

# Internal Audit Update Report April – September 2023

(2023/2024 Internal Audit Plan)

## 1. Introduction

- 1.1. In accordance with the Public Sector Internal Audit Standards, the Internal Audit Update Report April - September 2023 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. The following sections explain 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 September 2023, 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.
- 2.3. 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 7**. It is anticipated that sufficient work in terms of quantity and coverage will be undertaken to deliver the annual opinion for 2023/24, with the number of final reports issued expected to exceed the total number issued in 2022/23.
- 2.4. Figures relating to 2022/23 and 2021/22 have been included in the table below to assist with comparison.

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

Assurance Level	2023/24 (to 30/09/2022)	2022/23 (to 30/09/2022)	2022/23 Full Year	2021/22 (to 30/09/2021)	2021/22 Full Year
Good	2	0	5	0	2
Satisfactory	2	2	4	2	4
Limited	1	2	8	2	8
No Assurance	1	0	2	0	1
<b>Total</b>	<b>6</b>	<b>5</b>	<b>19</b>	<b>4</b>	<b>15</b>

- 2.5. A summary comparison of coverage of the 2023/24 Audit Plan with actuals for the year to 30 September 2023 is shown in **Table 2**, with comments on variances.

**Table 2: Summary Comparison of Audit Plan 2023/24 and Actuals**

Area of Plan		Original Plan		Actuals (to 30/09/2023)		Comments on coverage
		Days	%	Days	%	
<b>Chargeable Days</b>		<b>1476</b>		<b>581</b>		Lower than planned as original figure included agency staff not subsequently re-employed
Less: Corporate Work		177		83		
<b>Available Audit Days:</b>		<b>1299</b>	<b>100%</b>	<b>498</b>	<b>100%</b>	
Corporate Governance and Risk		130	10%	46	9%	
Anti-Fraud and Corruption	Proactive Work	52	4%	18	4%	
	Reactive Investigations	52	4%	0	0%	
Corporate Services		455	35%	191	38%	
Adults, Health & Integration		130	10%	48	10%	
Children's Services		130	10%	30	6%	
Place		104	8%	102	20%	Large amount of work on s106 and land transactions
Providing Assurance to External Organisations		26	2%	19	4%	Most of the work takes place in Q1
Advice & Guidance		90	7%	10	2%	
Other Chargeable Work		130	10%	36	7%	
<b>Total Audit Days</b>		<b>1299</b>	<b>100%</b>		<b>100%</b>	

- 2.6. Details of the reports produced to the end of September 2023 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.

**Table 3: Summary of Final Assurance Reports 2023/24 to 30 September 2023**

<b>Audit Report</b>	<b>Reason for Review</b>	<b>Audit Assurance Opinion</b>	<b>Comments</b>	<b>Summary of Findings – (Limited /No Assurance Reports Only)</b>
Wilmslow Business Improvement District Billing Reconciliation	Request of management	Good	All controls operating effectively	
Non-Domestic Rates Discounts and Eligibility	Identified via Audit Plan	Good	Draft report agreed at the end of 2022/23	
Unit4 Key Financial Controls (jointly with CWAC)	Identified via Audit Plan	Reasonable	All actions agreed with management of both CEC and CWAC	
Council Tax Eligibility for Discounts	Identified via Audit Plan	Satisfactory	All actions agreed with management	
Care at Home	Identified via Audit Plan	Limited	6 recommended actions were agreed. A progress update has been received and of the 6 actions: 1 is implemented ahead of schedule. 5 are on target to be implemented within the agreed timescale (end of December 2023)	The review identified the following issues: <ul style="list-style-type: none"> <li>• The use of non-commissioned providers is not comprehensively reported to senior management on a regular basis</li> <li>• The selection and approval for the use of non-commissioned providers is not consistently evidenced</li> <li>• Provider contracts are not consistently monitored in accordance with the arrangements set out in the contract schedules</li> </ul>

Audit Report	Reason for Review	Audit Assurance Opinion	Comments	Summary of Findings – (Limited /No Assurance Reports Only)
Section 106	Identified via Audit Plan	No Assurance	Reported in detail to the Committee in September 2023	Significant issues were identified during the audit which have been reported to Audit & Governance, Environment and Communities and Finance Sub Committee. Progress in implementing these actions is being closely monitored. A verbal update will be provided to the December Committee meeting.

- 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 and the Chief Executive.

- 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 is subject to regular review to reflect the current resources available to the team. Having considered the current resources available within Internal Audit, it is anticipated 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 2023/24.

### **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. The School's Audit Programme for 2023/24 has been agreed by both the Director of Finance and Customer Services (Section 151 Officer) and the Head of Service: Education, Participation and Pupil Support and, as with the previous year, will be a thematic review of procurement, including the use of purchase cards, and HR arrangements including payroll. This will include the use of Unit4 but not the controls built into the system as these have been subject to separate audits undertaken jointly with Cheshire West and Chester Internal Audit team.
- 2.16. This year's programme will also ensure that all schools have received an audit review in the previous 5 years.
- 2.17. The work is planned to be completed during quarters 3 and 4 of the current year and is timed to provide assurance to the Section 151 Officer and facilitate the signing of the Annual Assurance Statement to the Department of Education in May 2024.
- 2.18. 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.
- 2.19. Consolidated findings and recommended actions and improvements are shared with all maintained schools through the "Schools Bulletin" and the "Director's Report".
- 2.20. 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 Head of Service: Education, Participation and Pupil Support

### **Supporting Corporate Governance**

- 2.21. 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).
- 2.22. During the first half of this financial year, and as previously reported in the 2022/23 Internal Audit Annual Report, Internal Audit has coordinated, on behalf of Management, the production of the Council's AGS for 2022/23.
- 2.23. The Draft AGS 2022/23 was presented to Audit & Governance Committee at their July 2023 meeting, and the final version will be brought back to a future meeting for approval following completion of External Audit's work on the 2021/22 Financial Statements.
- 2.24. Audit and Governance Committee approved the Final AGS 2021/22 at their March 2023 meeting, and delegated authority to the Chief Executive and Leader of the Council to sign off the Statement upon completion of the external audit work on the Financial Statements. The External Audit work was completed, and the audit certificate issued, in November 2023 and the Final AGS 2021/22 has now been signed and published on the Council's website.

### **Counter Fraud and Investigations**

- 2.25. Internal Audit has continued to keep abreast of the latest fraud threats, and where appropriate coordinated awareness raising with the appropriate services.
- 2.26. Internal Audit has coordinated the Council's participation in the biennial National Fraud Initiative (NFI) exercise and ensured that services have uploaded the required data sets in accordance with deadlines. Matches were received in January 2023 and services are being supported to investigate matches and record the results on the NFI website.
- 2.27. The NFI carries out around 60 separate matches where there is the potential of fraud and error to take place. Examples of the types of matches undertaken are as follows:
  - Housing Benefit payments against other authorities
  - Housing Benefit payments against deceased persons
  - Payroll records against other authorities
  - Payroll records against Companies House
  - Creditors for duplicate payments and duplicate contact details
  - Blue Badges against deceased persons

- 2.28. The exercise returned over 6000 matches with around 4500 having been closed by services. It should be noted that the results are awarded a rating to signify the potential for it being a genuine match, and that the majority return no positive results following investigation.
- 2.29. A more detailed breakdown of matches and results will be provided in a future update to the Committee following completion of investigations.
- 2.30. There have been no reported instances of fraud brought to the attention of IA by management during the first half of 2023/24.

### Consultancy and Advice

- 2.31. 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.
- 2.32. In the year so far, advice and guidance has been provided on:
- Design and application of controls in new/proposed systems.
  - Interpretation of Finance and Contract Procedure Rules.
- 2.33. 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

- 2.34. 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.
- 2.35. In 2023/24 to date, this has included work on the following grants, which were successfully signed off and submitted to the appropriate funding body:

**Table 4: Grants Certified during 2023/24 as at 30 September 2023**

Grant Certified	Funding Body	Amount
Family Focus (year to date)	MHCLG	£130,400
CWLEP Growth Hub Grant	BEIS	£231,000
CWLEP Peer Network Grant	BEIS	£150,000
CWLEP Skills Bootcamp	BEIS	1,036,653
Bus Service Operators Grant	DfT	£347,865



Local Transport Capital Block Funding	DfT	£9,252,000
Energy Efficiency – Sustainable Warmth	BEIS	£3,288,860
Supplementary Substance Misuse Treatment and Recovery Funding	PHE	£346,706
Changing Places	DLUHC	£12,000
Pothole Challenge	DfT	£5,799,000
<b>Total</b>		<b>£20,594,484</b>

- 2.36. 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.
- 2.37. Over recent years, the level of testing required to provide assurance that grants have been used in accordance with the grant conditions has increased. This is taking up an increasingly large amount of Internal Audit resource and to manage this demand, 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

- 2.38. 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.
- 2.39. Having carried out this work remotely during the pandemic, it was possible to return to an on-site audit for the current year. 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.
- 2.40. The work was completed, and a report issued during June 2023.

### Implementation of Audit Recommendations

- 2.41. 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.
- 2.42. 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.
- 2.43. 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 has been 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 and the Corporate Leadership Team have regular updates on the position of recommended actions.
- 2.44. The implementation of agreed recommendations for reports issued in 2020/21, 2021/22 and the current year to date is detailed in the table below.

**Table 5: Implementation of agreed recommendations as at 30 September 2023**

On time	After the agreed date	Total implemented	In progress, or overdue	Agreed actions subsequently not implemented
2021/22				
100%	0%	98%	2%	0%
2022/23				
100%	0%	100%	0%	0%
2023/24				
100%	0%	100%	0%	0%

- 2.45. During the recent Section 106 review, it became apparent that previously agreed actions had not been implemented and the arrangements for undertaking follow ups had not identified this issue in a sufficiently timely manner.
- 2.46. In response, a detailed review of all audit actions agreed since 2021/22 has been undertaken to determine whether services have successfully implemented agreed actions.
- 2.47. The findings of this review are detailed in **Table 6** below:

**Table 6: Implementation of Agreed Audit Actions - 2021/22 to 30/09/2023**

Action Status	No of Actions
Total actions agreed	143
Completed actions	48
Superseded actions	3
In progress (not yet due)	88
In progress (past agreed date)	2

- 2.48. The 2 outstanding actions, which were in relation to updating policy and procedures, and the structure chart, were medium level actions, due for implementation at the end of June 2023. Further work has identified that implementation was delayed because of long-term absence within the team, new implementation dates are being agreed with the service and the appropriate senior manager.
- 2.49. Additional information in relation to the implementation of actions will be provided in future Internal Audit update reports as our approach to follow up work develops further.

### Ongoing Work

- 2.50. The following audits were ongoing at the time of reporting:

**Table 7: Ongoing Internal Audit Assignments as at 30 September 2023**

Audit	Scope of Review	Status
School's Consolidated Report	To communicate the findings from the School's Audit Programme	Draft report issued
Land Transaction Concern	To test the concerns raised by a member of the public	Draft report for review
Purchase Cards – Children's Services	To review the use of purchase cards within the directorate and compliance with policy and procedures	Fieldwork complete
Purchase Cards – Adults, Health & Integration	To review the use of purchase cards within the directorate and compliance with policy and procedures	Fieldwork complete
Purchase Cards – Corporate Services	To review the use of purchase cards within the directorate and compliance with policy and procedures	Fieldwork complete

Purchase Cards - Place	To review the use of purchase cards within the directorate and compliance with policy and procedures	Fieldwork complete
Corporate Travel Management	To review the effectiveness of controls within the system and compliance with policy and procedure	Fieldwork complete
Use of Agency Workers	To review the use of agency workers across the authority and	Fieldwork complete
Unit4 – Exception Payments	To review the use of exception payments within Unit4	Fieldwork nearing completion
Grant Monitoring and Administration	To review the procedures in place for monitoring and reporting on grants received that are not subject to sign off by the Head of Audit & Risk	Fieldwork nearing completion
Debt Management and Recovery – Sundry Debt	To review compliance with policies and procedures and ensure that effective processes are in place for the collection of debt	Fieldwork underway
Debt Management and Recovery – Adult Social care	To review compliance with policies and procedures and ensure that effective processes are in place for the collection of debt	Fieldwork underway
Treasury Management	To review the arrangements in place for the effective management of the Council's financial assets	Fieldwork underway
Starters, Contractual Changes and Leavers	To review the use of Unit4 and compliance with policies and procedures	Fieldwork underway
Direct Payments – Adults	To review compliance with policy and procedures and understand the impact of proposed changes to the control environment	Terms of reference issued
Direct Payments – Children's	To review compliance with policy and procedures and understand the impact of proposed changes to the control environment	Terms of reference issued

ICT Hybrid Programme (joint work with CWAC)	To provide assurance that the Programme has robust governance arrangements and is appropriately resourced and has a delivery plan that recognises the challenging timeframe it has been set.	Terms of reference issued
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**Table 8: Planned work for Q3&4**

Audit	Scope of Review
Accounts Receivable	To review the use of Unit4 and arrangements in place for the timely and accurate raising of invoices
Housing Benefits Discretionary Payments	To review the use of discretionary payments and ensure that there is appropriate approval and oversight in place
Pre-Loaded Cards	To review the use of preloaded cards across the Council and ensure appropriate controls are in place
Tribunal Process	To review the arrangements in place and ensure compliance with policies and procedures
Resource Allocation Panel – Children's Services	To review the governance and oversight in place to ensure that spend is subject to appropriate control and monitoring

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 performance indicators which are detailed in **Table 9**.

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

**Table 9: Performance Indicators to date**

Performance Indicator	2023/24 Actual to date	2023/24 Target	2022/23 Actual	Comments on 2022/23 Actuals
% of Audits completed to user's satisfaction	100%	95%	96%	Above target
% of significant recommendations agreed	100%	95%	100%	Above target

Chargeable Time (Assurance Work)	83%	85%	88%	Above target
Draft report produced promptly (per Client Satisfaction Form)	100%	95%	95%	On 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 self-assessment for 2023/24 is scheduled for completion within Quarter 3 and the results will be reported to the Committee following its completion.
- 4.4. The external review of compliance with the PSIAS will be undertaken through a peer review process via the North West Chief Audit Executive Group, and will take place before the end of the current financial year.