

Audit & Governance Committee

Date of Meeting: 28 January 2021

Report Title: Audit Review of Procurement Controls

Senior Officer: Jane Burns, Executive Director Corporate Services

1. Report Summary

- 1.1. This report presents the Committee with the findings of a recent Internal Audit review of procurement controls following the completion of a long-standing police investigation into the award of contracts at Cheshire East Council.
- 1.2. The report provides observations and assurances from an audit perspective relating to the current functioning of Cheshire East Council and the level of assurance that can be given based on the findings of testing undertaken. It is not the purpose of the report to make any comments or observation on any individual, company or entity.

2. Recommendations

- 2.1. That the Committee:
 - 2.1.1. Note the content of the report and management actions agreed as a result of the work undertaken.

3. Reasons for Recommendations

- 3.1. Receiving this report aligns with the Audit and Governance Committee's terms of reference in considering reports on the effectiveness of internal control and requesting summaries of specific internal audit reports.
- 3.1. The report is also intended to provide assurance to the Committee that any historic weaknesses in the control environment have been addressed.

4. Other Options Considered

- 4.1. Not applicable

5. Background

- 5.1. In August 2015, Cheshire East Council received whistleblowing referrals regarding the award of contracts which raised concerns around preferential treatment and a bullying culture within parts of the Council.
- 5.2. Concerns raised by whistleblowers are subject to an initial amount of testing to substantiate the concerns being shared and determine the appropriate route for further investigation. The nature of the concern raised will determine how this testing is undertaken.
- 5.3. In the case of the referral received in August 2015, senior members of the Council's Internal Audit team undertook testing of the concerns which had been raised and incorporated this into a procurement audit which was already ongoing as part of the 2015/16 Internal Audit plan. Enquiries were made at the time with the External Auditors (Grant Thornton) who agreed that Internal Audit would progress their work, before the External Auditors would consider the issue within the scope of their reporting powers.
- 5.4. The Audit and Governance Committee were advised in December 2015 that Internal Audit had been commissioned to carry out this review of procurement arrangements, which would be reported back to the Committee in March 2016.
- 5.5. Later that month, Cheshire Police commenced an investigation into allegations of misconduct in public office as a result of information received about Cheshire East Council and the award of contracts. On the instruction of the police, internal investigations were required to cease at this point and the work of the External Auditors was also paused. The Council co-operated with all requests for information made by Cheshire Police throughout its investigation.
- 5.6. Following requests from Audit & Governance Committee, an Internal Audit review of procurement was undertaken in 2017/18 and the findings were reported to the July 2018 meeting of this Committee. The scope of the Internal Audit work was agreed with the Police and provided satisfactory assurance around improvements in the control environment since 2015.
- 5.7. In June 2018, upon completion of their investigation into the allegations of misconduct in public office, the Police handed their file to the Crown Prosecution Service (CPS) for consideration.
- 5.8. On 12th June 2020, Cheshire Police announced that the Crown Prosecution Service had advised that "although there were issues in relation to procurement, there was insufficient evidence to provide a realistic prospect of conviction against any individual."

- 5.9. In response to this announcement, the Chief Executive requested a health-check be undertaken by Internal Audit to seek assurance on current procurement arrangements; reviewing the contract award process to identify weaknesses in the design of the processes and procedures operated in 2015, and provide assurance on that the processes now in operation would prevent or identify non-compliance.
- 5.10. This work was undertaken by Internal Audit and the report at Appendix A presents the findings and recommended actions arising.
- 5.11. A “Satisfactory” opinion has been given on the effectiveness of the arrangements now in place to manage the procurement and the risks associated with it and implementation of the recommended actions will further improve the control environment.
- 5.12. As a significant part of the Council’s key financial systems, the procurement lifecycle will continue to be subject to regular Internal Audit reviews in accordance with the annual risk based Internal Audit Plan.
- 5.13. The purpose of the internal audit review was to provide assurance on the current control environment. Nothing has arisen during the work undertaken that requires a recommendation to consider further investigation on any new activity or the conduct of any current Member or employee of Cheshire East Council.
- 5.14. If any such matter requiring additional consideration had arisen, this would have been referred to the appropriate route for current staff or Members; these are outside the terms of reference of the Audit and Governance Committee and are the responsibility of other bodies of the Council.
- 5.15. It should be noted that the outcome of this work will also be used by external auditors Grant Thornton as part of their considerations with regards to the outstanding audit certificate for 2015/16 under the Local Audit and Accountability Act 2014. The scope of the work undertaken by Internal Audit was discussed with Grant Thornton at the outset.
- 5.16. Whilst the Council’s review will be taken into account, the work of Grant Thornton will be undertaken in accordance with their own powers and their report will not be constrained to the scope of this review.
- 5.17. Following completion of Grant Thornton’s work and receipt of the findings, consideration will be given as to whether any further work is required by the Council, including Internal Audit.

6. Implications of the Recommendations

6.1. Legal Implications

6.1.1. There are no direct legal implications although a failure to comply with procurement legislation would have a significant impact in this area.

6.2. Finance Implications

6.2.1. There are no direct financial implications although a failure to effectively manage procurement activity would have a significant impact in this area.

6.3. Policy Implications

6.3.1. There are no policy implications in this report.

6.4. Equality Implications

6.4.1. There are no direct implications for equality in this report. The Audit and Governance Committee receives assurances from across the organisation.

6.5. Human Resources Implications

6.5.1. There are no human resources implications in this report.

6.6. Risk Management Implications

6.6.1. This report provides assurance that the risks of a similar situation, to that which led to the police investigation, reoccurring are being managed effectively and that appropriate action has been taken to address identified weaknesses.

6.7. Rural Communities Implications

6.7.1. There are no direct implications for rural communities.

6.8. Implications for Children & Young People/Cared for Children

6.8.1. There are no direct implications for children and young people.

6.9. Public Health Implications

6.9.1. There are no direct implications for public health.

6.10. Climate Change Implications

6.10.1. There are no climate change implications in this report.

7. Ward Members Affected

7.1. All wards affected.

8. Consultation & Engagement

8.1. The terms of reference for the Internal Audit review were agreed with the Chief Executive.

9. Access to Information

9.1. Not applicable.

10. Contact Information

10.1. Any questions relating to this report should be directed to the following officers:

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