

# Internal Audit Interim Update Report April – September 2019

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## 1. Introduction

- 1.1. In accordance with the Public Sector Internal Audit Standards, the Internal Audit Interim Update Report April - September 2019 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.

## 2. Summary of Audit Work 2019/20 to date

- 2.1. This is the first 2019/20 interim report on progress against the Internal Audit Plan.
- 2.2. During this period, 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.

## Assurance Work

- 2.3. A summary of the final reports issued to the end of September 2019, by the audit assurance opinion given is included in **Table 1**. Reports issued to this point are similar to this point in the previous year; it is usual for the majority of the audit plan reports to be issued in the last half of the year.
- 2.4. Details of work in progress, covering draft reports issued for agreement with managers, fieldwork in progress and terms of reference stages, is covered in Table 5. It is anticipated that sufficient work in terms of quantity and coverage will be undertaken to deliver the annual opinion for 2019/20, with the number of final reports issued expected to be consistent with the previous year.

**Table 1: Reports to date by assurance level**

Assurance Level	2019/20 (to 30/09/2019)	2018/19 (to 30/09/2018)	2018/19 Full Year
Good	0	0	6
Satisfactory	2	2	4
Limited	3	4	11
No Assurance	0	1	2
<b>Total</b>	<b>5</b>	<b>7</b>	<b>23</b>

- 2.5. A summary comparison of coverage of the 2019/20 Audit Plan with actuals for the year to 30 September 2019 is shown in **Table 2**, with comments on variances.

Table 2: Summary Comparison of Audit Plan 2019/20 and Actuals

Area of Plan		Original Plan		Revised Plan		Actuals (to 30/09/2019)		Comments on coverage
		Days	%	Days	%	Days	%	
<b>Chargeable Days</b>		<b>1317</b>		<b>1237</b>		<b>575</b>		Adjusted to reflect changes in staffing resource
Less: Corporate Work		160		125		63		
<b>Available Audit Days:</b>		<b>1157</b>	<b>100%</b>	<b>1112</b>	<b>100%</b>	<b>512</b>	<b>100%</b>	
Corporate Governance and Risk		136	12%	130	12%	36	7%	
Anti-Fraud and Corruption	Proactive Work	45	4%	43	4%	31	6%	In line with the Plan
	Reactive Investigations	60	5%	58	5%	52	10%	Includes support to ongoing police investigations. Q3/4 coverage is anticipated to be less therefore bringing % in line with plan.
Corporate Services		443	38%	425	38%	175	34%	In line with the Plan
People		175	15%	168	15%	64	13%	In line with the Plan
Place		98	8%	95	8%	68	13%	Work weighted towards Q1/Q2
Providing Assurance to External Organisations		25	2%	24	2%	33	6%	Does not contribute to the Annual Opinion
Advice & Guidance		30	3%	29	3%	15	3%	In line with the Plan
Other Chargeable Work		145	13%	140	13%	38	8%	
<b>Total Audit Days</b>		<b>1157</b>	<b>100%</b>	<b>1112</b>	<b>100%</b>	<b>512</b>	<b>100%</b>	

- 2.6. Details of the reports produced to the end of September 2019 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.
- 2.7. 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).
- 2.8. 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.
- 2.9. It should be noted that Internal Audit's risk based approach includes focussing on areas where issues are known or expected to exist. Clearly this approach adds value to the organisation, but, by its nature, may also result in lower overall assurance levels.
- 2.10. 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.
- 2.11. 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.
- 2.12. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the Annual Governance Statement process.
- 2.13. The Audit Plan has been subject to review following the appointment of the Head of Audit and Risk to reflect the current resources available to the team and includes the continued increase in working hours of several part time officers.

Table 3: Summary of Final Assurance Reports 2019/20 to 30 September 2019

Audit Report	Reason for Review	Audit Assurance Opinion	Management Response	Summary of Findings – (Limited /No Assurance Reports Only)
Homelessness Duty - Governance	Identified via Planning Process	Satisfactory	All actions agreed	N/A
Gateway Review C&WLEP Growth Hub Project	Identified via Planning Process	Satisfactory	All actions agreed	N/A
Regular Car User Allowance	Identified via Planning Process	Limited	All actions agreed	The review identified inconsistencies in the application of the Regular Car User Policy including: <ul style="list-style-type: none"> <li>• Initial assessment of eligibility not completed in all cases</li> <li>• Some officers have been awarded the allowance despite not meeting the required criteria with no evidence to support the decision</li> <li>• Annual reviews of eligibility not completed in all cases</li> </ul>
ASDV Review – Statutory Responsibilities	Identified via Planning Process	Limited	All actions agreed	Whilst the review identified no evidence that statutory responsibilities were not being fulfilled, opportunities were identified to improve the arrangements for evidencing that this was the case.
Parking Services – Consolidated Parking Order	Undertaken at the request of Management	Limited	All actions agreed	The review was requested following a question at Council in December 2018 in relation to the issue of Parking Charge Notices on free car parks within the Borough. It identified that the content of the Consolidated Parking Order in place at the time had not been adequately communicated to all staff within the service. The review also identified opportunities to improve the decision making process around Traffic Penalty Tribunal cases.

## Schools

- 2.14. 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.
- 2.15. Following completion of the 2018/19 School's Audit Programme, all maintained schools have now been visited at least once by Internal Audit, since the responsibility for undertaking SFVS assurance work returned to the team in 2012/13.
- 2.16. The School's Audit Programme for 2019/20 has been agreed by both the Director of Finance and Customer Services and the Director of Education & 14-19 Skills.
- 2.17. Twenty four schools have been selected for audit this year to undertake a review of their completed 2018/19 SFVS returns. Since selecting the schools, two have subsequently converted to an academy and therefore, will not be audited.

- 2.18. Internal Audit has also committed to ensuring all maintained schools will be audited at least once during the next three years (2019/20 to 2021/22).
- 2.19. With regards to the current programme of work, 1 audit visit was carried out before the summer holiday, and the rest will be completed before the end of March 2020.
- 2.20. Individual reports are produced and issued to schools detailing any areas of weakness identified and 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.
- 2.21. Consolidated findings and recommended actions and improvements are shared with all maintained schools through the "Schools Bulletin" and the "Director's Report".
- 2.22. Findings from all areas will inform a consolidated schools report which provides assurance to the Director of Finance and the Director of Education & 14-19 Skills.

## Supporting Corporate Governance

- 2.23. In accordance with Regulation 6 of the Accounts and Audit Regulations 2015 the Council is required, each financial year, to conduct a review of the

effectiveness of the system of internal control and publish an Annual Governance Statement (AGS).

- 2.24. During the first half of this financial year, and as previously reported in the 2018/19 Internal Audit Annual Report, Internal Audit has coordinated, on behalf of Management, the production of the Council's AGS for 2018/19.
- 2.25. Audit and Governance Committee approved the Final Annual Governance Statement 2018/19 at their July meeting, in line with statutory deadlines.
- 2.26. A progress update on issues recognised in the AGS 2018/19 is scheduled for the Committee's December meeting. This paper will outline the proposed production process for the 2019/20 AGS.

### Counter Fraud and Investigations

- 2.27. A detailed update on Counter Fraud activity both locally and nationally was provided to the September 2019 meeting of the Committee.
- 2.28. Options for the development of a dedicated Counter Fraud resource are being explored following the appointment of the Head of Audit and Risk, Director of Governance and Compliance and the Executive Director Corporate Services. Further updates will be provided to future meetings of Audit and Governance Committee.

2.29. Establishment of a counter fraud function will enable the Council to attain full compliance with the Code of Practice on Managing the Risk of Fraud and Corruption by further developing the counter fraud culture.

2.30. This will provide the opportunity to undertake a risk based programme of proactive work to identify and pursue fraud committed against the Council and ensure that subsequent investigations do not impact on the delivery of Internal Audit's core assurance work.

### Consultancy and Advice

2.31. Internal Audit is regularly asked to advise management. The nature and scope of these engagements is generally aimed at improving governance, risk management arrangements and the control environment, contributing to the overall opinion as well as building good relationships across the organisation.

2.32. In the year so far, advice and guidance has been provided on:

- Suspected scams and attempted frauds.
- Design and application of controls in new/proposed systems.
- Interpretation of Finance and Contract Procedure Rules.

**Grant certifications**

- 2.33. 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.
- 2.34. In 2019/20 to date, this has included work on the following grants, which were successfully signed off and submitted to the appropriate funding body:

Grant Certified	Funding Body	£
Family Focus (year to date)	MHCLG	272,800
Crewe Green Roundabout	MHCLG	2,767,000
Sydney Road Bridge	MHCLG	2,168,000
Crewe High Speed Heart Ready 2018/19 - (audit is undertaken in our capacity as Accountable body)	MHCLG	806,633
CWLEP Growth Hub Grant	BEIS	287,000
Skills & Growth - ADAPT	BEIS	55,742
Bus Service Operators Grant	DfT	347,865
Highways - Crewe NW & Macclesfield	DfT	1,969,548
Highways - Additional Capital	DfT	4,636,704
<b>Total</b>		<b>13,311,292</b>

- 2.35. 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.

**Work for Other Bodies**

- 2.36. Internal Audit carried out the following work for an external body.
- 2.37. PATROL (Parking and Traffic Regulations outside London) – Cheshire East Council is the Host Authority to the PATROL Joint Committee & Bus Lane Adjudication Service Joint Committee.
- 2.38. In accordance with the Service Level Agreement the Council has delivered the Body’s Internal Audit service and is responsible for the completion of Section 4 of the Small Bodies Annual Return.
- 2.39. The Annual Internal Audit Report was presented to the Joint Committee in July 2019.

**Implementation of Audit Recommendations**

- 2.40. 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.

2.41. 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.

2.42. 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.

2.43. The implementation of agreed recommendations for reports issued in 2018/19 and the current year to date is detailed in the table below.

**Table 4: Implementation of agreed recommendations as at 30 September 2019**

On time	After the agreed date	Total implemented	In progress, part implemented or overdue	Superseded or no longer valid
<b>2018/19</b>				
78%	18%	96%	0%	4%
<b>2019/20</b>				
69%	23%	92%	8%	0%

2.44. As per the internal audit plan, Internal Audit has been working to a target of 90% of agreed audit actions implemented, and 75% implemented within agreed timescale.

2.45. Although the current year figures exceed target for ‘total actions implemented’, both this figure and the ‘actions implemented on time’ percentage are expected to improve further as more actions become due for implementation.

2.46. Figures for 2018/19 have been updated from those reported in the Annual Audit Report to reflect actions that have become due for implementation in 2019/20.

2.47. These updated figures show that the 2018/19 actions implemented within timescales has improved from 65% to 78% which is a positive development and exceeds the target.

2.48. 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.

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

**Ongoing Work**

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

**Table 5: Ongoing Internal Audit Assignments as at 30 September 2019**

Audit	Status
Implementation of the Constitution Review	Draft Report issued
Information Governance – Public Health	Draft Report issued
Land Transactions Consolidated Findings - Follow Up	Fieldwork complete Draft Report being prepared
Information Governance – Planning	Fieldwork Underway
Roles and Responsibilities of Statutory Officers	Fieldwork Underway
KFS Control Environment Review 2019-20	Fieldwork Underway

Supply Chain Management	Fieldwork Underway
New Homes Bonus – Community Fund	Fieldwork Underway
Events Management	Fieldwork Underway
School Governance Team	Terms of Reference
Income Management and Recovery	Terms of Reference

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

2.51. Internal Audit place assurance on the work of the Council’s external auditors, OFSTED, and other external 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 2019/20 Internal Audit work will be considered in preparing the 2019/20 AGS. The contents of this interim report will form part of that process. There have been no items identified from the 2019/20 work plan to date for inclusion in the Annual Governance Statement.

#### 4. Internal Audit Performance

- 4.1. Internal Audit’s performance is measured against a number of performance indicators which are detailed in Table 6.
- 4.2. The performance relating to the implementation of recommendations is detailed earlier in this report.

**Table 6: Performance Indicators to date**

Performance Indicator	2019/20 Actual	2019/20 Target	2018/19 Actual	Comments on 2019/20 Actuals
% of Audits completed to user’s satisfaction	98%	95%	97%	Above target
% of significant recommendations agreed	97%	95%	98%	Above target
Chargeable Time (Assurance Work)	81%	85%	82%	In line with previous year
Draft report produced promptly (per Client Satisfaction Form)	93%	95%	96%	Reduced management resource impacts on review process

#### 5. Compliance with the Public Sector Internal Audit Standards

- 5.1. 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.
- 5.2. 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.
- 5.3. As previously reported to the Committee, the external assessment of the Internal Audit function against the Public Sector Internal Audit Standards concluded partial compliance with the Standards.
- 5.4. A detailed Action Plan was agreed with the assessors as part of the review and work has continued to implement the recommended actions.
- 5.5. All actions resulting from the external assessment have either been implemented, or are now being progressed following the appointment of the Head of Audit and Risk.

#### 6. Other Developments

- 6.1. The Head of Audit and Risk was appointed on 1 July 2019 and has responsibility for Internal Audit, Counter Fraud, Risk Management, Business Continuity and Health & Safety.
- 6.2. Arrangements to ensure the independence and objectivity of the Head of Audit and Risk as the Chief Audit Executive where they have operational responsibilities are set out in the Internal Audit Charter, which was last approved by the Committee in March 2019.
- 6.3. The appointment to the Head of Audit and Risk addresses the long term absence of a 'Chief Audit Executive' and ends the joint acting up arrangements undertaken by the Principal Auditors to cover the duties of this post and the vacant Internal Audit Manager post. However, the Principal Auditor (Counter Fraud) is acting up into the role of Internal Audit Manager until the wider restructure of the service is complete.

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)