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# Internal Audit Annual Report 2017-18

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# Cheshire East Council - Internal Audit Annual Report 2017/18

## 1 Introduction

1.1 From 1 April 2013, the Public Sector Internal Audit Standards (PSIAS) and accompanying Local Government Application Note became the standards by which all Local Government Internal Audit Sections must comply. The Standards were updated in March 2017.

1.2 As set out in the PSIAS, the Council's Corporate Manager Governance and Audit 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 internal audit Quality Assurance and Improvement Programme (QAIP).

1.3 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.

1.4 As has been the case for the previous two years, this report has been prepared by the Council's Principal Auditors who have continued acting up to cover the responsibilities of the vacant Corporate Manager Governance and Audit and Audit Manager roles.

1.5 Support and sign off has been provided by the Interim Executive Director of Corporate Services who has line management responsibility for Internal Audit and the approach has been validated with the Council's External Auditors.

## 2 Background and Context

2.1 In common with all other public bodies, the Council continues to face increasing financial and service delivery challenges, the scale of which are

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illustrated within the Medium Term Financial Strategy.

- 2.2 Expected gross expenditure in 2017/18 by the Council was £599m, with a capital programme of £138m. This annual expenditure supports service delivery to over 370,000 residents, in line with our six strategic outcomes for residents.
- 2.3 During 2017/18 the Council continued to develop innovative solutions for service delivery to provide the best possible outcomes for the residents of Cheshire East at a competitive price.
- 2.4 The Council's 2017/18 audit plan reflected this through the areas selected for review and the changes made during the year to ensure resources were focussed in the right areas.
- 2.5 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 2016-2020.

- 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.

- 2.6 Staffing resource for Internal Audit has again been limited during 2017/18. This was due to vacancies to the Corporate Manager Governance and Audit and the Audit Manager posts. External resource was procured during the year to support investigative work.
- 2.7 In response, the Principal Auditors have continued to carry out the senior management roles within the team thus ensuring that the responsibilities placed upon the 'Chief Audit Executive' by the PSIAS have been fulfilled. As a result the capacity to carry out audit assignments and review and quality assure limited.
- 2.8 Despite this limited audit resource, the team has delivered sufficient coverage, to the appropriate standard, to enable an informed opinion to be provided on the control environment.

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### 3 Opinion on the Control Environment

- 3.1 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.
- 3.2 In the context of the PSIAS, 'opinion' does not simply mean 'view', 'comment' or 'observation'. It means that internal audit have done sufficient, evidenced work to form a supportable conclusion about the activity that it has examined.
- 3.3 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.
- 3.4 The Council continues to make changes to its organisational structures and ways of working in a number of services as the Council's transformation and improvement programme continues to gather pace. This has increased the challenges to the internal control environment with changes to both staffing structures and delivery models.
- 3.5 Our work has confirmed that adequate management arrangements are in place to ensure that services are being delivered and agreed savings proposals are being realised. Findings are delivered through formal audit reports and action plans and this is complemented by regular meetings with departmental management teams to provide updates on audit, internal control, risk and governance issues as well as a programme of follow ups of audit recommendations.
- 3.6 In arriving at the Opinion, it was recognised that during 2017/18 Internal Audit has completed a number of reviews of land transactions, at the request of the Acting Chief Executive and Executive Director Place, that have resulted in referrals to the police. It was also recognised, however, that these reviews were concerned with historic transactions and as such have not impacted upon our Opinion of the current control environment.
- 3.7 In response to these reviews, a consolidated findings report was produced. A review of current arrangements in this area, informed by previous findings, is included with the 2018/19 Internal Audit Plan.

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### Internal Audit Opinion on the Council's control environment

#### The Council's framework of risk management, control and governance is assessed as Adequate for 2017/18.

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;
- Management's response to advice and recommendations
- the process of producing the Council's annual governance statement; and
- the Council's Annual Report on its Risk Management Arrangements

## 4 Summary of Audit Work 2017/18

4.1 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.

4.2 The provision of assurance is, therefore, the primary role for internal audit. This role requires the Corporate Manager Governance and Audit to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

4.3 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.

4.4 In preparing the risk based plan for 2017/18 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;

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- the Council's Corporate Plan 2016-2020; and
- discussion with key stakeholders including external audit, the internal audit team and also the Cheshire West and Chester internal audit team in relation to shared services.

4.5 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.

4.6 The plan was reviewed and adjusted, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, and controls. Any significant changes were communicated to both CLT and the Audit and Governance Committee.

4.7 Interim reports on progress against the Internal Audit Plan and work carried out by the team were presented to Audit and Governance Committee in December 2017 and March 2018.

4.8 A summary comparison of the 2017/18 Audit Plan with actuals for the year is shown on page 6.

4.9 A summary of the audit work carried out in support of the Annual Internal Audit Opinion is shown on page 7.

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## Summary comparison of Audit Plan against actual 2017/18

Area of Plan		Plan		Actuals (to 31/03/2018)		Comments on coverage
		Days	%	Days	%	
<b>Chargeable Days</b>		<b>1407</b>		<b>1371</b>		Reduced impact of vacancies due to increased hours and external resource to supplement investigative work.
Less: Corporate Work		327		140		Reduced involvement due to increased investigation requirement
<b>Available Audit Days:</b>		<b>1080</b>	<b>100</b>	<b>1231</b>	<b>100</b>	
Corporate Governance and Risk		80	7	82	7	Coverage in line with plan
Anti-Fraud and Corruption	Proactive Reviews	60	5	56	5	Coverage in line with plan
	Reactive Investigations	30	3	277	23	Increased due to complex investigations
Chief Operating Officer (COO)	Key Financial Systems	250	23	218	18	Decrease offset by increased Corporate Core & Cross Service work
	Corporate Core & Cross Service	120	11	149	12	As above
Children and Families		90	8	62	5	Scope and coverage reduced following review of plan
Adult's Social Care		90	8	41	3	Scope and coverage reduced following review of plan
Community and Partnerships		40	4	24	2	Scope and coverage reduced following review of plan
Public Health		10	1	0	0	Work planned for 2018/19
Planning and Sustainable Development		30	3	57	5	Additional work following review of plan
Infrastructure and Highways		50	5	72	6	Additional work following review of plan
Growth and Regeneration		40	4	83	7	Additional work following review of plan
Rural and Green Infrastructure		20	2	27	2	Coverage in line with plan
Providing Assurance to External Organisations		40	4	25	2	Scope and coverage reduced following review of plan
Advice & Guidance		30	3	21	1	Coverage broadly in line with plan
Other Chargeable Work		100	9	37	2	Includes Certification of grants arising in year, follow up and additional reporting on the implementation of agreed audit actions
<b>Total Audit Days</b>		<b>1080</b>	<b>100</b>	<b>1231</b>	<b>100</b>	

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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 Management Group Board
	Support and contribution to AGS Action Plan, Compliance with Contract Procedure Rules reports etc.	Report to Audit & Governance Committee
Counter Fraud	Review of Anti-Fraud and Corruption arrangements.	Report to Audit & Governance Committee
	National Fraud Initiative – co-ordination of matches and investigation work.	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



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## Summary of Assurance Reports 2017/18

Audit Report	Reason for Review	Assurance	Management Response
Cyber Security	Identified via Audit Planning Process	Good	All actions agreed Final report issued
Council Tax Billing Reconciliation 18/19	Key Financial System	Good	All actions agreed Final report issued
NDR Billing Reconciliation 18/19	Key Financial System	Good	All actions agreed Final report issued
GDPR	Identified via Audit Planning Process	Good	All actions agreed Final report issued
Air Quality Follow Up	Request of Audit & Governance Committee	Good	All actions agreed Final report issued
Council Tax 2016/17	Key Financial System	Good	All actions agreed Final report issued
Housing Benefits	Key Financial System	Good	All actions agreed Final report issued
Business Rates	Key Financial System	Good	All actions agreed Final report issued
ERP Phase 2	Identified via Audit Planning Process	Satisfactory	All actions agreed Final report issued

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LEP Assurance Framework 2017	Identified via Audit Planning Process	Satisfactory	All actions agreed Final report issued
SFVS High Schools Consolidated Report	Assurance to s151 Officer	Satisfactory	All actions agreed Final report issued
Schools 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
Procurement Governance 17/18	Identified via Audit Planning Process	Satisfactory	All actions agreed Final report issued
SFVS Consolidated Report 17/18	Identified via Audit Planning Process	Limited	All actions agreed Final report issued

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General Ledger	Key Financial System	Limited	All actions agreed Final report issued
Purchase Cards	Identified via Audit Planning Process	Limited	All actions agreed Final report issued
CCTV	Identified via Audit Planning Process	Limited	All actions agreed Final report issued
LEP Assurance Framework	Assurance to CEC as accountable body	Limited	All actions agreed Final report issued
Children's Placements	Identified via Audit Planning Process	Limited	All actions agreed Final report issued
Children's Centres	Identified via Audit Planning Process	Limited	All actions agreed Final report issued
Adults Direct Payments	Identified via Audit Planning Process	No Assurance	All actions agreed Final report issued

## Assurance Work

- 4.10 In accordance with best practice Internal Audit's focus is on higher risk areas and areas where issues were known or expected to exist, for example through manager self-assessment. Clearly this approach adds value to the organisation, but, by its nature, may also result in lower overall assurance levels.
- 4.11 The exception to this approach is the cyclical review of the Council's key financial systems which, despite being deemed to be low risk, are subject to regular review due to the volume of transactions processed.

### Summary of reports by assurance level

Assurance Level	Audit Reports 2017/18	Audit Reports 2016/17
Good	8	3
Satisfactory	10	7
Limited	7	12
None	1	1
Total	26	23

- 4.12 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.
- 4.13 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.

- 4.14 The issues arising from audit activity and the implementation of associated recommended actions have been considered as part of the 2017/18 Annual Governance Statement process.

## Limited and No Assurance Reports

- 4.15 A summary of the audit reports that relate to work undertaken during 2017/18 is shown on pages 8 to 10, with further detail of the limited and no assurance reports provided below.
- 4.16 **Purchase Cards** – the objective of the review was to assess the adequacy of the controls in place to prevent the inappropriate use of purchase cards with regard to compliance with procurement rules and unauthorised or fraudulent transactions.
- 4.17 The review concluded that more detailed guidance was required to clarify roles and responsibilities in relation to the use of cards, particularly online, and compliance checking of purchase cards.
- 4.18 **CCTV** – the objective of the review was to assess the adequacy of the controls in place to ensure compliance with legislation including the 12 principles of the CCTV Code of Practice.
- 4.19 The review identified that plans were already in place for the majority of identified issues. These included formalisation of disaster recovery arrangements

including decisions around back up servers, completion of asset registers for both equipment and information and completion of an ongoing project to update CCTV signage across the Borough.

- 4.20 **LEP Assurance Framework** – the objective of the review was to provide assurance that the Local Assurance Framework and the procedures adopted and applied by the Local Enterprise Partnership were robust, in accordance with national guidance and supportive of Cheshire East's responsibilities as the Accountable Body
- 4.21 The review identified that the Assurance Framework had been reviewed, amended, formally approved and was, at the time, being implemented. It was concluded that further consideration was required by the LEP to ensure that independent overview and scrutiny arrangements are in place, and additional supporting information relating to projects is available on the CWLEP website.
- 4.22 **Children's Placements** – the objective of the review was to seek assurance that robust and effective systems were in place to ensure the efficient management of external placements within Children's Services.
- 4.23 The review identified that robust guidance and strategies were required to ensure a consistent approach to contract management rather than relying on the skill sets of individual officers. It was agreed that the detailed findings of the audit review would be

addressed during a planned 'lean review' of the Placement Service.

- 4.24 **Children's Centres** – the objective of the review was to assess the adequacy of controls in place to manage the financial performance and achievement of outcomes in this area.
- 4.25 The review concluded that although the day to day management of budgets and the staff related objective setting are in place and operating effectively, improvements were required in relation to areas such as the local scheme of delegation, operational risk registers and the strategic service plan.
- 4.26 **Adult Direct Payments** – the objective of the review was to assess the adequacy of controls in place to manage the monitoring and review of direct payments.
- 4.27 The review identified that direct payment accounts were not being audited in accordance with the Policy and that procedures for the recovery of surplus or misspent funds were not sufficiently robust.
- 4.28 **General Ledger** – the objective of the review was to assess the adequacy of the systems, processes and controls in place for the management of the general ledger.
- 4.29 The review concluded that although controls are operating effectively in some areas, improvements were recommended in relation to issues such as ensuring Schemes of Delegation are up to date, timely

review of control accounts and the approval process in relation to system access requests.

4.30 **SFVS Consolidated Report 17/18** – this is covered within the Schools section below.

4.31 In all cases a number of 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.

4.32 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.

## Schools

4.33 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.

4.34 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.

4.35 The School's Audit Programme for 2017/18 covered 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 at the remaining schools during 2018/19.

4.36 The schools subject to audit were selected using a risk assessment which took into account the following:

- Ofsted rating;
- Size of school (number of pupils);
- Budget management;
- Recent audit reports;
- School buildings projects; and
- Internal knowledge provided by the School Finance Team.

4.37 Individual audit reports were issued to the Headteacher and Chair of Governors of each school along with a detailed action plan to enable the school to improve its control environment. This year we have also introduced an assurance opinion on the arrangements, in line with other audit reports issued.

- 4.38 A consolidated report drawing together the thematic findings of the 2017/18 school audits was produced and a limited opinion given due to the inconsistent application of controls in relation to governance. This included issues such as the regular review and approval of the Manual of Internal Financial Procedures, and the annual review of Governor declaration of interests.
- 4.39 The work undertaken by Internal Audit provided assurance that the majority of controls relating to the risk areas subject to review are operating effectively. While the individual issues identified were not considered to be significant, the range and number of common issues were such that a limited assurance on the wider control environment was given. They have been reported to the relevant schools and also shared with all schools using our established network.

#### **Supporting Corporate Governance**

- 4.40 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).
- 4.41 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.

- 4.42 Any significant issues that are assessed as falling short of the Council's expected high standards are reported in the AGS. Although the Council is recognising four issues in the draft 2017/18 Annual Governance Statement, there are no outstanding significant control issues identified through the work of Internal Audit that require disclosure.
- 4.43 Issues recognised in the Annual Governance Statements are monitored by the Corporate Assurance Group and escalated, as necessary, to the Corporate Leadership Team, Audit and Governance Committee and/or Cabinet. Internal Audit actively supports the Corporate Assurance Group to ensure that effective improvements and mitigating actions are implemented.
- 4.44 Internal Audit has assisted Management in the production of the Council's AGS for 2017/18 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, in order to advise on control and governance issues in relation to information governance and data handling.
  - 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 2017/18 Statement and Action Plan.

- 4.45 Audit and Governance Committee approved the Final Annual Governance Statement 2016/17 at their September 2017 meeting, in line with statutory deadlines. A progress update on issues recognised in the AGS 2016/17 was presented at the Committee's December meeting. This paper also outlined the proposed production process for the 2017/18 AGS.
- 4.46 The Final 2017/18 Statement will be considered and approved by the Audit and Governance Committee at its July 2018 meeting.

### **Risk Management**

- 4.47 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.
- 4.48 Assurance with regards to the effectiveness of Risk Management is provided by regular reports to Audit and Governance Committee.

### **Counter Fraud**

- 4.49 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.

- 4.50 In addition to this support role, Internal Audit has undertaken 5 investigations into suspected financial irregularities in relation to expense/overtime claims and the use of purchase cards.
- 4.51 The investigations identified losses of around £50,000 and resulted in the following actions being taken:
- 2 members of staff were dismissed
  - 1 member of staff is subject to an ongoing disciplinary process
  - The 2 remaining individuals had left Cheshire East prior to the Internal Audit investigation
  - All cases have been referred to the police for further investigation
- 4.52 During the year Internal Audit continued to coordinate the investigation of matches received in January 2017 as part of the National Fraud Initiative data matching exercise. These matches are being investigated by the appropriate services.
- 4.53 Additional work was also completed to ensure that the additional annual Flexible Matching exercise was completed successfully in December 2017. The results were released to the appropriate service in January 2018 and investigations are currently underway on the matches which have been released.



- 4.54 Finally, work is currently being undertaken to prepare the Council for its participation in the 2018 National Fraud Initiative exercise. This work also includes issuing updated Fair Processing Notices (FPNs) which take account of the changes in data protection requirements as a result of the forthcoming EU General Data Protection Regulations (GDPR).

### Consultancy and Advice

- 4.55 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.
- 4.56 This year advice was given on matters such as 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 and the development of performance management information to support the sign off of grant claims.
- 4.57 Internal Audit was also involved on the Project Board for the development of the new Constitution.

### Statutory Returns/Grant Claims

- 4.58 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.

- 4.59 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	£141,600
Bus Service Operators Grant 2014-15	£348,000
Crewe Green Roundabout	£585,000
Sydney Road Bridge	£909,000
Middlewich Eastern Bypass	£1,257,000
CWLEP LGF 2016-17	£45,787,000
<b>Total</b>	<b>£49,027,600</b>

- 4.60 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.

### Implementation of Audit Recommendations

- 4.61 Throughout 2017/18, Internal Audit has continued to carry out a range of follow up exercises to ensure that agreed 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; 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.

4.62 During 2017/18, Audit and Governance Committee requested additional assurance that the actions arising from the review of Air Quality Management had been implemented by management.

4.63 As such, a follow up review of actions arising from both the Internal Audit review, and the external work undertaken as a result of the Internal Audit review was carried out.

4.64 This identified that all actions were either complete or progressing towards implementation in line with agreed timescales and a report was issued providing 'Good Assurance'.

### Implementation of Agreed Recommendations

On time	After the agreed date	Total implemented	In progress, or overdue	Agreed actions subsequently not implemented
2015/16				
78%	14%	<b>92%</b>	8%	0%
2016/17				
82%	12%	<b>94%</b>	6%	0%
2017/18				
65%	31%	<b>96%</b>	4%	0%

4.65 The figures detailed show a continued improvement in the percentage of agreed actions implemented between 2015/16 and 2017/18.

4.66 It should be noted that the figures for 2015/16 and 2016/17 have been updated to take into account actions implemented in subsequent years and are therefore different to the figures previously reported.

4.67 These improvements have been 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.

4.68 Additional investigation has been carried out into the relatively high figure for actions implemented after the agreed date for 2017/18. This identified that the majority of these actions had been implemented within a month of the agreed date and had been impacted by events outside of the control of the services such as sickness absence.

- 4.69 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.
- 4.70 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. It is therefore pleasing to report that during 2017/18 senior management have supported Internal Audit by challenging their service managers around implementation of actions.
- 4.71 In some cases the scale of change now means that the original recommendation is no longer appropriate. In these circumstances Internal Audit liaises with managers to agree a more appropriate action, or agrees that the implementation of the action is no longer appropriate.
- 4.72 The timely implementation of audit recommendations is a good indicator of both the effectiveness of Internal Audit in securing action and the Council's commitment and capacity to improve.

### **Ongoing Work**

- 4.73 The following audits commenced during 2017/18, with work ongoing in the first quarter of 2018/19:

<b>Name of Audit</b>	<b>Status</b>
Land transactions consolidated report	Draft Report Issued
Section 106 Payments	Draft Report Issued
Performance Management	Fieldwork Complete
Free School Meals	Fieldwork Complete
External Moderation	Fieldwork Complete
Budget Monitoring	Fieldwork Ongoing
Salary Overpayments	Fieldwork Ongoing

### **Reliance placed on the work of other assurance bodies**

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

## **5 Internal Audit Performance**

- 5.1 The Internal Audit team's performance is summarised below and is above target. The slight underperformance relating to promptly issuing draft reports is as a result of the increased work load of the Principal Auditors. This has impacted upon their ability to carry out quality assurance reviews as quickly as would normally be the case.

Performance Indicator	2017/18 Actual	2017/18 Target	2016/17 Actual	Comments on 2015/16 Actuals
Percentage of Audits completed to user satisfaction	95%	92%	96%	Above target.
Percentage of significant recommendations agreed	97%	90%	100%	Above target.
Productive Time (Chargeable Days)	86%	80%	82%	Above target
Draft report produced promptly (per Client Satisfaction Questionnaire)	89%	95%	92%	Slightly below target

## 6 Compliance with the Public Sector Internal Audit Standards (PSIAS)

- 6.1 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) 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.

- 6.2 Therefore, a self assessment was undertaken against the updated PSIAS during quarter 1 of 2017/18 and an action plan developed. In addition to the self assessment, the Internal Audit function received an external assessment as part of the peer review arrangements with other North West internal audit teams during January 2018.
- 6.3 The findings of the assessment, which will be supported by an Action Plan, are currently progressing through the agreed drafting and moderation process and will be reported to the next meeting of the Audit and Governance Committee following their release.

## 7 Other Developments

- 7.1 During 2017/18, Internal Audit carried out a number of significant pieces of non assurance work into historic matters such as land transactions and the Council's response to changes to the National Minimum Wage with regards to sleep in payments.
- 7.2 This work resulted in 5 referrals to the police and as such it has not been possible to report the outcome of these pieces of work to Members. However, in producing the Internal Audit Plan for 2018/19, consideration was given to weaknesses identified and work will be undertaken to ensure that current controls are sufficiently robust to prevent similar issues.

- 7.3 As referenced earlier in this report, resource within Internal Audit remains an issue with both the Corporate Manager Governance and Audit, and Audit Manager posts currently vacant. This has been recognised by senior management and a restructure of Internal Audit is currently being progressed. This will ensure that the current level of Internal Audit resource is maintained whilst providing sufficient additional resource to undertake investigations and establish a robust counter fraud function.