



Internal Audit

Interim Report 2017/18

April – September 2017

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Internal Audit Interim Report 2017/18 April – September 2017

1 Introduction

- 1.1 In accordance with the United Kingdom Public Sector Internal Audit Standards (PSIAS), the first Internal Audit Interim Report 2017/18 for Cheshire East Council contains “emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 1.2 Internal Audit is required, at the end of the year, to form an 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 that have been identified.
- 1.3 The interim report contains the following:
- a summary of the audit work carried out in 2017/18 to date (Section 2)
 - any issues judged particularly relevant to the preparation of the Annual Governance Statement (AGS) (Section 3)
 - 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 targets (Section 4)
 - comments on compliance with these standards and communication of the results of the internal audit quality assurance programme (Section 5)

- other developments, including the Internal Audit Charter (Section 6)

2 Summary of Audit Work 2017/18

- 2.1 This is the first 2017/18 interim report on progress against the Internal Audit Plan. A summary comparison of the 2017/18 Audit Plan with actuals for the half year to 30 September 2017 is shown on page 3 (with comments on variances).
- 2.2 During the first half of the year, 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.

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Summary Comparison of Audit Plan 2017/18 and Actuals

Area of Plan		Plan		Actuals (to 30/9/17)		Comments on coverage
		Days	%	Days	%	
Chargeable Days		1407		682		Reduced impact of vacancies due to increased hours and outstanding leave/bank holidays
Less: Corporate Work		327		74		Reduced involvement due to increased investigation requirement
Available Audit Days:		1080	100	608	100	
Corporate Governance and Risk		80	7	42	7	Coverage in line with plan
Anti-Fraud and Corruption	Proactive Reviews	60	5	19	3	Coverage in line with plan
	Reactive Investigations	30	3	162	27	Includes fraud investigations and also other unplanned work as discussed later in the report
Chief Operating Officer (COO)	Key Financial Systems	250	23	114	19	Coverage in line with plan
	Corporate Core & Cross Service	120	11	62	10	Coverage in line with plan
Children and Families		90	8	42	7	Coverage in line with plan
Adult's Social Care		90	8	17	3	Work planned for Q3/Q4
Community and Partnerships		40	4	15	2	Work planned for Q3/Q4
Public Health		10	1	0	0	Work planned for Q3/Q4
Planning and Sustainable Development		30	3	6	1	Work planned for Q3/Q4
Infrastructure and Highways		50	5	53	9	Coverage weighted to Q1/Q2
Growth and Regeneration		40	4	14	2	Work planned for Q3/Q4
Rural and Green Infrastructure		20	2	17	3	Coverage in line with plan
Providing Assurance to External Organisations		40	4	17	3	Coverage in line with plan
Advice & Guidance		30	3	12	2	Coverage in line with plan
Other Chargeable Work		100	9	16	2	Includes Certification of grants arising in year, follow up and additional reporting on the implementation of agreed audit actions
Total Audit Days		1080	100	608	100	

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Summary of Audit Work to support the overall opinion

Area	Description of Audit Work	Output
Assurance Work	Audits with formal assurance level.	Audit Reports
Schools	Assessment against Schools Financial Value Standard and completion of thematic reviews.	Audit Reports
Supporting Corporate Governance	Support and contribution to production of the Annual Governance Statement, including assurance statements from Heads of Service.	Annual Governance Statement, and supporting evidence
	Support and contribution to update reports from the Corporate Governance Group.	Reports to Corporate Leadership Team
	Support and contribution to AGS Action Plan, Compliance with Contract Procedure Rules reports etc.	Report to Audit & Governance Committee
Counter Fraud and Investigations	Review of Anti-Fraud and Corruption arrangements.	Report to Audit & Governance Committee
	National Fraud Initiative – co-ordination of data extract, submission and investigation of matches.	Results published on Cabinet Office website/update reports to Corporate Assurance Group/Investigation Reports.
	Investigations	Investigation Reports
Consultancy & Advice	Ad-hoc consultancy and advice provided to services.	Various – reports etc.
Statutory Returns/ Grant Claims	Audit/assurance work on programme/project and subsequent report to statutory/funding body.	Return/Claim sign off
Implementation of Recommendations	Targeted follow up of audit recommendations based on audit opinion/recommendation.	Follow up reports/action plans/Key Corporate Indicator (see: Implementation of Audit Recommendations, (2.41 to 2.47)

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Assurance Work

- 2.3 A summary of the reports produced in the first half of 2017/18 with the formal assurance level is included below (some of the audit reports may still be at draft stage i.e. awaiting management comments).
- 2.4 The assurance levels reported in the table below 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).
- 2.5 Where control weaknesses are identified recommended actions are agreed with management to ensure that the control environment is improved to an acceptable level.
- 2.6 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.

Summary of reports by assurance level

Assurance Level	Half year to 30/9/17 Audit Reports	Full Year 2016/17 Audit Reports
Good	3	3
Satisfactory	7	7
Limited	5	12
No	1	1
Total	16	23

- 2.8 Further detail is provided on those audits with 'Limited' or 'No' assurance during the period under review.

Limited Assurance Reports

- 2.9 In each case a number of recommendations have been made. When implemented these will address the identified weaknesses and improve the control environment.
- 2.10 All actions from these audits have been, or are currently being, agreed with management and progress on implementation will be monitored through normal processes. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the Annual Governance Statement process.

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Summary of Assurance Reports 2017/18

Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions (for 'Limited' and 'No' Assurance reports)	Management Response
Key Financial Systems – Council Tax 2016/17	Key Financial System	Good		All actions agreed Final Report issued
Housing Benefits	Key Financial System	Good		All actions agreed Final issued
KFS – Business Rates	Key Financial System	Good		All actions agreed Final Report issued
SFVS High Schools Consolidated Report	Assurance to s151 Officer	Satisfactory		All actions agreed Final Report issued
School's Capacity Survey	Identified via Audit Planning Process	Satisfactory		All actions agreed Final Report issued
ERP Replacement – Phase 1	Joint work with CWAC. Issued as a CWAC Report	Satisfactory		All actions agreed Final Report issued
KFS – Accounts Receivable	Key Financial System	Satisfactory		All actions agreed Final Report issued
Facilities Management	Identified via Audit Planning Process	Satisfactory		All actions agreed Final Report issued
Adults Personal Budgets	Identified via Audit Planning Process	Satisfactory		All actions agreed Final Report Issued
Schools Finance team	Identified via Audit Planning Process	Satisfactory		All actions agreed Final Report Issued
Purchase Cards	Identified via Audit Planning Process	Limited	More detailed guidance required to clarify roles and responsibilities in relation to the use, particularly online, and compliance checking of Purchase Cards.	All actions agreed Final Report Issued
CCTV	Identified via Audit	Limited	Plans were already in place for the majority of identified	All actions agreed

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Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions (for 'Limited' and 'No' Assurance reports)	Management Response
	Planning Process		issues which included formalisation of disaster recovery arrangements including decisions around back up servers, completion of asset registers for both equipment and information and completion of the ongoing project to update CCTV signage across the Borough.	Final Report Issued
LEP Assurance Framework	Assurance to CEC as Accountable Body	Limited	The Assurance Framework has been reviewed, amended, formally approved and is being implemented but further consideration is required to ensure that; independent overview and scrutiny arrangements are in place, and additional supporting information relating to projects is available on the CWLEP website.	All actions agreed Final Report issued
Children's Placements	Identified via Audit Planning Process	Limited	Robust guidance and strategies are required to ensure a consistent approach to contract management rather than the current reliance on the skill sets of individual officers. A 'Lean Review' of the Placement Service will be undertaken and address the detailed findings of the audit review.	All actions agreed Final Report issued
Children's Centres	Identified via Audit Planning Process	Limited	The day to day management of the budgets and the staff related objective setting are in place and are working effectively, however improvements were recommended relating to high level such as the local scheme of delegation, operational risk register and strategic service plan.	All actions agreed Final Report issued
Adults Direct Payments	Identified via Audit Planning Process	None	Direct Payment accounts were not being audited in accordance with the Policy and procedures for the recovery of surplus or misspent funds were not sufficiently robust.	All actions agreed Final Report Issued

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Schools

- 2.11 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.
- 2.12 The School's Audit Programme for 2017/18 and 2018/19 has been designed to ensure that coverage of all schools not yet audited, since the responsibility for undertaking SFVS assurance work returned to the Internal Audit team, will be achieved by the end of 2018/19.
- 2.13 The School's Audit Programme for 2017/18 will cover the following work areas:
- A thematic review on the effectiveness of governance arrangements at 20 schools;
 - An audit review of the School's Governance Team.
- The same programme of work will be carried out 2018/19.
- 2.14 Visits to the schools began in September 2017 and should be completed by the end of December 2017. Individual reports will be produced and issued to schools detailing any

areas of weakness identified and any actions required to address these weaknesses and improve the control environment. This year we have also introduced an assurance opinion on the arrangements, in line with other audit reports issued.

- 2.15 Consolidated findings and recommended actions and improvements are shared with all maintained schools through the "Schools Bulletin".
- 2.16 Findings from all areas will inform a consolidated schools report which provides assurance to the Director of Finance and Procurement and the Director of People. This will also inform the completion of the Annual Assurance Statement completed by the Director of Finance and Procurement under Section 151 responsibilities.

Supporting Corporate Governance

- 2.17 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).
- 2.18 During the first half of this financial year Internal Audit has coordinated, on behalf of Management, the production of the Council's AGS for 2016/17 by:

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- collecting evidence for and production of the 2016/17 Annual Governance Statement.
- contribution to and production of Audit & Governance Committee reports on Corporate Governance.
- Principal Auditor representation on and contribution to the Corporate Assurance Group (CAG) in order to advise on risk management, control, and governance issues that have been identified through audit work and ensure that the findings have been considered when determining the 2016/17 AGS action plan.

2.19 Audit and Governance Committee approved the Final Annual Governance Statement 2016/17 at their September meeting, in line with statutory deadlines. A progress updated on issues recognised in the AGS 2016/17 has been prepared for the Committee's December meeting. This paper also outlines the proposed production process for the 2017/18 AGS.

Risk Management

2.20 Internal Audit no longer has operational responsibility for Risk Management. This currently sits with the Business Governance and Risk Manager who reports to the Director of Legal Services.

Counter Fraud and Investigations

2.21 Internal Audit has provided advice and guidance to both Human Resources colleagues and Service Managers to support them in the completion of a small number of investigations relating to suspected fraud and theft by employees. Where required, action has been taken in accordance with the appropriate policies and referrals made to the police for further investigation. There are no significant issues arising from this work to bring to the attention of the Committee.

2.22 Work continued in ensuring that the matches received in January 2017 as part of the National Fraud Initiative data matching exercise are being investigated by the appropriate services.

2.23 Additional work has also been completed in preparation for the supplementary data matching exercise that will take place in December 2017.

Consultancy and Advice

2.24 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

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audit opinion as well as building good relationships across the Council.

- 2.25 So far this year, advice and guidance has included the application of Finance and Contract Procedure Rules, suspected scams/frauds in schools and across the council, management of client monies in social care settings.

Statutory Returns/Grant Claims

- 2.26 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.

- 2.27 During 2017/18 this has included work on the following grants which were successfully signed off and submitted to the appropriate central government department:

Family Focus (year to date)	£77,000
Bus Service Operators Grant 2016-17	£348,000
CWLEP Local Growth Fund 2016-17	£45,787,000
Crewe Green Roundabout	£585,000
Sydney Road Bridge	£909,000
Middlewich Eastern By-pass	£1,257,000
Total	£48,963,000

Work for Other Bodies

- 2.28 In addition to the work described above, Internal Audit carried out the following work for an external body.
- 2.29 PATROL (Parking and Traffic Regulations Outside London) – Cheshire East Council is the Host Authority to the PATROL Joint Committee & Bus Lane Adjudication Service Joint Committee.
- 2.30 In accordance with the Service Level Agreement the Council has delivered the Body's Internal Audit service and is responsible for the completion of Section 4 of the Small Bodies Annual Return.
- 2.31 The Annual Internal Audit Report was presented to the Joint Committee in July 2017.

Implementation of Audit Recommendations

- 2.32 Throughout 2017/18, Internal Audit has continued to carry 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.

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- 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.

2.33 Audits with ‘limited’ or ‘no’ assurance are subject to more detailed review. In addition, key systems (e.g. Payroll, Accounts Payable) are audited each year with recommendations followed up as part of the work.

2.34 As previously reported, Internal Audit has, with the support of senior management, raised the profile of audit recommendations which in previous years had been a cause for concern. This resulted in the 2016/17 figures demonstrating the highest recorded percentage of recommendations implemented since Cheshire East Council was created. The figures for the first half of the current year have revealed a similarly high implementation rate as detailed in the following table:

Implementation of agreed recommendations as at 30 September 2017

On time	After the agreed date	Total implemented	In progress, part implemented or overdue	Superseded or no longer valid
2016/17 ¹				
85%	12%	97%	3%	0
2017/18 ²				
62%	32%	94%	6%	0

2.35 Whilst these figures show that a high percentage of agreed recommendations are implemented, the proportion put in place after the agreed deadline remains an area for improvement that will be subject to further attention during the second half of the year.

2.36 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. Internal Audit will continue to work with senior managers to improve this important indicator, to include the escalation of common themes or emerging patterns in

¹ Updated from Annual Report to Include actions issued in 2016/17 but due for implementation in 2017/18

² Revised to take account of actions that were not due for implementation as at 30.09.17

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relation to agreed recommendations (high and medium rated) that are not being progressed to CLT as necessary.

Ongoing Work

2.37 The following audits commenced during the first half of the year, with work ongoing in the third quarter of 2017/18:

- Schools Audit Programme – Assurance to S151 Officer in accordance with the schools audit programme.
- Performance Management – the review will include the arrangements for the completion of statutory.
- Section 106 Monies – assurance around the controls in place to manage the collection, management, implementation and expenditure of S106 schemes.
- Key Financial Systems General Ledger – assurance that arrangements are in place to ensure that transactions are recorded accurately and completely.

2.38 Other planned work, subject to final agreement with management in terms of timing and content, includes:

- Free School Meals
- GDPR Preparedness
- Key Financial System reviews

Reliance placed on the work of other assurance bodies

2.39 Internal Audit place assurance on the work of the Council's external auditors, OFSTED and other external bodies, where appropriate.

3 Annual Governance Statement

3.1 Each year the Council produces an Annual Governance Statement that explains how it makes decisions, manages its resources and promotes its values and high standards of conduct and behaviour. Any significant issues that are assessed as falling short of the Council's expected high standards are reported in the Annual Governance Statement.

3.2 The findings and opinions of 2017/18 Internal Audit work will be considered in preparing the 2017/18 AGS. The contents of this interim report will form part of that process.

4 Internal Audit Performance

4.1 Internal Audit's performance is measured against a number of performance indicators which are detailed in the table below. The performance relating to the implementation of recommendations is detailed earlier in this report.

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Performance Indicator	2017/18 Actual	2017/18 Target	2016/17 Actual	Comments on 2016/17 Actuals
% of Audits completed to user's satisfaction	94%	92%	94%	Above Target
% of significant recommendations agreed	100%	90%	100%	Above Target
Productive Time (Chargeable Days)	87%	80%	83%	Above Target
Draft report produced promptly (per Client Satisfaction Form)	83%	95%	90%	Below target as reduced resources caused delay in review process.

5 Compliance with the Public Sector Internal Audit Standards

- 5.1 Regulation 6 of the Accounts and Audit Regulations 2015 requires the Council to conduct an annual review of the effectiveness of its system of internal control and prepare an annual governance statement. A review of internal audit that includes the contribution made by the audit committee should form part of the review of internal control required by Regulation 6.

- 5.2 This review has been carried out by self-assessing compliance with the Public Sector Internal Audit Standards (PSIAS).
- 5.3 The review concluded that although there are areas for improvement, the internal audit service is being delivered to the required standard. This contributes to the assurances received for the AGS and was shared with members of the Committee as part of the AGS process in September.
- 5.4 An improvement action plan has been drawn up and will be monitored on an ongoing basis. Progress on improvements will be shared with the Committee as part of the regular Internal Audit reports.
- 5.5 As reported to Committee in September 2017, the Internal Audit function will receive an external assessment as part of peer review arrangements with other North West internal audit teams. This is scheduled for late January and the results of the assessment will be reported to the next available Audit and Governance Committee.

6 Other Developments (including Internal Audit Charter)

- 6.1 In light of the continued Corporate Manager Governance and Audit and Audit Manager vacancies, interim acting up arrangements have continued within the team.
- 6.2 In addition to the work carried out in accordance with the Audit Plan, a number of specific reviews in relation to legacy

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matters have been undertaken by members of the Internal Audit team. These matters have subsequently been referred to the police and as such it is not possible to comment further at this time.

- 6.3 Following on from these reviews, and in recognition of the resource pressures that they were placing upon the team, external resource was commissioned to complete two further pieces of related work. This will help to ensure that the team can focus on providing sufficient coverage to inform the Annual Internal Audit Opinion.
- 6.4 The external resource work is expected to be completed by the end of November 2017 with draft reports received in mid December.
- 6.5 As previously reported, Internal Audit issued a report relating to Air Quality Management during 2016/17 and an update was provided to the September 2017 meeting of the Audit and Governance Committee.
- 6.6 The actions arising from the Internal Audit report have been incorporated into a wider Air Quality Action Plan that also includes recommendations from the external investigations commissioned in response to the original audit.
- 6.7 Assurance has been provided that the actions have been implemented, and at the time of producing this update, work was underway to validate this assurance.

- 6.8 Internal Audit will also monitor the implementation of the wider action plan and report any concerns back to Audit and Governance Committee.
- 6.9 The Internal Audit Charter was approved by the Committee in November 2014, with review due on an annual basis. An updated Charter was reviewed by the Committee in November 2016 but not adopted at that time.
- 6.10 A revised and updated version, that takes account of changes in structural and operational responsibility, and complies with the changes made in the update to the Public Sector Internal Audit Standards in March 2017 is included as Appendix B.

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