

Internal Audit Interim Report 2018/19

September - December 2018

Working for a **brighter future** together

OFFICIAL



1. Introduction

- 1.1. In accordance with the Public Sector Internal Audit Standards, this Internal Audit Interim Report 2018/19 contains “emerging issues in respect of the whole range of areas to be covered in the annual report.”
- 1.2. Internal Audit is required to form an annual opinion on the overall adequacy and effectiveness of the organisation’s control environment, which includes consideration of any significant risk or governance issues, and control failures which have been identified.
- 1.3. The interim report contains the following:
 - a summary of the audit work carried out in 2018/19 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 (Table 2, Table 4 and Section 4)
 - comments on compliance with these standards and communication of the results of the internal audit quality assurance programme (Section 4 and Section 5)
 - other developments, including the Internal Audit Charter (Section 6)

2. Summary of Audit Work Undertaken

- 2.1. This is the second 2018/19 interim report on progress against the Internal Audit Plan.
- 2.2. During the period September to December 2018, 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. Annex 1 explains the variety of audit work undertaken to support the annual audit opinion.
- 2.3. During the year, several members of the internal audit team have increased their contractual hours to increase capacity and ensure completion of sufficient core assurance work to ensure the provision of the annual Internal Audit Opinion.
- 2.4. The Audit Plan has therefore been reviewed and restated in order to reflect this additional capacity. This is reflected in Table 2 on page 4 of this report.

Assurance Work

- 2.5. Internal Audit’s risk based approach includes focussing on areas where issues are known or expected to exist. Clearly this approach adds value to the organisation, but, by its nature, may also result in lower overall assurance levels.

2.6. A summary of the final reports issued to the end of December 2018, by the audit assurance opinion given is included below:

Table 1: Reports to date by assurance level

Assurance Level	2018/19 (to 31/12/2018)	2017/18 Full Year
Good	0	8
Satisfactory	4	10
Limited	5	7
No Assurance	2	1
Total	11	26

2.7. It should be noted that although the number of assurance reports issued as at 31 December 2018 is significantly lower than the full year total for 2017/18, it is expected that at least 12 more reports will be issued during quarter 4. Details of these ongoing pieces of work are provided in section 6 on page 16 of this report.

2.8. A summary comparison of the 2018/19 Audit Plan with actuals for the year to 31 December 2018 is shown below in **Table 2**, with comments on variances.

Internal Audit Interim Report 2018/19 (September – December 2018)

Table 2: Summary Comparison of Audit Plan 2018/19 and Actuals

Area of Plan		Original Plan		Revised Plan		Actuals (to 31/12/18)		Comments on coverage
		Days	%	Days	%	Days	%	
Chargeable Days		1,184		1308		968		
Less: Corporate Work		160		160		113		Minimised/reduced work where possible to prioritise investigation work.
Available Audit Days:		1,024	100%	1148	100%	855	100%	
Corporate Governance and Risk		120	12%	134	12%	63	7%	Additional work planned in Q4
Anti-Fraud and Corruption	Proactive Reviews	40	4%	45	4%	51	6%	Coverage in line with plan
	Reactive Investigations	50	5%	56	5%	126	15%	Includes counter fraud investigations.
Corporate Services	Key Financial Systems	145	14%	162	14%	123	14%	Coverage in line with plan
	Corporate Core & Cross Service	255	25%	286	25%	162	19%	Additional work planned in Q4
Children and Families		64	6%	72	6%	53	6%	Coverage in line with plan
Adult's Social Care		65	6%	72	6%	46	5%	Coverage in line with plan
Community and Partnerships		15	1%	17	1%	2	1%	Coverage in line with plan
Public Health		15	1%	17	1%	0	0%	Additional work planned in Q4
Planning and Sustainable Development		20	2%	22	2%	8	1%	Coverage in line with plan
Infrastructure and Highways		30	3%	34	3%	10	1%	Coverage in line with plan
Growth and Regeneration		40	4%	45	4%	102	12%	Includes work relating to land transactions.
Rural and Green Infrastructure		15	1%	17	1%	6	1%	Coverage in line with plan
Providing Assurance to External Organisations		40	4%	45	4%	16	2%	Coverage in line with plan
Advice & Guidance		30	3%	34	3%	19	2%	Coverage in line with plan
Other Chargeable Work		80	9%	90	9%	68	8%	Coverage in line with plan
Total Audit Days		1,024	100%	1148	100%	855	100%	

Internal Audit Interim Report 2018/19 (September – December 2018)

- 2.9. Details of the reports produced to the end of December 2018 are included in **Table 3**, which includes details of the audit assurance opinion given in each report. Where the opinion given was Limited or No Assurance, a summary of key findings and actions has been provided.
- 2.10. The assurance levels reported include a combination of opinions at a broad level for the Council as a whole (macro-level opinion) and opinions on individual business processes or activities within a single organisation, department or location (micro-level opinion).
- 2.11. Where control weaknesses are identified, recommended actions are agreed with management to ensure that the control environment is improved to an acceptable level. Through the follow up process, Internal Audit continues to obtain assurance that actions have been implemented, especially those deemed high priority.
- 2.12. Where a final report is issued with a “Limited” or “No Assurance” opinion, improvement recommendations will be made. When implemented these will address the identified weaknesses and improve the control environment.
- 2.13. With the exception of one item, all actions from these audits have been agreed with management and progress on implementation will be monitored through the follow up process. Draft reports are agreed with the appropriate managers, and Final reports are shared with the relevant Executive Director and the Council’s External Auditor.
- 2.14. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the Annual Governance Statement process.

Internal Audit Interim Report 2018/19 (September – December 2018)

Table 3: Summary of Final Assurance Reports 2018/19 to 31st December 2018

Audit Report	Reason for Review	Audit Assurance Opinion	Management Response	Summary of Findings – (Limited /No Assurance Reports Only)
Revenue Budget Monitoring	Identified via Planning Process	Satisfactory	All actions and timescales for implementation agreed	N/A
Free School Meals	Identified via Planning Process	Satisfactory	All actions and timescales for implementation agreed	N/A
Visitor Attraction – Tatton Park	Identified via Planning Process	Limited	All actions and timescales for implementation agreed	<p>The objective of the review was to provide assurance on the effectiveness of controls in place around financial control in the establishment; management of income and expenditure, staffing expenses and inventory management.</p> <p>The review concluded that;</p> <ul style="list-style-type: none"> - The reconciliation of income processes could be improved. - The Scheme of Financial Delegation needs to be updated. - Consistency is needed in the application of controls on the authorisation of purchase card transactions and employee expenses. - The establishment needs a complete equipment register, including ICT and non ICT items; a full inventory of artefacts is in place.
External Moderation Arrangements	Identified via Planning Process	Limited	3 actions and timescales for implementation agreed	The purpose of the review was to provide assurance on the controls in place to manage the risk of the Council not having provision for and a system in place for moderating teacher assessments at its maintained schools, therefore not complying with its

Internal Audit Interim Report 2018/19 (September – December 2018)

Audit Report	Reason for Review	Audit Assurance Opinion	Management Response	Summary of Findings – (Limited /No Assurance Reports Only)
			1 action not agreed	<p>statutory requirements.</p> <p>The review identified inconsistencies in the design and application of controls in place. Whilst the Council has provision for moderating teacher assessments it could improve on consistency of retaining records of attendance on supporting documentation.</p> <p>Whilst there is a system in place to moderate the assessments, the application of controls in relation to the sample sizes of tests was inconsistent.</p>
Section 106	Identified via Planning Process	Limited	<p>21 actions and timescales for implementation agreed</p> <p>1 action not agreed</p>	<p>The objective of the view was to review the adequacy of controls around the requests, collection, management, implementation and expenditure of Section 106 schemes undertaken by the Council and its Wholly Owned Companies.</p> <p>The review concluded that Section 106 agreements are not being effectively managed due to significant resource constraints, an inadequate IT monitoring system and a lack of policy and procedures.</p> <p>Furthermore only financial obligations are included within the monitoring spreadsheet, and non financial obligations (excluding affordable housing) are going unmonitored.</p>
Performance Management and Reporting – Statutory Returns	Identified via Planning Process	Limited	All actions and timescales for implementation agreed.	This review was undertaken to provide assurance on the arrangements in place to manage the risk of data for statutory returns not being collected in a complete, accurate and timely manner.

Internal Audit Interim Report 2018/19 (September – December 2018)

Audit Report	Reason for Review	Audit Assurance Opinion	Management Response	Summary of Findings – (Limited /No Assurance Reports Only)
				<p>The Council is required to complete nearly 140 separate data returns, as well as further returns for grants and other programmes.</p> <p>The review identified a wide variety of practices in place, and whilst staff were aware of, and met deadlines for the returns, and all were subject to some form of supervisory review, there were a number of improvements recommended.</p> <p>These included developing local procedural guidance, to introduce a risk based approach to the appropriate level of control and scrutiny, restricting access to the working papers and drafts of potentially high risk returns, and ensuring detailed validation and cleansing in the preparation of the return.</p>
Travel Booking System	Identified via Planning Process	No Assurance	All actions and timescales for implementation agreed	<p>The objective of the review was to provide assurance on the effectiveness of the controls in operation to prevent the unauthorised access and use of the travel booking system.</p> <p>The review identified lack of control in the authorisation of bookings, weak system access controls and a lack of monitoring of system usage.</p>
Highways Procurement Project	Identified via Planning Process	Satisfactory	All actions and timescales for implementation agreed	N/A
Schools HR Team	Identified via Planning Process	Satisfactory	All actions and timescales for implementation	N/A

Internal Audit Interim Report 2018/19 (September – December 2018)

Audit Report	Reason for Review	Audit Assurance Opinion	Management Response	Summary of Findings – (Limited /No Assurance Reports Only)
Early Help Individual Payments Short Breaks	Review of new system as requested by Management	Limited	agreed All actions and timescales for implementation agreed	<p>The provision of short breaks to parent carers of disabled children was selected as a pilot for the use of preloaded cards and internal audit were asked to provide assurance as to the effectiveness of the controls in place to manage this activity.</p> <p>The review concluded that there were opportunities to improve the control environment and enhance the process to ensure that the benefits of preloaded cards are maximised for both carers and the Council. It also identified areas for improvement relating to the wider EHIP process that were not related to the use of cards.</p> <p>The service have indicated that all actions have been implemented and a follow up is scheduled to review the High level actions in accordance with our follow up procedure.</p>
Historic Land Transactions - Consolidated Findings	Identified via Planning Process	None	All actions and timescales for implementation agreed	<p>The detailed review of individual historic land transactions identified various control weaknesses within the arrangements for the acquisition and disposal of land. These weaknesses were pulled together to ensure that they were addressed in a single report which identified the following areas for improvement:</p> <ul style="list-style-type: none"> • Document and Data Management • Decision Making • Professional Advice • Policies and Procedures • Project Management Oversight • Valuations, surveys and overages • Timescales

School Audits

- 2.15. The Department for Education requires the Council's Section 151 Officer to sign off an Annual Assurance Statement. That statement confirms:
- the number of School's Financial Value Standard (SFVS) self-assessment returns received; and
 - that an appropriate audit programme is in place to provide adequate assurance over the standard of financial management, and the regularity and propriety of spending in schools.
- 2.16. The School's Audit Programme for 2018/19 continued from 2017/18 and was designed to ensure that coverage of all schools not yet audited, since the responsibility for undertaking SFVS assurance work returned to the Internal Audit team, will be achieved by the end of 2018/19.
- 2.17. The School's Audit Programme for 2018/19 continued the thematic review on the effectiveness of governance arrangements at 21 schools.
- 2.18. As at the end of December 2018, 13 visits had been completed with the remaining 8 audit visits scheduled to be completed in quarter 4.
- 2.19. Individual reports are produced and issued to schools detailing any areas of weakness identified along with any actions required to address these weaknesses and improve the control environment. Since 2017/18 we

have included an assurance opinion on the arrangements, in line with other audit reports issued.

- 2.20. Consolidated findings and recommended actions and improvements are shared with all maintained schools through the "Schools Bulletin" and the "Director's Report".
- 2.21. Findings from all areas will inform a consolidated schools report which provides assurance to the Section 151 Officer and the Director of Education and 14-19 Skills. This will also inform the completion of the Annual Assurance Statement completed by the Section 151 Officer.

Supporting Corporate Governance

- 2.22. Internal Audit has continued to support and facilitate the monitoring of issues raised in the 2017/18 Annual Governance Statement (AGS), update of the associated AGS Action Plan and development of the proposed process for production of the 2018/19 AGS.
- 2.23. A detailed update on the AGS was provided to Members at the December 2018 meeting of the Committee.

Counter Fraud and Investigations

- 2.24. A number of investigations into financial irregularities were reported to the Committee in the 2017/18 Internal Audit Annual Report. In the period under review,

Internal Audit has continued to provide support in managing these cases to completion. This includes support to disciplinary processes and liaison with the police.

2.25. It is now possible to report the following outcomes relating to three of those investigations:

- A former finance officer at a primary school pleaded guilty to fraud by abuse of position and was sentenced to a 12 month sentence suspended for two years, 200 hours unpaid work and a 3 month curfew.
- A former senior support worker pleaded guilty to fraud by false representation and was sentenced to 100 hours unpaid work.
- A decision was taken by the CPS not to prosecute a third former officer for fraud by false representation.

2.26. As previously reported to the Committee, detailed reviews of various historic land related transactions have been undertaken. This work continued during the period and, in order to ensure that all identified control weaknesses are addressed, a consolidated findings report was issued.

2.27. A detailed follow up of this report will be undertaken during April 2019 to seek assurance that current arrangements for the management of land transactions are robust and operating effectively.

2.28. During the period, Internal Audit successfully coordinated the Council's participation in the 2018/19 National Fraud Initiative (NFI) data matching exercise.

2.29. This is a biennial exercise that matches wideranging data sets across public sector bodies to identify potential fraud. Examples of matches would include the register of deaths against care home residents and payroll records against housing benefit records.

2.30. In addition to preparing for the main exercise, work was also undertaken to ensure that the appropriate services were prepared for the annual flexible matching exercise which involves Council Tax and Electoral Role data and took place during December 2018.

2.31. This required liaison with a wide range of services across the Council and its ASDV's to ensure that data was extracted from key systems in the correct format, and securely uploaded to the Cabinet Office website within prescribed timescales.

2.32. Results were released by Cabinet Office during January 2019 and work is now underway to ensure that services are prepared for the investigation of these matches.

Consultancy and Advice

2.33. Internal Audit has continued to support management with the provision of advice, where specifically

requested by 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.

- 2.34. Advice and guidance provided during the period has included interpretation of HR policies, use of online donation pages for fundraising and appropriate use of purchase cards.

Grant certifications

- 2.35. 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.
- 2.36. In 2018/19 to date, this has included work on the following grants, which were successfully signed off and submitted to the appropriate funding body:

Grant Certified	£
Family Focus (year to date)	418,400
Crewe Green Roundabout	2,767,000
Sydney Road Bridge	2,168,000
CWLEP Growth Hub Grant 17-18	287,000
Crewe High Speed Heart Ready 2018	480,000
A500 Dualling Grant	1,815,000
Bus Subsidy Ring Fenced Grant	347,865
Total	8,283,265

Implementation of Audit Recommendations

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

2016/17 and 2017/18. The implementation of agreed recommendations for reports issued in 2017/18 and 2018/19 to date is detailed in the table below.

Table 4: Implementation of agreed recommendations as at 31st December 2018

On time	After the agreed date	Total implemented	In progress, part implemented or overdue	Superseded or no longer valid
2017/18				
80%	16%	96%	4%	0%
2018/19				
81%	10%	91%	9%	0%

2.41. Figures for 2017/18 have been updated from those reported in the Annual Audit Report to reflect actions due for implementation in 2018/19 so far.

2.42. As per the internal audit plan for year, Internal Audit have been working to a target of 90% of agreed audit actions implemented, and 75% implemented within agreed timescale. It is pleasing to report that the figures from reports issued in 2018/19 continue to exceed this target.

2.43. 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.

2.44. Internal Audit continues to work with senior managers to improve this important indicator, to include the escalation, to CLT, of common themes or emerging patterns in relation to agreed recommendations (high and medium rated) that are not being progressed as necessary.

Reliance placed on the work of other assurance bodies

2.45. Internal Audit place assurance on the work of the Council’s external auditors, OFSTED, and other external inspectorates 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.

3.2. The findings and opinions of 2018/19 Internal Audit work will be considered in preparing the 2018/19 AGS. The contents of this interim report will form part of that process.

3.3. The December 2018 meeting of the Audit and Governance Committee considered a detailed update on progress against the issues and actions identified

within the 2017/18 AGS along with a plan for the production of the 2018/19 statement.

4. Internal Audit Performance

4.1. Internal Audit’s performance is measured against a number of performance indicators which are detailed in Table 5. The performance relating to the implementation of recommendations is detailed earlier in this report.

Table 5: Performance Indicators to date

Performance Indicator	2018/19 Actual	2018/19 Target	2017/18 Actual	Comments on 2018/19 Actuals
% of Audits completed to user’s satisfaction	97%	94%	95%	Above target
% of significant recommendations agreed	98%	95%	97%	Above target.
Productive Time (Chargeable Days)	82%	85%	86%	Support to the restructure has impacted on this indicator.
Draft report produced promptly (per Client Satisfaction Form)	96%	95%	89%	Above target

5. Compliance with the Public Sector Internal Audit Standards

5.1. As reported to the Committee in September 2018, the external assessment of the Internal Audit function

against the Public Sector Internal Audit Standards concluded partial compliance with the Standards.

5.2. A detailed Action Plan was agreed with the assessors as part of the review and work has continued to implement these recommended actions. This has included a detailed review and update of the Internal Audit Charter which is presented to this Committee for approval.

5.3. Further progress against the action plan will be reported to future meetings of the Committee to provide assurance that all actions required to ensure full compliance with the Standards have been successfully implemented.

6. Ongoing and Forthcoming Areas of Work

6.1. The following audits commenced during the period, with work ongoing at the time of reporting:

- Corporate Risk Management Arrangements
- Salary Overpayments
- ERP Replacement – Phase 3
- ASDV – Fulfilment of Statutory Obligations
- Constitution Review
- Data Centre Security
- Dedicated Schools Grant
- Direct Payments
- Provider Invoices
- Development Control – information governance
- Event Management
- LEP Local Assurance Framework

- 6.2. In addition to completing the planned work relating to 2018/19, have prepared the Audit Plan for 2019/20. The plan will need to carefully balance statutory responsibilities and risk with the resources available within the team.
- 6.3. The proposed internal Audit Plan for 2019/20 will be presented to the March 2019 meeting of this Committee for consideration and approval.

7. Other Developments

- 7.1. The Principal Auditors have continued in their acting up arrangements to deliver the roles of the Corporate Manager Governance and Audit, and the Internal Audit Manager over the period in review. This ensures that the responsibilities of the Head of Internal Audit have been covered during the period under review. Additional hours have also been undertaken by some members of the team.
- 7.2. As reported to Committee earlier in the year, the restructure of the Internal Audit function has been subsumed into a wider restructure of the Corporate Services directorate.
- 7.3. The Principal Auditors have supported the process as required in addition to their other responsibilities.

Summary of Audit Work which supports the Annual Audit 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 Corporate Leadership Team
	Support and contribution to AGS Action Plan, Compliance with Contract Procedure Rules reports etc.	Report to Audit & Governance Committee
Counter Fraud and Investigations	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
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)