

Internal Audit Annual Report 2021/22

OFFICIAL

1. Executive Summary

Internal Audit Opinion on the Council's control environment

The Council's framework of risk management, control and governance is assessed as Adequate for 2021/22.

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
- assurance derived from the significant consultancy work undertaken throughout the year
- Management's response to advice and recommendations
- the process of reviewing the Council's annual governance statement
- and periodic reports to Audit and Governance Committee on the Council's Risk Management Arrangements

2. Background to the 2020/21 Annual Audit Opinion

- 2.1. The impact of the Covid-19 pandemic and the associated response has continued to have a significant impact on the public sector as a whole. Local authorities are at the forefront of the response and though to a lesser degree than the previous year, there has been a need for some reassignment of internal audit resources and support to ensure we were response to new and changing demands on the organisation.
- 2.2. Throughout 2021/22, we have carefully monitored and reviewed the impact on the Internal Audit team resource to ensure sufficient assurance work could be undertaken to enable the annual opinion to be formed.
- 2.3. In common with 2020/21 and in response to guidance issued by CIPFA in December 2020, there has been a shift in focus from the traditional assurance report towards an increased consultancy role for Internal Audit. This allows interaction with services at the beginning of new developments and processes and provides the opportunity for Internal Audit to provide

advice and guidance on risks and controls before systems and processes become established.

- 2.4. This 'up front' approach to assurance coupled with a continued focus on high risk areas for assurance reviews has ensured that Internal Audit has targeted its resource at those areas where it can add the most value to the Council.
- 2.5. 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, and the impact of the pandemic upon these challenges has continued to be illustrated through regular reporting to Cabinet and the Audit and Governance Committee on the Council's Covid-19 response.
- 2.6. The Council's 2021/22 audit plan, originally approved by Committee in March 2021, reflected the challenges through the areas selected for review and the changes made during the year to ensure resources were focused in the right areas.
- 2.7. 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 2021-2025
 - 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.
- 2.8. Staffing resource for Internal Audit has again been limited during 2021/22 as a result of ongoing vacancies although this has been successfully mitigated through the use of agency staff.
- 2.9. Despite these challenges, the team has delivered sufficient coverage against the plan, and to the appropriate standard, to enable an informed opinion to be provided on the control environment.

3. Context – Legislative Requirements and Standards

- 3.1. Local Government Internal Audit sections must comply with the requirements of the Public Sector Internal Audit Standards (PSIAS) (2017) and the accompanying Local Government Application Note.
- 3.2. 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 Quality Assurance and Improvement Programme (QAIP).
- 3.3. 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.

4. Opinion on the Control Environment

- 4.1. 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 issues and control failures that have been identified.
- 4.2. In the context of the PSIAS, 'opinion' does not simply mean 'view', 'comment' or 'observation'. It means that internal audit has done sufficient, evidenced work to form a supportable conclusion about the activity that it has examined.
- 4.3. 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.

4.4. The opinion has been built around the following sources of assurance:

- Internal Audit Assurance Reports completed in accordance with the risk-based audit plan. This element of the opinion has been reduced in comparison to previous years due to the increased focus on proactive consultancy and assurance work.
- Grant sign off. This includes undertaking testing of expenditure to provide the required assurances to the grant funding body on the appropriate use of funds in line with the grant award criteria. In recognition of the amount of specific grant funding which has been made available to the Council during the last two years, the number of grants which have required sign off by the Head of Internal Audit or testing by the Internal Audit to support the sign off by the Chief Executive has significantly increased.
- Advice, guidance, and consultancy work. This has again formed a greater part of the opinion than in previous years and is based upon the continued support provided to services in designing systems and processes for the delivery of the Council's response to the Covid-19 pandemic and other developing situations. Internal audit has supported various services in developing systems and procedures ensuring that appropriate and proportionate controls are included within the solution.
- Governance arrangements around the response to the pandemic and other emerging issues along with established arrangements for decision making across the whole organisation. Internal Audit has been represented on various groups and boards tasked with ensuring that decisions are taken in accordance with the Constitution, are in the best interests of the Council and are appropriately evidenced.
- Other sources of assurance such as external bodies and confidence in 'first and second lines of defence' arrangements.

4.5. In forming its opinion, Internal Audit considered issues arising from the implementation of the Unit 4 ERP System, the impact on the framework of risk management, control and governance and the actions taken to mitigate these matters. Internal Audit has carried out work in support of the go-live

decisions along with colleagues from Cheshire West and Chester which did not identify any issues that would prevent this. However, issues have emerged during the 2022/23 financial year and audit work is currently ongoing to fully understand the causes of these. Given the proactive response from management in responding to these matters, including the commissioning of a detailed Lessons Learned review, Internal Audit do not consider that a qualification of the annual opinion for 2021/22 is warranted, but will be closely monitoring this area during 2022/23.

- 4.6. Internal Audit will continue to undertake detailed reviews of the Unit 4 ERP System, including joint reviews with Cheshire West and Chester Council to obtain assurance that appropriate controls are in place and operating effectively across all key financial systems.
- 4.7. Although there have been changes to the traditional way in which the annual opinion is arrived at for the 2021/22 year, we are satisfied that there has been appropriate engagement for Internal Audit across the organisation, through assurance work, consultancy and advice, and our understanding of the assurance we can take from other sources to assess the framework of risk management, control, and governance as Adequate for 2021/22.
- 4.8. There are no standard ratings for the annual opinion and the assessment of Adequate reflects the fact that the arrangements in place are deemed to be satisfactory, proportionate, and fit for purpose.
- 4.9. This is supported by the work undertaken by Internal Audit, responses, and engagement with management and that there were no issues arising from the 2021/22 audit plan that will require inclusion in the Annual Governance Statement.

5. Summary of Audit Work 2021/22

- 5.1. 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.
- 5.2. 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.
- 5.3. 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.
- 5.4. In preparing the risk-based plan for 2021/22 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.
 - the Council's Corporate Plan 2021-25 and
 - discussion with key stakeholders including external audit, the internal audit team and the Cheshire West and Chester internal audit team in relation to shared services.
- 5.5. 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.
- 5.6. The plan is reviewed and adjusted, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, and controls. Any significant changes are communicated to both CLT and the Audit and Governance Committee.
- 5.7. 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. 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.
- 5.8. A summary comparison of the 2021/22 Audit Plan with actuals for the year is shown in Table 1 and a summary of the assurance work carried out in support of the Annual Internal Audit Opinion is shown in Table 2.
- 5.9. Table 3 provides updates details of audit reviews that commenced during 2021/22 but have been carried forward into 2022/23 along with the status of each piece of work. This demonstrates the fluidity of audit work and how assurance is built year on year.

Table 1: Summary comparison of Audit Plan 2021/22 and actuals

| Area of Plan | | Original Plan | | Actuals (to 31/03/2022) | | Comments on coverage |
|-------------------------------------|-------------------------|---------------|-------------|-------------------------|-------------|--|
| | | Days | % | Days | % | |
| Chargeable Days | | 1357 | | 1257 | | |
| Less: Corporate Work | | 164 | 12% | 150 | 12% | Broadly in line with plan |
| Available Audit Days: | | 1193 | 100% | 1107 | 100% | |
| Corporate Governance and Risk | | 119 | 10% | 110 | 10% | Broadly in line with plan |
| Anti-Fraud and Corruption | Proactive Work | 48 | 4% | 41 | 4% | Broadly in line with plan |
| | Reactive Investigations | 48 | 4% | 14 | 1% | Low number of investigations in year |
| Corporate Services | | 477 | 40% | 489 | 44% | Increased focus due to Unit 4 implementation and grant sign off requirements |
| People | | 179 | 15% | 158 | 14% | Broadly in line with plan |
| Place | | 95 | 8% | 110 | 10% | Slight increase due to additional work on grants |
| Assurance to External Organisations | | 24 | 2% | 21 | 2% | Broadly in line with plan |
| Advice & Guidance | | 84 | 7% | 77 | 7% | Broadly in line with plan |
| Other Chargeable Work | | 119 | 10% | 87 | 8% | Broadly in line with plan |
| Total Audit Days | | 1193 | 100% | 1107 | 100% | |

Table 2: Summary of Assurance Reports 2021/22

| Audit Report | Reason for Review | Audit Assurance Opinion | Report Status | Purpose of Review and Summary of Findings – (Limited /No Assurance Reports Only) |
|---|--|-------------------------------|---------------|--|
| Council Tax Billing Reconciliation 2022/23 | Assurance around the accuracy of the Council Tax billing process | Good | Final | |
| NDR Billing Reconciliation 2022/23 | Assurance around the accuracy of the NDR billing process | Good | Final | |
| Deprivation of Liberty Safeguards | Assurance that CEC action plan addresses matters raised in LGO report | Satisfactory | Final | |
| B4B Go Live 2 Sign Off (Joint work with CWAC and issued using their assurance levels) | The audit report provided assurance to Programme Board in relation to the Go Live decision | Reasonable* (CWaC IA opinion) | Final | |
| Deprivation of Liberty Safeguards – detailed follow up | To provide assurance that actions identified to meet LGO findings are being | Satisfactory | Draft | |

| Audit Report | Reason for Review | Audit Assurance Opinion | Report Status | Purpose of Review and Summary of Findings – (Limited /No Assurance Reports Only) |
|--|--|--------------------------------------|---------------|--|
| | progressed and reported on. | | | |
| C&WLEP Local Assurance Framework (assurance to s151 Officer) | 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. | Satisfactory | Final | |
| B4B Go Live 2 Sign Off – Cutover decision | Identified via Audit Plan | No formal assurance opinion provided | Final | 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. |
| Schools Consolidated Report 2020/21 | The report summarises common issues arising from our school audit programme. | Limited | Final | Areas which require improvement included: <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. |

| Audit Report | Reason for Review | Audit Assurance Opinion | Report Status | Purpose of Review and Summary of Findings – (Limited /No Assurance Reports Only) |
|------------------------------------|---|-------------------------|---------------|--|
| Occupational Therapy | The review sought assurance that appropriate arrangements were in place to meet both legislative and service requirements. | Limited | Final | It identified several inconsistencies in practice across the two localities including the use of liquid logic and the lack of a dedicated OT lead officer to undertake clinical supervisions. |
| Purchase Cards | The review sought assurance around compliance with the agreed purchase card scheme | Limited | Final | It identified an unacceptable level of non-compliance but also recognised that the recent launch of updated and comprehensive guidance, workshops and compliance reporting will help to address the identified issues. |
| 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. | Limited | Final | <p>The review identified that overall, the risks associated with the initial deployment of the PHP scheme were effectively managed, however there was room for improvement for the scheme going forward as it moved into a “business as usual” offering in the following areas:</p> <ul style="list-style-type: none"> • Production of detailed procedure documents to ensure consistency of service delivery • Clarification of retention period for documentation to ensure compliance with DPA requirements |
| Declaration of Interests - Members | To review the processes and controls in place to manage declarations of | Limited | Draft | <p>The review concluded that improvements could be made in relation to:</p> <ul style="list-style-type: none"> • Accessibility of forms • Requirement to submit an annual return including nil returns |

| Audit Report | Reason for Review | Audit Assurance Opinion | Report Status | Purpose of Review and Summary of Findings – (Limited /No Assurance Reports Only) |
|-------------------------------------|---|-------------------------|---------------|--|
| | interest from Members. | | | <ul style="list-style-type: none"> • Consistency in completion of forms e.g. signatures <p>It is acknowledged that a review of the Members Code of Conduct is currently taking place and that many of the points raised in this audit may be in the process of being addressed.</p> |
| Declarations of Interest - Officers | To review the processes and controls in place to manage declarations of interest from officers. | Limited | Draft | <p>The review concluded that improvements could be made in relation to:</p> <ul style="list-style-type: none"> • Improving the current return rates for declaration forms • Ensuring that Procurement are made aware of any declared interests • Retention periods for previous years forms |
| Gifts and Hospitality – Members | To review the processes and controls in place to manage the Members register of gifts and hospitality | Limited | Draft | <p>The review concluded that improvements could be made in relation to:</p> <ul style="list-style-type: none"> • The register is not published on the Council website • Access to the register could be improved • No requirement to submit a periodic nil return • Retention periods for submitted forms • The value above which gifts and hospitality should be declared <p>It is acknowledged that a review of the Members Code of Conduct is currently taking place and that many of the points raised in this audit may be in the process of being addressed</p> |
| Gifts and Hospitality – Officers | To review the processes and controls in place to | Limited | Draft | <p>The review concluded that improvements could be made in relation to:</p> |

| Audit Report | Reason for Review | Audit Assurance Opinion | Report Status | Purpose of Review and Summary of Findings – (Limited /No Assurance Reports Only) |
|--|---|-------------------------|---------------|--|
| | manage the officers register of gifts and hospitality | | | <ul style="list-style-type: none"> • Production of detailed procedures notes to ensure consistency of approach • Inconsistency between officers and members in relation to the value of gifts and hospitality that should be declared • Unclear wording on forms and different values compared to those stated in the Code of Conduct |
| ANSA – review of gritting arrangements | To seek assurance around the arrangements to manage gritting services | No Assurance | Draft | <p>The review identified the following issues:</p> <ul style="list-style-type: none"> • Additional public highway gritting activities were undertaken without seeking advice or approval from the Council • Potential that this activity was not covered by the Council’s insurers • Potential for challenge from Town and Parish Councils who have not received this service • Delays in initiating gritting activity due to not having access to real time information • Gritting records did not contain sufficiently detailed information <p>It was recommended that the additional gritting activities on public highways are not continued.</p> |

Table 3: Ongoing Internal Audit Assignments carried forward into 2022/23

| Audit | Scope of Review | Status |
|---|--|---|
| Community Infrastructure Levy | To review the processes and controls around the requests, collection, management, implementation, and expenditure on CIL schemes. | Draft report for review |
| 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 for review |
| 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 | Reports being drafted for review |

Table 4: Summary of reports by assurance level

| Assurance Level | Audit Reports 2021/22 | Audit Reports 2020/21 | Audit Reports 2019/20 |
|-----------------|--------------------------|--------------------------|--------------------------|
| Good | 2 | 6 | 1 |
| Satisfactory | 4 | 4 | 7 |
| Limited | 8 | 3 | 11 |
| None | 1 | 0 | 0 |
| Total | 15 | 13 | 19 |

- 5.10. 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.
- 5.11. 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.
- 5.12. The issues arising from audit activity and the implementation of associated recommended actions are considered as part of the Annual Governance Statement process; there are no items arising from 2021/22 audit reports which warrant inclusion as new items in the Annual Governance Statement.
- 5.13. In all cases 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.
- 5.14. 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.
- 5.15. Where significant weaknesses are identified detailed follow up audits will be undertaken to ensure that agreed actions have been implemented and that they are effective in mitigating the identified risks and issues.

6. Consultancy and Advice

- 6.1. 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.
- 6.2. Advice and guidance was provided on matters such as:

- The response to suspected scams and attempted frauds. This included assisting the services in assessing the effectiveness of their controls in identifying and preventing the frauds and whether additional controls were required.
 - The design and application of controls in new/proposed systems. Examples of this would be the Holiday Activity Fund and the associated issue of meal vouchers, and the Homes for Ukraine Scheme. Internal Audit have been involved in both schemes from the start and have provided advice on risk, controls, and assurance that all decisions have been subject to the appropriate approval.
 - Interpretation of Finance and Contract Procedure Rules across various services to ensure compliance.
 - A detailed piece of work was undertaken to produce an ICT Assurance Map to identify existing sources of assurance in relation to ICT including cyber security. This will be utilised to identify areas for review during 2022/23 and ensure that duplication of work undertaken by other assurance providers is avoided.
- 6.3. 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.

7. Schools

- 7.1. 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.
- 7.2. 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.
- 7.3. In recent years, thematic reviews have been undertaken at schools targeting specific areas of the SFVS. For the 2021/22, it was agreed that Internal Audit would 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.

- 7.4. The work was completed during quarter 4 of the year and into quarter 1 of 2022/23 to enable the review to consider the latest SFVS returns. This also provided assurance to the Section 151 Officer and facilitated the signing of the Annual Assurance Statement in May 2022.
- 7.5. The audit work was 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. The initial phase was completed by the end of February 2022 and phase 2 took place during April to June 2022.
- 7.6. 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.
- 7.7. Consolidated findings and recommended actions and improvements are shared with all maintained schools through the “Schools Bulletin” and the “Director’s Report”.
- 7.8. 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.

Table 5: Summary of reports by assurance level

| Assurance Level | School Audit Reports 2020/21 |
|-----------------|---------------------------------|
| Good | 2 |
| Satisfactory | 4 |
| Limited | 10 |
| None | 0 |
| Total | 16 |

- 7.9. The new arrangements have resulted in a delay in the production of the consolidated report which draws together the common findings from the audit work. This will be produced and issued during 2022/23.
- 7.10. Common issues identified include a lack of evidence to demonstrate that Governing Boards approve and have sufficient oversight of key documents such as manual of internal financial procedures, school development plan and business continuity plans.

- 7.11. In addition to the completion of the School's Audit Programme as detailed above, Internal Audit provide input to the Vulnerable Schools Group which is responsible for categorising all Cheshire East schools at the start of each academic year to identify the type and level of support required from the Council during the forthcoming year; the group meets regularly to review progress and address any emerging issues.
- 7.12. Involvement with this group facilitates the early identification of risks and issues that require input or consideration for inclusion in future years audit programmes.

8. Other work undertaken by Internal Audit

- 8.1. 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.
- 8.2. After providing this service remotely during 2020/21 due to covid-19 restrictions, 2021/22 saw a return to the previous arrangements. 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.

9. Supporting Corporate Governance

- 9.1. 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 arrangements and publish an Annual Governance Statement (AGS).
- 9.2. 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.
- 9.3. 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 2021/22.
- 9.4. 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.

- 9.5. Internal Audit has assisted Management in the production of the Council's AGS for 2021/22 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, to advise on control and governance issues in relation to information governance and data handling.
- 9.6. Audit and Governance Committee approved the Final Annual Governance Statement 2020/21 at their January 2022 meeting. This was delayed due to a national issue around the valuation of infrastructure assets that prevented the external auditors from completing their audit of the 2020/21 financial statements.
- 9.7. The 2020/21 draft Statement will be considered by the Audit and Governance Committee at its September 2022 meeting, with the final AGS scheduled to be presented for approval in November 2022.

10. Risk Management

- 10.1. The Committee received the Annual Risk Management Report 2021/22 at their May meeting and received updates on the Council's Risk Management arrangements through the year.
- 10.2. The Annual Risk Management report advised the Committee on the effectiveness of arrangements during 2021/22 and recognises the exceptional year and the focus on managing the risks presented to the Council by the pandemic.
- 10.3. During 2021/22, the priority for the organisation in terms of risk management and business continuity was to continue to identify and manage Covid related risks to Council objectives and operational service delivery through the various phases of Covid response and restrictions. This was co-ordinated through CEmart, with support being provided by the attendance of the Head of Audit and Risk and Risk Manager.

- 10.4. The current Risk Management Framework covered 2020-2022 and will be updated to reflect the needs of risk management and risk reporting in the context of the Committee system, and to support greater cohesion in reporting risk alongside performance management and financial performance. This will include an assessment of the organisation's risk maturity and risk management guidance and training materials will be updated as part of this.
- 10.5. The completion of risk registers is undertaken as part of preparing service plans for 2022/23. These are being collated and the risk registers will be analysed to identify any trends, potential for compound/concurrent threats to be understood and to share ideas and practices within the organisation in terms of risk management and mitigation activity.
- 10.6. To maintain the independence of the Head of Audit and Risk Management, assurance arrangements for reviewing risk management will have to be undertaken via alternative means. These arrangements have been detailed in the Internal Audit Charter and apply to other areas of business for which the Head of Audit and Risk has operational responsibility.

11. Counter Fraud and Investigations

- 11.1. 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.
- 11.2. Over the past year there has been an increase across the country in attempted mandate fraud and executive impersonation fraud.
- 11.3. 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.
- 11.4. 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.

- 11.5. 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.
- 11.6. 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.
- 11.7. 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.
- 11.8. 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.
- 11.9. 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.

12. Statutory Returns/Grant Claims

- 12.1. 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.
- 12.2. During 2021/22 this has included work on the following grants which were signed off and submitted to the appropriate central government department:

Table 6: Grant certifications during 2021/22

| 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 |

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

12.4. In addition to the grants detailed above, a significant amount of work has been undertaken during the year to meet the sign off requirements of various grants issued to the Council in relation to the response to Covid-19. This required Internal Audit to produce a statement confirming that after undertaking appropriate investigations and checks, the conditions attached to the grants have been met. This support was provided in relation to the following grants:

- Small Business
- Retail and Hospitality
- Discretionary Covid
- Compliance and Enforcement
- Contain Outbreak Management

12.5. 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.

13. Implementation of Audit Recommendations

- 13.1. Throughout 2021/22, Internal Audit has continued to carry out a range of follow up exercises to ensure that agreed recommendations are implemented.
- 13.2. Follow up activity 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:
- 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 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.
- 13.3. However, 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.

Table 7: Implementation of Agreed Recommendations

| 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% |

- 13.4. 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.
- 13.5. 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.
- 13.6. It is therefore pleasing to report that during 2021/22 senior management have continued to support Internal Audit by challenging their service managers around implementation of actions, particularly during the challenges of the previous years
- 13.7. 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.

14. Reliance placed on the work of other assurance bodies

- 14.1. Internal Audit place assurance on the work of the Council's external auditors, OFSTED, and other external bodies, where appropriate.
- 14.2. Although internal audit has continued to work closely with external audit colleagues, reliance on other external bodies has been limited when forming the annual opinion for 2020/21.

15. Quality Assurance and Improvement Programme (QAIP)

- 15.1. The purpose of Internal Audit's QAIP is to define the practical arrangements in place to provide reasonable assurance to stakeholders that the activity of the Internal Audit section:
 - Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards' (PSIAS) definition of Internal Auditing and Code of Ethics
 - Operates in an effective and efficient manner
 - Is perceived by stakeholders as adding value and improving Internal Audit's operations.
- 15.2. Performance against the QAIP is undertaken through ongoing and periodic reviews and includes a series of performance indicators which are detailed below.

Table 8: Performance Indicators

| Performance Indicator | 2021/22 Actual | 2021/22 Target | 2020/21 Actual |
|--|-----------------------|-----------------------|-----------------------|
| Percentage of Audits completed to user satisfaction | 95% | 92% | 100% |
| Percentage of significant recommendations agreed | 100% | 90% | 100% |
| Chargeable Time (Assurance Work) | 78% | 80% | 84% |
| Draft report produced promptly (per Client Satisfaction Questionnaire) | 90% | 95% | 100% |

- 15.3. The periodic review of performance for 2021/22 has confirmed that internal audit continues to operate in compliance with the QAIP.
- 15.4. In undertaking the review, the following two areas were identified as requiring further work during 2022/23 to ensure continued compliance:
- Audit Manual – although reviewed and updated to ensure compliance with the PSIAS, a further update will be required to recognise the implementation of the upgrade to the audit management system.
 - Internal Audit Charter – this was last updated and approved by Audit and Governance Committee in March 2020. A review will be completed to ensure that the Charter continues to ensure compliance with PSIAS, and any changes will be brought back to Committee for approval.

16. Compliance with the Public Sector Internal Audit Standards (PSIAS)

- 16.1. 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) The PSIAS require Internal Audit to have in place a quality assurance and improvement programme which must include both internal and external assessments.
- 16.2. A self-assessment against the Standards is currently underway to ensure that Internal Audit complies fully with the Standards and details of this review will be reported to a future meeting of the Committee as part of the regular Internal Audit update report.