest accounts and purchase cards but that there was a lack of consistency in their application.
- 4.24 It should be noted that work is ongoing across the Council to close Imprest accounts and that this will also impact on schools.
- 4.25 **Members Expenses** – The objective of the review was to assess the adequacy of the systems, processes and controls in place to manage Members' Expense claims and provide assurance that claims are accurate, in accordance with the approved Scheme of Members Allowances, and subject to an appropriate level of challenge and authorisation.
- 4.26 The review concluded that the existing controls were not sufficiently robust with regards to providing clarity as to what can be claimed and under what circumstances it is appropriate to do so. It also recommended improvements to the processes for submitting and approving claims for payment.
- 4.27 **Purchase Cards** - The objective of the review was to assess the adequacy of the systems, processes and controls in respect of managing purchase cards to ensure that any inappropriate use of Purchase Cards either in terms of procurement method or items purchased, unauthorised purchases, or fraudulent use of Purchase Cards is identified and addressed.
- 4.28 The review concluded that although controls are in place to manage the risks associated with the use of purchase cards they could be improved by the development of more robust guidance around the use of cards and the responsibilities of cardholders.

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- 4.29 **Direct Payments** – the review was undertaken to seek assurance that appropriate controls are in place to monitor direct payments and ensure that care needs are being met whilst also identifying any overpayments or inappropriate use of public money.
- 4.30 The review concluded that overall the current arrangements and controls in place for Adult’s Direct Payments are not sufficiently robust and recommended improvements to ensure that the identified weaknesses are addressed.
- 4.31 In all cases a number of recommendations have been made and agreed with management. When implemented these will address the identified weaknesses and improve the control environment.
- 4.32 **Children’s Centres** – the review sought assurance that appropriate systems and controls were in place to ensure effective management of the financial performance and achievement of objectives at Children’s Centres.
- 4.33 It concluded that whilst the day to day management of the budgets and the staff related objective setting are in place and are working effectively, there were concerns around the high level controls that should be in place.
- 4.34 As such, recommendations were made to improve the control environment in relation to items such as a local

scheme of delegation, operational risk register and the strategic service plan.

- 4.35 It should be noted that for each of the reports detailed above, recommendations have been made and actions agreed by management to address the identified weaknesses.

### Schools

- 4.36 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.
- 4.37 The School’s Audit Programme for 2016/17 covered 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

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- 4.38 A total of 17 schools were visited during 2016/17, with individual reports issued to schools detailing any areas of weakness identified and any actions required to address these weaknesses and improve the control environment.
- 4.39 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
  - Internal knowledge provided by the School Finance Team.
- 4.40 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.
- 4.41 The work undertaken by Internal Audit provided assurance that the majority of controls relating to the risk areas subject to review 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.

### Supporting Corporate Governance

- 4.42 In accordance with Regulation 4 of the Accounts and Audit Regulations 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).
- 4.43 Internal Audit has assisted Management in the production of the Council's AGS for 2016/17 by:
- Coordinating assurance exercises for and co-production of the draft AGS;
  - contribution to and production of Audit & Governance Committee reports on Corporate Governance;
  - representation on and contribution to the Information Governance Group and 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 CAG reports to CLT.

### Risk Management

- 4.44 Internal Audit assisted in the Management of Risk through:
- Delivery of a risk based audit plan; and
  - Representation on and contribution to the CAG Risk Sub Group - to advise on risk management, control, and governance issues identified through audit work.

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- 4.45 Formal reports with regard to the risk management process are made throughout the year to CLT, CAG, Cabinet and the Audit and Governance Committee.
- 4.46 During the year the following developments in the approach to Risk Management have been progressed:
- The corporate risk register has been subject to a review and refresh to ensure that interdependencies between the corporate risks are understood
  - Operational risk registers have been developed and included in team plans
  - Risk management refresher training undertaken with Cabinet and CLT as part of the review and refresh of corporate risk register
  - Risk remains a standing agenda item on the quarterly challenge sessions with Directors which include finance, risk and performance
- 4.48 During the year Internal Audit coordinated the biennial National Fraud Initiative, ensuring that the extraction and submission of data was carried out within deadlines and in accordance with specified criteria. This was successfully completed on 10 October 2016.
- 4.49 Additional work was also completed to ensure that services were fully prepared for the receipt and investigation of matches in January 2017 and to ensure that Cheshire East complied with the requirements for supplementary data submissions during December 2016.
- 4.50 The Member/Officer Fraud Sub Group continues to meet on a regular basis. This allows further detail to be provided to members on emerging fraud risks and the anti-fraud work carried out by Internal Audit. In addition, this group has continued to complete 'Cardiff Checks' on procurement transactions to provide independent challenge to the process and obtain assurance that the arrangements are operating effectively.

### Counter Fraud

- 4.47 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.

### Consultancy and Advice

- 4.51 During the year, Internal Audit provided advice at the specific request of management. The nature and scope of these engagements are generally aimed to improve governance, risk management and control and contribute to the overall opinion. This year advice was given on matters such as the application of Finance and Contract Procedure

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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

4.52 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.

4.53 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	£87,400
Bus Service Operators Grant 2014-15	£348,000
Local Growth Fund (CE Accountable Body for LEP)	<u>£14,520,000</u>
<b>Total</b>	<b>£14,955,400</b>

### Implementation of Audit Recommendations

4.54 Throughout 2016/17, Internal Audit has continued to carry out a range of follow up exercises to ensure that agreed

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 – whilst management are responsible for ensuring that their agreed actions are implemented, they are asked to confirm that this is the case for medium level actions and evidence is sought for high level ones. Follow up audits may be completed at the request of management or where the nature of the actions requires additional assurance that they have been implemented.

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## Implementation of Agreed Recommendations

On time	After the agreed date	Total implemented	In progress, or overdue	Agreed actions subsequently not implemented
2014/15				
31%	40%	<b>71%</b>	25%	4%
2015/16 <sup>2</sup>				
73%	9%	<b>82%</b>	18%	0%
2016/17				
82%	12%	<b>94%</b>	6%	0%

- 4.55 The figures detailed show a continued improvement in the percentage of agreed actions implemented between 2014/15 and 2016/17. It is particularly pleasing to note the significant increase in the percentage of agreed actions that are implemented within agreed time scales.
- 4.56 These improvements have been as a result of significant effort by the Internal Audit team in carrying out follow ups with managers along with support from senior managers in raising the profile of audit actions.
- 4.57 Whilst Internal Audit support the implementation of actions by undertaking a follow up process, management are ultimately responsible for implementing the actions assigned to them within the deadlines that they have agreed. It is therefore pleasing to report that during 2016/17

<sup>2</sup> Updated to include actions issued in 2014/15 but due for implementation in 2015/16

senior management have supported Internal Audit by challenging their service managers around implementation of actions.

- 4.58 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, or agrees that the implementation of the action is no longer appropriate. This happened with a small number of actions arising from work carried out in 2014/15 and is reflected in the reported figures.
- 4.59 The timely implementation of audit recommendations is a good indicator of both the effectiveness of Internal Audit in securing action and the Council’s commitment and capacity to improve.

### Ongoing Work

- 4.60 The following audits commenced during 2016/17, with work ongoing in the first quarter of 2017/18:
  - Procurement
  - Housing Benefits
  - Council Tax
- 4.61 As reported in the 2015/16 Internal Audit Annual Report, a number of high profile whistleblowing referrals were received during 2015/16 that raised concerns around procurement processes. Internal Audit work to test these

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concerns, undertaken by expanding the scope of an ongoing procurement audit, was suspended in December 2015 following the launch of an investigation by Cheshire Police into alleged misconduct in public office.

- 4.62 The police investigation is still ongoing and as such the audit of procurement arrangements remains outstanding. As such, it was agreed at the December 2016 meeting of the Audit and Governance Committee that a new piece of work should be completed to provide assurance to both the Chief Operating Officer and Members that the arrangements currently in place to manage procurement activity are appropriate and effective.
- 4.63 Having received confirmation from the Senior Investigating Officer with TITAN, who is leading the investigation, that the proposed audit would not impact upon the ongoing police work, the audit commenced during March 2017 and has continued into the new financial year.
- 4.64 The outcomes of this audit will therefore be reported to a later meeting of Audit and Governance Committee.

### Reliance placed on the work of other assurance bodies

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

### 5 Annual Governance Statement 2016/17

- 5.1 Each year the Council produces an Annual Governance Statement (AGS) that explains how it makes decisions, manages its resources and promotes its values and high standards of conduct and behaviour. This is an opportunity to reflect clearly and openly on where the Council has, and in some cases, hasn't reached the standards it sets for itself.
- 5.2 Any significant issues that are assessed as falling short of the Council's expected high standards are reported in the AGS. There are no outstanding significant control issues identified through the work of Internal Audit that require disclosure in the Council's 2016/17 Annual Governance Statement.
- 5.3 However, the Council's assessment of its governance arrangements in 2016/17 has identified significant issues that have been included within the draft AGS.
- 5.4 These will be monitored by the Corporate Assurance Group and escalated, as necessary, to the Corporate Leadership Team, Audit and Governance Committee and/or Cabinet.
- 5.5 Internal Audit actively supports the Corporate Assurance Group to ensure that effective improvements and mitigating actions are implemented.

### 6 Internal Audit Performance

- 6.1 The Internal Audit team's performance overall is summarised below and is above target and also above the

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levels achieved in 2016/17 with the exception of the figures relating to the implementation of agreed recommendations (detailed in table on page 12).

Performance Indicator	2016/17 Actual	2016/17 Target	2015/16 Actual	Comments on 2015/16 Actuals
Percentage of Audits completed to user satisfaction	96%	92%	96%	Above target.
Percentage of significant recommendations agreed	100%	90%	100%	Above target.
Productive Time (Chargeable Days)	82%	80%	77%	Above target
Draft report produced promptly (per Client Satisfaction Form)	92%	95%	97%	Slightly below target

- 6.2 The slight underperformance relating to promptly issuing draft reports is as a result of the increased work load of the Principal Auditors as a result of senior management absence. This has impacted upon their ability to carry out quality assurance reviews as quickly as would normally be the case.

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

- 7.1 Regulation 6 of the Accounts and Audit Regulations (England) 2015 requires relevant bodies to conduct an annual review of the effectiveness of its internal audit and for a committee of the body to consider the findings. This review is carried out by self-assessing compliance with the Public Sector Internal Audit Standards (PSIAS) which have recently been updated with effect from 1 April 2017. The PSIAS require Internal Audit to have in place a quality assurance and improvement programme which must include both internal and external assessments
- 7.2 Therefore, a self assessment will be undertaken against the updated PSIAS during quarter 1 of 2017/18 with the results reported to Committee later in the year via the Internal Audit Interim Report.
- 7.3 In addition to the self assessment, the North West Chief Audit Executives' Group has initiated a 'peer review' process, managed and operated by the constituent authorities to address this requirement. Following the completion of successful pilot reviews, the wider programme is now underway. The Principal Auditors will both undertake a review of another North West authority and the review of Cheshire East is scheduled for October 2017. The Audit & Governance Committee will continue to be appraised of progress in this matter.

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### **8 Other Developments**

- 8.1 On 10 April 2017 the Investigation and Disciplinary Committee met to consider concerns over the officer conduct. As a result, the Chief Executive was suspended to enable an independent investigation to take place.
- 8.2 The Deputy Chief Executive is acting up to the role of Chief Executive and the following interim appointments have been made; an interim Monitoring Officer has been appointed as a result of the Director of Legal Services and Monitoring Officer's ongoing period of absence, and a Director of Finance and Procurement who also has Section 151 responsibilities has been appointed to allow the Chief Operating Officer to focus on other duties.
- 8.3 As part of these interim arrangements, line management responsibility for Internal Audit has transferred from the Director of Legal Services to the Director of Finance and Procurement.
- 8.4 As referenced earlier in this report, resource within Internal Audit is an issue with both the Corporate Manager Governance and Audit, and Audit Manager posts currently vacant. This has been recognised by senior management and consideration is being given as to the most appropriate way to ensure that Internal Audit is sufficiently resourced to enable the continued provision of an effective, efficient and economic audit function.