

Internal Audit Update Report April 2021– February 2022

(2021/2022 Internal Audit Plan)

1. Introduction

- 1.1. In accordance with the Public Sector Internal Audit Standards, the Internal Audit Update Report April 2021- February 2022 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 to Date

- 2.1. 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

- 2.2. A summary of the final reports issued to the end of February 2022, by the audit assurance opinion given is included in **Table 1**. Reports issued to this point are in line with expectations and approaching pre-covid levels of output.
- 2.3. 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 2021/22, with the number of final reports issued expected to be approaching the total number issued in 2019/20.
- 2.4. Figures relating to 2019/20 have been included in the table below to assist with comparison; no assurance work had been completed in the first half of 2020/21 as a result of the Covid-19 response.

Table 1: Reports to date by assurance level

Assurance Level	2021/22 (to 28/02/2022)	2020/21 Full Year	2019/20 Full Year
Good	2	6	6
Satisfactory	3	4	4
Limited	4	3	11
No Assurance	0	0	2
Total	9	13	23

Table 2: Summary of Final Assurance Reports 2021/22 to 28 February 2022

Audit Report	Reason for Review	Audit Assurance Opinion	Management Response	Summary of Findings – (Limited /No Assurance Reports Only)
Council Tax Billing Reconciliation 2022/23	Identified via Planning Process	Good	No actions raised	
NDR Billing Reconciliation 2022/23	Identified via Planning Process	Good	No actions raised	
Deprivation of Liberty Safeguards	Identified via Audit Plan	Satisfactory	All actions agreed	
B4B Go Live 2 Sign Off (joint work with CWAC and issued using their assurance levels)	Identified via Audit Plan	Reasonable* (CWaC IA opinion)	The audit report provided assurance to Programme Board in relation to the Go Live decision	
B4B Go Live 2 Sign Off – Cutover decision	Identified via Audit Plan	No formal assurance opinion provided	Issues raised in the audit report were included within caveats to be attached to the decision to enter cutover prior to the formal Go Live decision	Progress against the issues raised in this report were monitored and reported upon in the Go Live report detailed above.
C&WLEP Local Assurance Framework (assurance to s151 Officer)	Identified via Planning Process	Satisfactory	Final	Assurance to Director of Finance & Customer Services (s151 Officer) and C&WLEP management that the framework and procedures are robust and in accordance with national guidance.
Schools Consolidated Report 2020/21	Identified via Audit Plan	Limited	All actions agreed	The report summarises common issues arising from our school audit programme. Areas

Audit Report	Reason for Review	Audit Assurance Opinion	Management Response	Summary of Findings – (Limited /No Assurance Reports Only)
				<p>which require improvement included:</p> <ul style="list-style-type: none"> • Contract management arrangements including Governing Body review of options when contracts end. • Review of procurement thresholds to ensure that they are appropriate to the size of the school. • Review and approval of purchase card transactions.
Occupational Therapy	Identified via Audit Plan	Limited	All actions agreed	<p>The review sought assurance that appropriate arrangements were in place to meet both legislative and service requirements across the two locality teams delivering the service. It identified several inconsistencies in practice across the two localities including the use of liquid logic and the lack of a dedicated OT lead to undertake clinical supervisions.</p>
Purchase Cards	Identified via Audit Plan	Limited	All actions agreed	<p>The review sought assurance around compliance with the agreed purchase card scheme. It identified an unacceptable level of non-compliance but also recognised that the recent launch of updated and comprehensive guidance, workshops</p>

Audit Report	Reason for Review	Audit Assurance Opinion	Management Response	Summary of Findings – (Limited /No Assurance Reports Only)
				and compliance reporting will help to address the identified issues.

- 2.5. 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).
- 2.6. 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.
- 2.7. 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.
- 2.8. 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.
- 2.9. 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.
- 2.10. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the Annual Governance Statement process.
- 2.11. The Audit Plan is subject to regular review to reflect the current resources available to the team. As previously reported, a temporary Principal Auditor and a temporary Auditor were recruited during 2021/22 to provide additional resource to the team. With recruitment to these vacancies, and the return from maternity leave of another member of the team, it is expected that the team will complete sufficient direct assurance work supported by assurances gained through other areas of internal audit work to deliver the Annual Internal Audit Opinion for 2021/22.

Schools

- 2.12. 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.
- 2.13. The School's Audit Programme for 2021/22 has been agreed by both the Director of Finance and Customer Services (Section 151 Officer) and the Director of Education & 14-19 Skills.
- 2.14. In recent years, thematic reviews have been undertaken at schools targeting specific areas of the SFVS. For the current year, it has been agreed that Internal Audit will undertake a review of the completed SFVS returns at a sample of schools, supported by testing to provide assurance as to the accuracy and validity of the school's self-assessment.
- 2.15. The work was planned to be completed during quarter 4 of the current year and into quarter 1 of 2022/23 to enable the review to consider the latest SFVS returns. This will also provide assurance to the Section 151 Officer and facilitate the signing of the Annual Assurance Statement in May 2022.
- 2.16. The audit work has been undertaken in two phases; an initial review of documentation to allow the auditor to assess the school against the SFVS, and a comparison against the self-assessments undertaken by the schools. At the end of February 2022, the initial phase was completed with phase 2 planned to take place during April/May 2022.
- 2.17. 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. School reports include an assurance opinion on the arrangements, in line with other audit reports.
- 2.18. Consolidated findings and recommended actions and improvements are shared with all maintained schools through the "Schools Bulletin" and the "Director's Report".
- 2.19. Findings from all areas inform a consolidated schools report which provides assurance to the Director of Finance and Customer Services (Section 151 Officer) and the Director of Education & 14-19 Skills.

Supporting Corporate Governance

- 2.20. 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).

- 2.21. During the year, and as previously reported in the 2020/21 Internal Audit Annual Report, Internal Audit has coordinated, on behalf of Management, the production of the Council's AGS for 2020/21.
- 2.22. Audit and Governance Committee approved the Draft AGS 2020/21 at their September meeting, in line with statutory deadlines. The Final AGS 2020/21 was approved at the January 2021 meeting of Audit and Governance Committee.

Counter Fraud and Investigations

- 2.23. Internal Audit has continued to keep abreast of the latest fraud threats particularly in relation Covid-19 related scams, and where appropriate coordinated awareness raising via the Council's social media streams.
- 2.24. Over the past year there has been an increase across the country in attempted mandate fraud and executive impersonation fraud.
- 2.25. Mandate fraud occurs when fraudsters submit bogus requests to change the bank details of suppliers so that genuine payments intended for suppliers are instead paid to the fraudsters account. Executive impersonation fraud occurs when employees, usually in finance or payments teams, receive email communication purporting to be from very senior officers such as the Chief Executive or Finance Director of the organisation. These emails usually request that an urgent payment is made and that the usual checks and controls can be applied retrospectively. They rely on the employee feeling pressured to follow the instructions of a senior manager and are a form of social engineering.
- 2.26. In response to these threats, and as previously reported, work was undertaken in conjunction with the Transactional Service Centre to ensure that appropriate controls are in place to identify and prevent these attempts. This was particularly important given the move to remote working and whilst it is pleasing to note that appropriate controls were in place, awareness raising has taken place to ensure that officers are alert to these potential scams.
- 2.27. Internal Audit has continued to coordinate the investigation of matches identified as part of the 2020/21 National Fraud Initiative (NFI) exercise and ensure that services update the NFI website with the results. Work continues to review the outstanding matches and to date no matters of concern have been identified.
- 2.28. As previously reported, options for the development of a dedicated Counter Fraud resource as part of a wider review of the structure of internal audit had been paused to prioritise other work during the Covid-19 response. It is planned to revisit this during 2022/23 and further updates will be provided to the Audit and Governance Committee in due course.

- 2.29. In November 2021, the Crown Prosecution Service took the decision to take no further action with regard to investigations into historical land transactions in Middlewich and Crewe. This concludes all police investigations into the matters referred by the Council, following Internal Audit work.
- 2.30. At the request of the Chief Executive, a review of land transactions will be undertaken in 2022/23 to ensure that lessons have been learned from these matters and that appropriate controls are now in place to mitigate the risk of similar issues arising in future.
- 2.31. As reported to the Committee in January 2021, the former external auditors, Grant Thornton, would be completing work in relation to the outstanding audit certificate under the Local Audit and Accountability Act 2014. This work commenced during 2021/22 and is being supported by Internal Audit and the Council as a whole. At this moment it is not possible to provide any timescale for completion of this work.

Consultancy and Advice

- 2.32. 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.
- 2.33. 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.
- 2.34. By providing this service, internal audit can ensure that processes are supported by appropriate controls to mitigate identified risks associated with the particular activity at the outset of change or development, providing far more valuable input to the service and wider control environment overall.

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 2021/22 to date, this has included work on the following grants, which were successfully signed off and submitted to the appropriate funding body:

Table 3: Grants Certified during 2021/22 as at 28 February 2022

Grant Certified	Funding Body	Amount
Family Focus (year to date)	MHCLG	£276,800
CWLEP Growth Hub Grant	BEIS	£287,000
CWLEP EU Transition Grant	BEIS	£136,050
CWLEP Supplementary Grant	BEIS	£175,000
CWLEP Peer Network Grant	BEIS	£165,000
Bus Service Operators Grant	DfT	£347,865
Local Transport Capital Block Funding	DfT	£12,147,000
Transport Infrastructure Investment Fund	DfT	£6,855,000
Traffic Signals Maintenance Funding	DfT	£500,000
Congleton Link Road	LGF	£7,709,543
Compliance and Enforcement (Covid)	MHCLG	£158,572
Restart Grant (Covid)	BEIS	£21,294,675
Cultural Recovery (Covid)	ACE	£180,000
Protect and Vaccinate (Covid)	DLHUC	£81,005
Elena EIB Energy Programme	EIB	EU1,471,321 (£1,261,145)
Disabled Facilities Grant Additional allocation	MHCLG	£2,064,279 £277,962
Total		£53,916,896

- 2.37. 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; grant funding conditions are set by the funding body, and it is this which determines the amount of testing and validation required to inform the sign off.
- 2.38. In addition to the grants detailed above, work has also been undertaken in relation to other Covid-19 related grants. This includes those received during the year and also in relation to the reporting requirements of those received during 2020/21.
- 2.39. Internal Audit has coordinated a grant register that details the nature of each grant and any reporting and sign off details. Lead officers have been identified for each of the grants and work undertaken to ensure that all

returns have been completed within deadlines. Work is continuing in this area to ensure that the Council is aware of all requirements and deadlines associated with the many grants that it receives and administers.

Work for Other Bodies

- 2.40. Since 2013, Cheshire East Council has been the host authority for the PATROL (Parking and Traffic Regulations Outside London) Adjudication Joint Committee and Bus Lane Adjudication Joint Committee, and as part of this, we provide an Internal Audit service.
- 2.41. This service was provided remotely during 2020/21. The outcome of the internal audit work is reported to the PATROL Committees directly and does not inform the annual internal audit opinion for Cheshire East Council.
- 2.42. The work was completed, and a report issued during June 2021.

Implementation of Audit Recommendations

- 2.43. 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.
- 2.44. 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.
- 2.45. 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. There was a "pause" in the follow up of actions, created by the move away from traditional internal audit work to support the organisation's response to Covid, but as our assurance work builds back up, we will ensure that managers have regular updates on the position of recommended actions. During 2022/23 we will seek to further raise the profile of audit actions through development of regular reports to CLT and DMT's.

2.46. The implementation of agreed recommendations for reports issued in 2019/20, 2020/21 and the current year to date is detailed in the table below.

Table 4: Implementation of agreed recommendations as at 30 September 2021

On time	After the agreed date	Total implemented	In progress, or overdue	Agreed actions subsequently not implemented
2019/20				
75%	25%	100%	0%	0%
2020/21				
100%	0%	100%	0%	0%
2021/22				
100%	0%	100%	0%	0%

2.47. These high implementation figures over several years 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.

2.48. 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. It is pleasing to report that senior management have continued to support Internal Audit by challenging their service managers around implementation of actions.

2.49. The timely implementation of audit recommendations is a good indicator of both the effectiveness of Internal Audit in securing action and the Council's commitment and capacity to improve.

Ongoing Work

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

Table 5: Ongoing Internal Audit Assignments as of 28 February 2022

Audit	Scope of Review	Status
People Helping People	To review the governance structure in place to manage the People Helping People scheme introduced in response to the covid-19 pandemic.	Draft report issued
Community Infrastructure Levy	To review the processes and controls around the requests, collection, management, implementation and expenditure of	Draft report being reviewed

	S106 and CIL schemes. It is likely that separate reports will be issued.	
Journey First	To review the systems, processes and controls in place to ensure that the funding received has been utilised and delivered in line with the original grant application and conditions of award.	Draft report being reviewed
Declaration of Interests - Members	To review the processes and controls in place to manage declarations of interest from Members.	Draft report being reviewed
Declarations of Interest - Officers	To review the processes and controls in place to manage declarations of interest from officers.	Draft report being prepared
Gifts and Hospitality – Members	To review the processes and controls in place to manage the Members register of gifts and hospitality	Draft report being produced
Gifts and Hospitality – Officers	To review the processes and controls in place to manage the officers register of gifts and hospitality	Draft report being produced
ERP Replacement – post implementation reviews	Work is underway on 2 reviews to seek assurance that key system controls are in place and operating effectively	Fieldwork underway and will continue into 2022/23
Fraud Controls – impact of remote working	To assess the impact of remote working on established fraud controls in Council Tax, NDR and Benefits	Fieldwork underway
ANSA – review of gritting arrangements	To seek assurance around the arrangements to manage gritting services	Draft report being produced.

Table 6: Planned work carried forward into 2022/23

Audit	Scope of Review
Fostering	The focus of the review will be discussed with the Head of Service to identify the key risks and ensure that it adds maximum value.
Expenses	To understand the impact of remote working and the subsequent return to the office on the processes and controls in place for the payment of expenses to both officers and members.
High Needs Funding	Review of the processes and controls in place to manage the high needs block of the dedicated schools grant.
Contract Awards	To review the impact of the response to the covid-19 pandemic on the controls in place to manage the award of contracts.
Management of Commissioned Services (Adults and Children’s Social Care)	The focus of the review will be discussed with the Head of Service to identify the key risks and ensure that it adds maximum value.
ERP Replacement – post implementation reviews	Although some work has already commenced, additional assurance will be sought throughout 2022/23.
Section 106	The initial plan was for a joint review of the Section 106 processes alongside CIL but upon commencing work it was agreed that it was appropriate for separate reviews to take place. This element has therefore been carried forward.

2.51. It is also possible that other, unplanned reviews may be undertaken at the request of management.

3. Internal Audit Performance

3.1. Internal Audit’s performance is measured against a number of performance indicators which are detailed in Table 7.

3.2. The performance relating to the implementation of recommendations is detailed earlier in this report.

Table 7: Performance Indicators to date

Performance Indicator	2021/22 Actual	2021/22 Target	2020/21 Actual	Comments on 2021/22 Actuals
% of Audits completed to user's satisfaction	95%	92%	100%	Above target
% of significant recommendations agreed	100%	90%	100%	Above target
Chargeable Time (Assurance Work)	78%	80%	84%	In line with target
Draft report produced promptly (per Client Satisfaction Form)	90%	95%	100%	Above target

4. Compliance with the Public Sector Internal Audit Standards

- 4.1. 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.
- 4.2. 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.
- 4.3. The outcome of the review will be reported in the Annual Internal Audit Report 2021/22.