



Internal Audit Annual Report 2018-19

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1 Introduction

- 1.1 From 1 April 2013, the Public Sector Internal Audit Standards (PSIAS) and accompanying Local Government Application Note became the standards by which all Local Government Internal Audit Sections must comply. The Standards were updated in March 2017 and the Local Government Application Note was updated earlier this year.
- 1.2 As set out in the PSIAS, the Council's Chief Audit Executive (Head of Audit and Risk) 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 As has been the case for the previous three years, this report has been prepared by the Council's Principal Auditors who continued acting up to cover the responsibilities of the vacant roles until the recent appointment of the Head of Audit and Risk Management.

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 2018/19 by the Council was £615m, with a capital programme of £326m. This annual expenditure supports service

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delivery to over 370,000 residents, in line with our six strategic outcomes for residents.

2.3 During 2018/19 the Council continued to develop innovative solutions for service delivery to provide the best possible outcomes for the residents of Cheshire East at a competitive price.

2.4 The Council's 2018/19 audit plan reflected this 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 2017-2020.
- 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.

- The impact of unplanned investigation work undertaken during the year.

2.6 Staffing resource for Internal Audit has again been limited during 2018/19. This was due to vacancies to the former Corporate Manager Governance and Audit and the Audit Manager posts. The Head of Audit and Risk Management has recently been appointed, providing the opportunity to review the structure and recruit to vacant posts.

2.7 During the year, the Principal Auditors continued to carry out the senior management roles within the team thus ensuring that the responsibilities placed upon the 'Chief Audit Executive' by the PSIAS have been fulfilled. As a result the capacity to carry out audit assignments and review and quality assure work undertaken has been limited.

2.8 Despite this limited 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

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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 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 Council's transformation and improvement programme continues to gather pace. This has increased the challenges to the internal control environment with changes to both 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 complemented by regular meetings with departmental management teams to provide updates on audit, internal control, risk and governance issues as well as a programme of follow ups of audit recommendations.

- 3.6 In arriving at the 2018/19 Opinion, it was recognised that Internal Audit has continued its work in relation to a number of reviews of land transactions, at the request of the Acting Chief Executive and Executive Director Place, which have resulted in referrals to the police. It was also recognised, however, that these reviews were concerned with historic transactions and as such have not impacted upon our Opinion of the current control environment.
- 3.7 In response to these reviews, a consolidated findings report was produced and an action plan agreed to ensure that control weaknesses identified across these reviews were captured and addressed. A review of current arrangements, and follow up on the implementation of agreed actions in this area, is included with the 2019/20 Internal Audit Plan.

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Internal Audit Opinion on the Council's control environment

The Council's framework of risk management, control and governance is assessed as Adequate for 2018/19.

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
- periodic reports to Audit and Governance Committee on the Council's Risk Management Arrangements

4 Summary of Audit Work 2018/19

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 Chief Audit Executive 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.

4.4 In preparing the risk based plan for 2018/19 Internal Audit consulted with CLT and the Audit and Governance Committee. They also considered:

- the adequacy and outcomes of the Council's risk management, performance management and other assurance processes;
- their own risk assessment;

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- the Council's Corporate Plan 2017-2020; 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.
- 4.5 The plan was broadly split into two main areas:
- those audits that deliver an opinion report on the risks and controls of the area under review and 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.
- 4.6 The plan was reviewed and adjusted, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, and controls. Any significant changes were communicated to both CLT and the Audit and Governance Committee.
- 4.7 Interim reports on progress against the Internal Audit Plan and work carried out by the team were presented to Audit and Governance Committee in September 2018, December 2018 and March 2019.
- 4.8 A summary comparison of the 2018/19 Audit Plan with actuals for the year is shown in Table 1.
- 4.9 A summary of the audit work carried out in support of the Annual Internal Audit Opinion is shown in Table 2.
- 4.10 In line with the approach outlined in the Internal Audit plan, our work focuses on areas of higher risk, or where concerns/issues have previously been identified. This naturally results in there being a higher proportion of "Limited" or "No Assurance" reports. The recognition of these issues, and management's role in implementing the agreed action plans demonstrates the value added and improvements in the control environment achieved by Internal Audit's role.

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Table 1: Summary Comparison of Audit Plan 2018/19 and Actuals

| Area of Plan | | Original Plan | | Revised Plan | | Actuals (to 30/03/2019) | | Comments on coverage |
|---|--------------------------------|---------------|-------------|--------------|--------------|-------------------------|-------------|---|
| | | Days | % | Days | % | Days | % | |
| Chargeable Days | | 1,184 | | 1,308 | | 1,322 | | |
| Less: Corporate Work | | 160 | | 160 | | 146 | | Minimised/reduced work where possible to prioritise investigation work. |
| Available Audit Days: | | 1,024 | 100% | 1,148 | 100% | 1,176 | 100% | |
| Corporate Governance and Risk | | 120 | 12% | 134 | 12% | 89 | 8% | |
| Anti-Fraud and Corruption | Proactive Reviews | 40 | 4% | 45 | 4% | 65 | 6% | |
| | Reactive Investigations | 50 | 5% | 56 | 5% | 180 | 15% | Includes counter fraud investigations. |
| Chief Operating Officer (COO) | Key Financial Systems | 145 | 14% | 162 | 14% | 170 | 14% | |
| | Corporate Core & Cross Service | 255 | 25% | 286 | 25% | 235 | 19% | |
| Children and Families | | 64 | 6% | 72 | 6% | 77 | 6% | |
| Adult's Social Care | | 65 | 6% | 72 | 6% | 68 | 6% | |
| Community and Partnerships | | 15 | 1% | 17 | 1% | 3 | 0% | Work rolled forward into 2019/20 |
| Public Health | | 15 | 1% | 17 | 1% | 2 | 0% | Work rolled forward into 2019/20 |
| Planning and Sustainable Development | | 20 | 2% | 22 | 2% | 8 | 1% | |
| Infrastructure and Highways | | 30 | 3% | 34 | 3% | 10 | 1% | |
| Growth and Regeneration | | 40 | 4% | 45 | 4% | 108 | 9% | Includes work relating to land transactions. |
| Rural and Green Infrastructure | | 15 | 1% | 17 | 1% | 8 | 1% | |
| Providing Assurance to External Organisations | | 40 | 4% | 45 | 4% | 14 | 1% | Does not contribute to the Annual Opinion |
| Advice & Guidance | | 30 | 3% | 34 | 3% | 24 | 2% | |
| Other Chargeable Work | | 80 | 9% | 90 | 9% | 115 | 10% | |
| Total Audit Days | | 1,024 | 100% | 1,148 | 1,176 | 1,176 | 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 |
| 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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Table 2: Summary of Final Assurance Reports 2018/19 to 31st March 2019

| Audit Report | Reason for Review | Audit Assurance Opinion | Management Response | Summary of Findings – (Limited /No Assurance Reports Only) |
|--|---------------------------------|-------------------------|---------------------|--|
| Council Tax 2018/19 | Identified via Planning Process | Good | N/A | |
| National Non-Domestic Rates 2018/19 | Identified via Planning Process | Good | N/A | |
| Council Tax Billing Reconciliation 2019/20 | Identified via Planning Process | Good | N/A | |
| National Non-Domestic Rates Billing Reconciliation 2019/20 | Identified via Planning Process | Good | N/A | |
| C&WLEP Assurance to Section 151 Officer | Identified via Planning Process | Good | N/A | |
| Community Grants | Identified via Planning Process | Good | N/A | |
| Revenue Budget Monitoring | Identified via Planning Process | Satisfactory | All actions agreed | First reported in September 2018 update report |
| Free School Meals | Identified via Planning Process | Satisfactory | All actions agreed | First reported in September 2018 update report |

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| Audit Report | Reason for Review | Audit Assurance Opinion | Management Response | Summary of Findings – (Limited /No Assurance Reports Only) |
|----------------------------------|---------------------------------|-------------------------|---------------------|--|
| Schools HR Team | Identified via Planning Process | Satisfactory | All actions agreed | First reported in March 2019 update report |
| Highways Contract Procurement | Identified via Planning Process | Satisfactory | All actions agreed | First reported in March 2019 update report |
| Visitor Attraction – Tatton Park | Identified via Planning Process | Limited | All actions agreed | <p>First reported in September 2018 update report</p> <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. |

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| Audit Report | Reason for Review | Audit Assurance Opinion | Management Response | Summary of Findings – (Limited /No Assurance Reports Only) |
|----------------------------------|---------------------------------|-------------------------|--------------------------------------|---|
| External Moderation Arrangements | Identified via Planning Process | Limited | 3 actions agreed 1 not agreed | <p>First reported in September 2018 update report</p> <p>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 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 | All actions agreed | <p>First reported in September 2018 update report</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> |

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| Audit Report | Reason for Review | Audit Assurance Opinion | Management Response | Summary of Findings – (Limited /No Assurance Reports Only) |
|--|---------------------------------|-------------------------|---------------------|--|
| Performance Management and Reporting – Statutory Returns | Identified via Planning Process | Limited | All actions agreed. | <p>First reported in September 2018 update report</p> <p>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.</p> <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, introducing a risk based approach to the appropriate level of control and scrutiny, restricting access to working papers and drafts of potentially high risk returns, and ensuring detailed validation and cleansing in the preparation of the return.</p> |

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| 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 | All actions agreed | <p>First reported in March 2019 update report</p> <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.</p> <p>It also identified areas for improvement relating to the wider EHIP process that were not related to the use of cards. The service has indicated that all actions have been implemented and a follow up of high level actions is scheduled in accordance with normal procedures.</p> |
| Data Centre Security | Identified via Planning Process | Limited | All actions agreed | <p>An unannounced visit to the Council's Data Centre was undertaken in December 2018 to assess the security and environmental controls in operation. A number of improvements to the documentation and sharing of core disaster recovery processes were identified and are now being implemented by ICT Services.</p> <p>During the course of the review, there was an outage at the Data Centre. This was subject to separate review and response by ICT; however, the recommendations from the Internal Audit report have been included in the wider response plan.</p> |

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| Audit Report | Reason for Review | Audit Assurance Opinion | Management Response | Summary of Findings – (Limited /No Assurance Reports Only) |
|--|---------------------------------|-------------------------|---------------------|---|
| Salary Overpayments | Identified via Planning Process | Limited | All actions agreed | <p>The review identified weaknesses in relation to the timely notification of leavers, and excessively long repayment terms where overpayments are identified.</p> <p>Recommended actions have been agreed to improve the control environment and ensure the financial impact of salary overpayments is minimised.</p> |
| Risk Management | Identified via Planning Process | Limited | All actions agreed | <p>The purpose of the review was to assess the effectiveness of the Council's Corporate Risk Management Framework. A review of operational risk management is included within the 2019/20 plan.</p> <p>The review concluded that whilst the risk management policies have been established, they need to be reviewed and updated.</p> <p>This extends to revisiting the Council's Risk Appetite and Risk Maturity. Revised policies need to be communicated across the Council and supported by regular training and monitoring.</p> <p>Responsibility for Risk Management will be undertaken by the Head of Audit and Risk Management. Risk registers at Corporate and Operational levels have been reviewed in the business planning process.</p> |
| Schools Consolidated Findings Report 2018/19 | Identified via Planning Process | Limited | All actions agreed | <p>The consolidated findings report highlighted inconsistent application of controls in relation to governance. This included issues such as the regular review and approval of the Manual of Internal Financial Procedures, the annual review of Governor declaration of interests and evidence of Governor inductions having taken place.</p> |

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| Audit Report | Reason for Review | Audit Assurance Opinion | Management Response | Summary of Findings – (Limited /No Assurance Reports Only) |
|-------------------------|---|-------------------------|---------------------|---|
| Dedicated Schools Grant | Identified via Planning Process | Limited | All actions agreed | <p>The review identified issues in relation to the following:</p> <ul style="list-style-type: none"> - The complexity of the coding structure in place for DSG reporting - The level of resource available within Children’s Services and Finance to meet the requirements of the service and facilitate a review of the High Needs Formula. |
| Adult Direct Payments | Identified via Planning Process | Limited | All actions agreed | <p>The review identified that the arrangements in place for the monitoring and review of direct payments were not sufficiently robust with regards to:</p> <ul style="list-style-type: none"> - the reporting and monitoring the performance of the DP Audit Team - the retention of sufficient evidence to demonstrate that a review of accounts have been undertaken. <p>It was also recognised that the recently updated Direct Payment Policy should be finalised and implemented as a priority.</p> |
| Travel Booking System | Included in response to issues arising from identified misuse of system | No Assurance | All actions agreed | <p>First reported in September 2018 update report</p> <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> <p>A new travel booking system has been in use since April 2019. The design of this system addresses the control weaknesses identified in the previous system.</p> |

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| Audit Report | Reason for Review | Audit Assurance Opinion | Management Response | Summary of Findings – (Limited /No Assurance Reports Only) |
|---|--|-------------------------|---------------------|---|
| Land Transactions Consolidated Findings | The review of wider arrangements followed on from individual reviews of land transactions highlighted as concerns by Acting Chief Executive and Deputy Chief Executive, Director of Place. | No Assurance | All actions agreed | <p>First reported in March 2019 update report</p> <p>The detailed review of individual 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 |

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Assurance Work

- 4.11 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.
- 4.12 The exception to this approach is the cyclical review of the Council's key financial systems which, despite being deemed to be low risk, are subject to regular review due to the volume of transactions processed.

Summary of reports by assurance level

| Assurance Level | Audit Reports 2018/19 | Audit Reports 2017/18 | Audit Reports 2016/17 |
|-----------------|-----------------------|-----------------------|-----------------------|
| Good | 6 | 8 | 3 |
| Satisfactory | 4 | 10 | 7 |
| Limited | 11 | 7 | 12 |
| None | 2 | 1 | 1 |
| Total | 23 | 26 | 23 |

- 4.13 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.
- 4.14 Management has responsibility for ensuring that the agreed actions for improvement are implemented. All

actions from these audits have been agreed with management and progress on implementation will be monitored through agreed processes.

- 4.15 The issues arising from audit activity and the implementation of associated recommended actions have been considered as part of the 2018/19 Annual Governance Statement process.

Limited and No Assurance Reports

- 4.16 A summary of the audit reports that relate to work undertaken during 2018/19 is shown above, including further detail on the limited and no assurance reports.
- 4.17 It should be noted that this is a complete list of assurance reports issued during 2018/19 and, as such, includes reports previously included in updates to the Committee.
- 4.18 In all cases a number of recommendations have been made and agreed with management. These are being progressed and when implemented will address the identified weaknesses and improve the control environment.
- 4.19 All recommendations are subject to follow up in accordance with normal Internal Audit practice and should this identify any concerns relating to the implementation of recommended actions this will be escalated.

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Schools

- 4.20 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.
- 4.21 The School's Audit Programme for 2018/19 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, was achieved by the end of 2018/19. Visits have now been undertaken at all remaining maintained schools.
- 4.22 The School's Audit Programme for 2018/19 continued the thematic review on the effectiveness of governance arrangements at 22 schools.
- 4.23 Individual reports are produced, and issued to the Headteacher and Chair of Governors at each school, 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.

- 4.24 A consolidated report drawing together the thematic findings of the 2018/19 school audits was produced and a limited opinion given due to the inconsistent application of controls in relation to governance. This included issues such as the regular review and approval of the Manual of Internal Financial Procedures, the annual review of Governor Declaration of Interests and evidence of Governor inductions having taken place.
- 4.25 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 the individual issues identified were not considered to be significant, the range and number of common issues were such that a limited assurance on the wider control environment was given. They have been reported to the relevant schools and also shared with all schools using our established network.
- 4.26 In addition to the completion of the School's Audit Programme as detailed above, Internal Audit are represented on the Schools Forum. This facilitates the early identification of risks and issues that require input or consideration for inclusion in future years audit programmes.

Supporting Corporate Governance

- 4.27 In accordance with the Accounts and Audit Regulations the Council is required to conduct a review at least once a year of the effectiveness of its governance

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arrangements and publish an Annual Governance Statement (AGS).

- 4.28 The Statement explains how the Council 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.
- 4.29 Any significant issues that are assessed as falling short of the Council's expected high standards are reported in the AGS. No new areas for inclusion within the AGS have arisen from the work of Internal Audit during 2018/19.
- 4.30 Issues recognised in the Annual Governance Statements are monitored by the appropriate responsible officers and escalated, as necessary, to the Corporate Leadership Team, Audit and Governance Committee and/or Cabinet. Internal Audit actively supports the monitoring of actions to ensure that effective improvements and mitigating actions are implemented.
- 4.31 Internal Audit has assisted Management in the production of the Council's AGS for 2018/19 by:
- Coordinating assurance exercises to inform the AGS
 - Co-production of the draft AGS;

- Contribution to and production of Audit & Governance Committee reports which inform the AGS
- Representation on and contribution to the Information Governance Group, in order to advise on control and governance issues in relation to information governance and data handling.

4.32 Audit and Governance Committee approved the Final Annual Governance Statement 2017/18 at their July 2018 meeting, in line with statutory deadlines. A progress update on issues recognised in the AGS 2017/18 was presented at the Committee's December meeting. This paper also outlined the proposed production process for the 2018/19 AGS.

4.33 The Final 2018/19 Statement will be considered and approved by the Audit and Governance Committee at its July 2019 meeting.

Risk Management

4.34 During 2018/19 Internal Audit had no operational responsibility for Risk Management. This sat with the interim Executive Director of Corporate Services and the strategic arrangements were subject to a recent internal audit review.

4.35 As a result of the restructure of Corporate Services, from 2019/20 responsibility for the Council's risk management arrangements will sit with the Head of Audit and Risk Management.

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4.36 To maintain the independence of the Head of Audit and Risk Management, future assurance arrangements for reviewing risk management will have to be undertaken via alternative means. This could include peer reviews using other organisations. These arrangements will be updated in the Internal Audit Charter in due course.

4.37 Additional assurance with regards to the effectiveness of Risk Management is provided by regular reports to Audit and Governance Committee.

Counter Fraud

4.38 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.

4.39 In addition to this support role, Internal Audit has liaised closely with the police with regards to 5 investigations undertaken during the previous financial year.

4.40 As previously reported three of those prosecutions have concluded during the year with the following outcomes:

- 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.
- A total of £8,601.22 has been recovered as a result of the action taken.

4.41 During the year, Internal Audit successfully coordinated the Council's participation in the 2018/19 National Fraud Initiative (NFI) exercise as well as ensuring that the appropriate services were prepared for the annual flexible matching exercise that took place during December 2018.

4.42 This involved liaising 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. Work is now underway across the Council to ensure that identified matches are subject to investigation and the NFI website updated accordingly.

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

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

Consultancy and Advice

4.44 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.

4.45 This year advice was given on matters such as the application of Finance and Contract Procedure Rules, suspected scams/frauds in schools and across the council, and the readiness for go live of the Business World system.

Statutory Returns/Grant Claims

4.46 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.

4.47 During 2018/19 this has included work on the following grants which were successfully signed off and

submitted to the appropriate central government department:

| | |
|-----------------------------------|-------------------|
| Family Focus | £175,200 |
| Crewe Green Roundabout | £2,182,000 |
| Sydney Road Bridge | £1,259,000 |
| Crewe High Speed Heart Ready 2018 | £480,000 |
| CWLEP Growth Hub Grant 17-18 | £287,000 |
| Total | £4,383,200 |

4.48 It should be noted that the level of work required to complete the sign off of grants is not always proportionate to the value of the grant.

Implementation of Audit Recommendations

4.49 Throughout 2018/19, 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

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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.

- 4.50 During 2018/19, Audit and Governance Committee requested additional assurance that the actions arising from the review of Air Quality Management had been implemented by management.
- 4.51 As such, a follow up review of actions arising from both the Internal Audit review, and the external work undertaken as a result of the Internal Audit review was carried out.
- 4.52 This identified that all actions were either complete or progressing towards implementation in line with agreed timescales and a report was issued providing 'Good Assurance'.

Implementation of Agreed Recommendations

| On time | After the agreed date | Total implemented | In progress, or overdue | Agreed actions subsequently not implemented |
|---------|-----------------------|-------------------|-------------------------|---|
| 2016/17 | | | | |
| 82% | 12% | 94% | 6% | 0% |
| 2017/18 | | | | |
| 73% | 24% | 97% | 3% | 0% |
| 2018/19 | | | | |
| 65% | 31% | 96% | 4% | 0% |

- 4.53 It should be noted that the figures for 2016/17 and 2017/18 have been updated to take into account actions implemented in subsequent years and are therefore different to the figures previously reported.
- 4.54 These high implementation figures have been achieved 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.
- 4.55 In agreeing implementation dates, managers are encouraged to be realistic with regards to when actions can be completed whilst ensuring that issues are addressed in a timely manner.
- 4.56 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.
- 4.57 It is therefore pleasing to report that during 2018/19 senior management have supported Internal Audit by challenging their service managers around implementation of actions.
- 4.58 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.

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Ongoing Work

4.59 The following audits commenced during 2018/19, with work ongoing in the first quarter of 2019/20:

| Name of Audit | Status |
|------------------------------|---------------------|
| Constitution Review | Draft Report issued |
| Homelessness Duty Governance | Draft Report issued |
| ASDV Statutory Functions | Final Report issued |
| Regular Car User Allowances | Final Report issued |

Reliance placed on the work of other assurance bodies

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

5 Internal Audit Performance

5.1 The Internal Audit team performance is summarised below and is generally above target. The slight underperformance relating to chargeable time is as a result of the additional workload undertaken by the Principal Auditors in relation to corporate responsibilities. This is not classed as chargeable time as it does not result in the production of an assurance report.

| Performance Indicator | 2018/19 Actual | 2018/19 Target | 2017/18 Actual |
|--|----------------|----------------|----------------|
| Percentage of Audits completed to user satisfaction | 96% | 94% | 95% |
| Percentage of significant recommendations agreed | 99% | 95% | 97% |
| Chargeable Time (Assurance Work) | 81% | 85% | 86% |
| Draft report produced promptly (per Client Satisfaction Questionnaire) | 96% | 95% | 89% |

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

- 6.1 Regulation 6 of the Accounts and Audit Regulations 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 were 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.
- 6.2 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.

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- 6.3 A detailed Action Plan was agreed with the assessors as part of the review and work has continued to implement these recommended actions.
- 6.4 All actions resulting from the external assessment have either been implemented, or are scheduled for implementation following the appointment of the Head of Audit and Risk.
- 6.5 Attached as Appendix B is the report on the wider findings of the peer review process across the North West Chief Audit Executive group.
- investigative resource, which has previously been reported to this Committee, is continuing as a priority.

7 Other Developments

- 7.1 The ongoing restructure of the Internal Audit service is progressing and an appointment to the Head of Audit and Risk Management post has recently been made.
- 7.2 The Head of Audit and Risk Management will have operational responsibility for internal audit, counter fraud, risk and business continuity, health and safety and insurance. The Internal Audit Charter will be updated to reflect the arrangements that will be put in place to maintain the independence of internal audit in relation to these functions in accordance with the PSIAS and the CIPFA guidance on the Role of the Head of Internal Audit.
- 7.3 The wider restructure of the internal audit function, including the development of counter fraud and