

Internal Audit Interim Report 2018/19

April - August 2018

Version 3.1

1. Introduction

- 1.1. In accordance with the Public Sector Internal Audit Standards, the first Internal Audit Interim Report 2018/19 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.
- 1.3. The interim report contains the following:
 - a summary of the audit work carried out in 2018/19 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 (Table 2, Table 4 and Section 4)
 - comments on compliance with these standards and communication of the results of the internal audit quality assurance programme (Section 4 and Section 5)
 - other developments, including the Internal Audit Charter (Section 6)

2. Summary of Audit Work 2018/19 to date

- 2.1. This is the first 2018/19 interim report on progress against the Internal Audit Plan.
- 2.2. During this period, audit work was undertaken on the whole of the control environment comprising risk management, key control and governance processes. This work comprised a mix of risk based auditing, regularity, investigations and the provision of advice to officers. Annex 1 explains the variety of audit work undertaken to support the annual audit opinion.

Assurance Work

- 2.3. A summary of the final reports issued to the end of August 2018, by the audit assurance opinion given is included below;

Table 1: Reports to date by assurance level

Assurance Level	2018/19 (to 31/08/2018)	2017/18 Full Year
Good	0	8
Satisfactory	2	10
Limited	4	7
No Assurance	1	1
Total	7	26

- 2.4. A summary comparison of the 2018/19 Audit Plan with actuals for the year to 31st August 2018 is shown in **Table 2**, with comments on variances.

Table 2: Summary Comparison of Audit Plan 2018/19 and Actuals

Area of Plan		Plan		Actuals (to 31/08/18)		Comments on coverage
		Days	%	Days	%	
Chargeable Days		1,184		528		
Less: Corporate Work		160		65		Minimised/reduced work where possible to prioritise investigation work.
Available Audit Days:		1,024	100%	463		
Corporate Governance and Risk		120	12%	36	8%	Coverage in line with plan
Anti-Fraud and Corruption	Proactive Reviews	40	4%	38	8%	Includes support to investigations now referred to police.
	Reactive Investigations	50	5%	53	11%	Includes ongoing investigation work.
Chief Operating Officer (COO)	Key Financial Systems	145	14%	76	16%	Coverage in line with plan
	Corporate Core & Cross Service	255	25%	79	17%	Coverage in line with plan
Children and Families		64	6%	21	4%	Coverage in line with plan
Adult's Social Care		65	6%	31	6%	Coverage in line with plan
Community and Partnerships		15	1%	2	1%	Coverage in line with plan
Public Health		15	1%	0	1%	Coverage in line with plan
Planning and Sustainable Development		20	2%	8	2%	Coverage in line with plan
Infrastructure and Highways		30	3%	8	2%	Coverage in line with plan
Growth and Regeneration		40	4%	54	11%	Includes work around ongoing investigations.
Rural and Green Infrastructure		15	1%	0	0%	Coverage in line with plan
Providing Assurance to External Organisations		40	4%	13	3%	Coverage in line with plan
Advice & Guidance		30	3%	4	1%	Coverage in line with plan
Other Chargeable Work		80	9%	40	9%	Coverage in line with plan
	Total Audit Days	1,024	100%	463	100%	

- 2.5. Details of the reports produced to the end of August 2018 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.
- 2.6. 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).
- 2.7. 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.
- 2.8. 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.
- 2.9. 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.
- 2.10. With the exception of one item, all actions from these audits have been agreed with management and progress on implementation will be monitored through the follow up process. Draft reports are agreed with the appropriate managers, and Final reports are shared with the relevant Executive Director.
- 2.11. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the Annual Governance Statement process.
- 2.12. The plan has recently been reviewed and discussed with the Executive Directors and Acting Chief Executive to ensure that it still addresses areas of significant risk to the organisation, and to identify any issues with timing. There were no significant changes to the plan identified as a result of these discussions, but the plan remains closely monitored.

Table 3: Summary of Final Assurance Reports 2018/19 to 31st August 2018

Audit Report	Reason for Review	Audit Assurance Opinion	Management Response	Summary of Findings – (Limited /No Assurance Reports Only)
Revenue Budget Monitoring	Identified via Planning Process	Satisfactory	All actions agreed	N/A
Free School Meals	Identified via Planning Process	Satisfactory	All actions agreed	N/A
Visitor Attraction – Tatton Park	Identified via Planning Process	Limited	All actions agreed	<p>The objective of the view was to provide assurance on the effectiveness of controls in place around financial control in the establishment; management of income and expenditure, staffing expenses and inventory management.</p> <p>The review concluded that;</p> <ul style="list-style-type: none"> - The reconciliation of income processes could be improved. - The Scheme of Financial Delegation needs to be updated. - Consistency is needed in the application of controls on the authorisation of purchase card transactions and employee expenses. - The establishment needs a complete equipment register, including ICT and non ICT items; a full inventory of artefacts is in place.
External Moderation Arrangements	Identified via Planning Process	Limited	<p>3 actions agreed</p> <p>1 not agreed</p>	<p>The purpose of the review was to provide assurance on the controls in place to manage the risk of the Council not having provision for and a system in place for moderating teacher assessments at its maintained schools, therefore not complying with its statutory requirements.</p> <p>The review identified inconsistencies in the design and application of controls in place. Whilst the Council has provision for moderating teacher assessments it could improve on consistency of retaining records of attendance</p>

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				<p>on supporting documentation.</p> <p>Whilst there is a system in place to moderate the assessments, the application of controls in relation to the sample sizes of tests was inconsistent.</p>
Section 106	Identified via Planning Process	Limited	All actions agreed	<p>The objective of the view was to review the adequacy of controls around the requests, collection, management, implementation and expenditure of Section 106 schemes undertaken by the Council and its Wholly Owned Companies.</p> <p>The review concluded that Section 106 agreements are not being effectively managed due to significant resource constraints, an inadequate IT monitoring system and a lack of policy and procedures.</p> <p>Furthermore only financial obligations are included within the monitoring spreadsheet, and non financial obligations (excluding affordable housing) are going unmonitored.</p>
Performance Management and Reporting – Statutory Returns	Identified via Planning Process	Limited	All actions agreed.	<p>This review was undertaken to provide assurance on the arrangements in place to manage the risk of data for statutory returns not being collected in a complete, accurate and timely manner.</p> <p>The Council is required to complete nearly 140 separate data returns, as well as further returns for grants and other programmes.</p> <p>The review identified a wide variety of practices in place, and whilst staff were aware of, and met deadlines for the returns, and all were subject to some form of supervisory review, there were a number of improvements</p>

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				<p>recommended.</p> <p>These included developing local procedural guidance, to introduce a risk based approach to the appropriate level of control and scrutiny, restricting access to the working papers and drafts of potentially high risk returns, and ensuring detailed validation and cleansing in the preparation of the return.</p>
Travel Booking System	Identified via Planning Process	No Assurance	All actions agreed	<p>The objective of the review was to provide assurance on the effectiveness of the controls in operation to prevent the unauthorised access and use of the travel booking system.</p> <p>The review identified lack of control in the authorisation of bookings, weak system access controls and a lack of monitoring of system useage.</p>

Schools

- 2.13. 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.
- 2.14. The School's Audit Programme for 2018/19 continues from 2017/18 and 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.
- 2.15. The School's Audit Programme for 2018/19 will continue the thematic review on the effectiveness of governance arrangements at 20 schools which started in 2017/18.
- 2.16. Three visits have been carried out before the summer holiday, and the rest should be completed by the end of December 2018.
- 2.17. Individual reports are produced and issued to schools detailing any areas of weakness identified

and any actions required to address these weaknesses and improve the control environment. Since 2017/18 we have included an assurance opinion on the arrangements, in line with other audit reports issued.

- 2.18. Consolidated findings and recommended actions and improvements are shared with all maintained schools through the "Schools Bulletin" and the "Director's Report".
- 2.19. Findings from all areas will inform a consolidated schools report which provides assurance to the Interim Executive Director of Corporate Services and the Director of People. This will also inform the completion of the Annual Assurance Statement completed by the Interim Executive Director of Corporate Services under Section 151 responsibilities.

Supporting Corporate Governance

- 2.20. In accordance with Regulation 6 of the Accounts and Audit Regulations 2015 the Council is required, each financial year, to conduct a review of the effectiveness of the system of internal control and publish an Annual Governance Statement (AGS).
- 2.21. During the first half of this financial year, and as previously reported in the 2017/18 Internal Audit Annual Report, Internal Audit has coordinated, on

behalf of Management, the production of the Council's AGS for 2017/18.

- 2.22. Audit and Governance Committee approved the Final Annual Governance Statement 2017/18 at their July meeting, in line with statutory deadlines.
- 2.23. A progress update on issues recognised in the AGS 2017/18 is scheduled for the Committee's December meeting. This paper will outline the proposed production process for the 2018/19 AGS.

Counter Fraud and Investigations

- 2.24. A number of investigations into financial irregularities were reported to the Committee in the 2017/18 Internal Audit Annual Report. In the period under review, Internal Audit has continued to provide support in managing these cases to completion. This includes support to disciplinary processes and liaison with the police.
- 2.25. In 2017/18 work began on reviewing a number of historic land related transactions. This work has continued to develop and therefore further work has been carried out in this period. An update to the Committee in regard to current arrangements will be provided at the earliest opportunity pending completion of the necessary work.
- 2.26. During the first half of 2018/19 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 continuing to be investigated by the appropriate services.

- 2.27. Work has also been undertaken by the relevant services during the year to review and investigate the results of the annual Flexible Matching exercise which were released in January 2018.
- 2.28. In addition, Internal Audit has also been coordinating the preparation for the Council's participation in the upcoming 2018 National Fraud Initiative exercise. Updated Fair Processing Notices (FPNs) have been completed to take account of the changes in data protection requirements as a result of the implementation of the new EU General Data Protection Regulations (GDPR) in May 2018. The FPNs were reviewed in conjunction with the Council's Data Protection Officer to ensure compliance with the new regulations.

Consultancy and Advice

- 2.29. Internal Audit is regularly asked to advise management. The nature and scope of these engagements is generally aimed at improving governance, risk management arrangements and the control environment, contributing to the overall opinion as well as building good relationships across the organisation.

- 2.30. In the year so far, advice and guidance has been provide on;
- Effective arrangements for grant applications and returns.
 - Design and application of controls in new programs.

- 2.31. The Internal Audit function has also been working with the LEP and the Interim Executive Director of Corporate Services to identify additional opportunities for assurance work, following the additional requirements for the Section 151 Officer arising from CIPFA's guidance. The Committee will be kept updated on progress.

Grant certifications

- 2.32. 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.
- 2.33. In 2018/19 to date, this has included work on the following grants, which were successfully signed off and submitted to the appropriate funding body:

Grant Certified	£
Family Focus (year to date)	175,200
Crewe Green Roundabout	2,182,000
Sydney Road Bridge	1,259,000

CWLEP Growth Hub Grant 17-18	287,000
Crewe High Speed Heart Ready 2018	480,000
Total	4,383,200

Work for Other Bodies

- 2.34. Internal Audit carried out the following work for an external body.
- 2.35. 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.
- 2.36. 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.
- 2.37. The Annual Internal Audit Report was presented to the Joint Committee in July 2018.

Implementation of Audit Recommendations

- 2.38. 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.

2.39. 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.

2.40. 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.

2.41. This saw clear improvement in the overall implementation of audit recommendations over 2016/17 and 2017/18. The implementation of agreed recommendations for reports issued in 2017/18 and 2018/19 to date is detailed in the table below.

Table 4: Implementation of agreed recommendations as at 31st August 2018

On time	After the agreed date	Total implemented	In progress, part implemented or overdue	Superseded or no longer valid
2017/18				
80%	16%	96%	16%	0%
2018/19				
100%	0	100%	0%	0%

2.42. Figures for 2017/18 have been updated from those reported in the Annual Audit Report to reflect actions due for implementation in 2018/19 so far.

2.43. As per the internal audit plan for year, Internal Audit have been working to a target of 90% of agreed audit actions implemented, and 75% implemented within agreed timescale. The figures from reports issued in 2018/19 exceed this target, but it should be acknowledged that the majority of timescales agreed are for implementation later in the year.

2.44. Performance on the implementation of actions agreed in reports from 2017/18 has improved slightly since the figures reported in the 2017/18 annual report, where we had reported 96% in total actions implemented, and 65% on time. Performance in relation to the actions implemented on time has increased to 80%, and overall implementation has increased to 100%.

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

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

Audit	Status
Highways Contract Procurement – Project Assurance	Draft report issued
Salary Overpayments	Draft report issued
Early Help Individual Payments – Pilot Review	Draft report issued
ERP Replacement B4B phase 3	Fieldwork ongoing
Provider Invoice Processing	ToR Agreed Fieldwork ongoing
Constitution Review	ToR Agreed
Event Management	ToR in preparation
A500 Duelling Grant Certification	ToR Agreed
ASDV – Fulfilment of Statutory Responsibilities	ToR Agreed

Reliance placed on the work of other assurance bodies

2.47. Internal Audit place assurance on the work of the Council's external auditors, OFSTED, and other external inspectorates 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 2018/19 Internal Audit work will be considered in preparing the 2018/19 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 Table 5. The performance relating to the implementation of recommendations is detailed earlier in this report.

Table 5: Performance Indicators to date

Performance Indicator	2018/19 Actual	2018/19 Target	2017/18 Actual	Comments on 2018/19 Actuals
% of Audits completed to user's satisfaction	94%	94%	95%	On target.
% of significant recommendations agreed	98.25%	95%	97%	Above target.
Productive Time (Chargeable Days)	82%	85%	86%	Support to the restructure has impacted on this indicator.
Draft report produced promptly (per Client Satisfaction Form)	91%	95%	89%	Slightly below target, although improved from previous year.

4.2. The Public Sector Internal Audit Standards require the development and use of a Quality Assurance Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enable conformance with all related aspects of the Standards to be evaluated.

4.3. Whilst we have previously addressed and reported on the elements which are covered in the QAIP, we have now brought these into required format, and this is included for the Committee's approval as Appendix B. Audit and Governance Committee will continue to receive reports on the performance of the Internal Audit function through the interim and annual reports.

5. Compliance with the Public Sector Internal Audit Standards

- 5.1. As previously reported to the Committee, the external assessment of the Internal Audit function against the Public Sector Internal Audit Standards, which is required once in a five year period, was carried out under a peer review arrangement earlier in the year.
- 5.2. The final report has been received and has been subject to external moderation. The final report and accompanying action plan are included elsewhere on the Committee's agenda.
- 5.3. Significant progress has already been made to address the actions required to achieve full compliance with the Standards. We have given consideration as to whether the partial conformance assessment represents such significant non conformance with the Standards as to require reporting in the Head of Internal Audit Annual Opinion and the Annual Governance Statement and concluded that the nature of the items raised in the assessment has not resulted in detriment to the quality of the service being delivered or to the value being added to the organisation by the service.
- 5.4. However, the external assessment has understandably highlighted concern over the

resourcing of internal audit. Should the restructuring of the internal audit function fail to progress, the conclusion on the impact that has, and the decision to report in the Annual Opinion report and Annual Governance Statement would need to be revisited.

6. Other Developments

- 6.1. The Principal Auditors have continued in their acting up arrangements to deliver the roles of the Corporate Manager Governance and Audit, and the Internal Audit Manager over the period in review. This ensures that the responsibilities of the Head of Internal Audit have been covered during the period under review. Additional hours have also been undertaken by some members of the team.
- 6.2. As reported to Committee earlier in the year, the restructure of the Internal Audit function has been subsumed into a wider restructure of the Corporate Services directorate.
- 6.3. The Principal Auditors have supported the process as required in addition to their other responsibilities.

Annex 1

Summary of Audit Work which supports the Annual Audit 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)