

# CHESHIRE EAST COUNCIL

## AUDIT AND GOVERNANCE COMMITTEE

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**Date of Meeting:** 25 January 2011  
**Report of:** Head of Internal Audit & Compliance  
**Subject/Title:** Internal Audit Plan 2010/11 and Update Report

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### **1.0 Report Summary**

- 1.1 The purpose of the report is to update the Audit and Governance Committee on progress against the Internal Audit Plan 2010/11, revisions to the plan and to summarise work during the period September – December 2010 (see Appendix 1).

### **2.0 Recommendation**

- 2.1 That the Committee note the issues identified, endorse the approach to achieving adequate audit coverage in the remainder of 2010/11 and discuss future audit issues and ways of working as appropriate.

### **3.0 Reasons for Recommendations**

- 3.1 The Code of Practice for Internal Audit in Local Government in the United Kingdom states that, “in addition to the annual report”, the Head of Internal Audit and Compliance “should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 3.2 This interim report addresses emerging issues in respect of the whole range of areas to be covered in the annual report.

### **4.0 Wards Affected**

- 4.1 All wards.

### **5.0 Local Ward Members**

- 5.1 Not applicable.

### **6.0 Policy Implications including - Climate change - Health**

- 6.1 Not applicable.

## **7.0 Financial Implications (Authorised by the Borough Treasurer)**

- 7.1 The internal audit team must be appropriately staffed and resourced to comply with statutory and best practice requirements. The budget for the internal audit function currently provides for sufficient staffing levels to fulfil this function.

## **8.0 Legal Implications (Authorised by the Borough Solicitor)**

- 8.1 The requirement for an internal audit function is either explicit or implied in legislation with s151 of the Local Government Act 1972 requiring Councils to “make arrangements for the proper administration of their financial affairs” and the Accounts and Audit Regulations 2003 (as amended) requiring a relevant body to “maintain an adequate and effective system of internal audit ...”

## **9.0 Risk Management**

- 9.1 The Authority is required to maintain an adequate and effective system of internal audit in accordance with Regulation 6 of the Accounts and Audit Regulations 2003 as amended. Failure to consider the effectiveness of its system of internal audit, and the opinion on Council’s control environment, could result in non- compliance with the requirements of the Regulations.

## **10.0 Background and Options**

- 10.1 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 Council, via the Audit and Governance Committee, that these arrangements are in place and operating properly. The annual internal audit opinion informs the Annual Governance Statement. The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council’s objectives.
- 10.2 At the Audit and Governance Committee meeting on 30 September 2010, the Committee was updated on progress against the Audit Plan for the first five months of 2010/11.

## **11.0 Access to Information**

The background papers relating to this report can be inspected by contacting the report writer:

Name: Vivienne Quayle  
Designation: Head of Policy and Performance  
Tel No: 01270 685859  
Email: [Vivienne.quayle@cheshireeast.gov.uk](mailto:Vivienne.quayle@cheshireeast.gov.uk)

## Summary of Internal Audit Plan 10/11

Report to Audit and Governance Committee  
Internal Audit Plan 2010/11 and Update Report  
25 January 2011

### 1.0 Background

- 1.1 The purpose of the report is to update the Audit and Governance Committee on progress against the Internal Audit Plan 2010/11, revisions to the plan and to summarise work during the period September – December 2010.
- 1.2 This information is provided to the Committee in order that Members may discharge the following duties:
- reviewing internal audit performance.
  - monitoring and reviewing the main issues arising and actions taken on audit recommendations.
- 1.3 The inclusion or comment on any area or function in this report does not indicate that matters are being escalated to Members for further action. Members' interest in internal audit should be restricted to gaining an assurance that the organisation's system of internal control is adequate and that where audit does not consider this to be the case that action is taken to ensure that any shortcomings are rectified promptly. Internal Audit routinely follow-up recommendations and will bring to the attention of the Committee any significant weaknesses that have not been addressed by Management.

### 2.0 Internal Audit Plan 2010/11

- 2.1 The Internal Audit Plan for 2010/11 was approved by the Governance and Constitution Committee on 27 May 2010 and was developed using the following split:

<b>Supporting Corporate Governance (4%)</b>	This includes work on the Local Code of Corporate Governance, the Annual Governance Statement and the CAA Use of Resources.
<b>Core Financial and Fundamental Systems (12%)</b>	Core system 'key control' work as required by External Audit as well as the results of Internal Audit's risk assessment of fundamental systems. Systems included are: Budget Monitoring, Debtors, Creditors, Housing Benefits, Council Tax, National Non-Domestic Rates (NNDR).
<b>Key Service and Departmental Systems (46%)</b>	Strategic and service risk audits including assurance work focussing on "back to basics" type work across key themed areas and establishments. <b>People</b> e.g. Establishment audits, Financial

## Summary of Internal Audit Plan 10/11

	<p>Management Standard in Schools (FMSiS) review, Social Care redesign and review of controls in material systems such as PARIS.</p> <p><b>Places</b> e.g. Emergency Planning, Waste PFI, Highways maintenance contract, Car parking, Licensing, Planning &amp; Building Control.</p> <p><b>Performance &amp; Capacity</b> e.g. Compliance with HR policies, Performance Management including data quality, Communications, ICT audits, Procurement including tendering/commissioning, Asset Management.</p> <p><b>Cross Directorate, Partnerships, Shared Services</b> e.g. Governance, Service Delivery Planning, Project Management, Business Continuity.</p>
<b>Counter Fraud and Probity (18%)</b>	Response to notifications under the anti-fraud and corruption policy informing opinion on the internal control environment. Pro- active work based on risk assessment including promotion of relevant policies and assessment of key controls. Includes administration of National Fraud Initiative (NFI) & creation of fraud risk assessment.
<b>VFM and Strategic Reviews (3%)</b>	

The remaining audit time (17%) was allocated to follow up and responsive work.

### 3.0 Progress against 2010/11 Plan

#### Supporting Corporate Governance

- 3.1 During the period, Internal Audit has reviewed progress against the Council's Annual Governance Statement (AGS) 2009/10 Action Plan (see separate report). Work has also commenced in assisting Management in the production of the Council's AGS for 2010/11.

#### Core Financial and Fundamental Systems

- 3.2 A major review of Budget Monitoring was concluded in November 2010. The review covered a wide selection of Budget Managers across all services of the Authority and at various levels within the structure from Directors and Heads of Service through to front line budget managers with devolved management responsibilities.
- 3.3 The key findings from the audit are below. These have been discussed, in the first instance, with the Finance Management Team but a formal

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management response will be required from the Corporate Management Team.

- Roles and responsibilities of Business Support, Finance and Budget Managers vary across Directorates.
- Budget managers in some service areas receive good financial support and information from Finance. However, there was concern expressed in other areas that financial support and information was limited and the standard can vary even within the same team.
- Training has been rolled out in some areas and managers are satisfied with the training they have received. However there are still a significant number of operational Budget Managers who have not received any training on how to use Oracle financial modules or received 'Budget Management' training.
- Some operational Budget Managers still do not have the system access they need in order to monitor their budgets effectively.
- Within Adults, Community Health and Wellbeing, decisions have been taken by Members to continue providing services despite the budget being withdrawn as part of ongoing savings.
- Part year costs against nil budgets are being incurred due to the lead in time taken to implement closures identified as part of policy proposals.

- 3.4 An audit of Purchase Cards was undertaken utilising the IDEA (Interactive Data Extraction and Analysis) software. It was found that there were no inappropriate transactions processed from the sample tested; all expenditure related to Council business. However, there is currently no overall Purchase Card Policy in place and it is unclear who the owner of the process is. There is also no clear policy regarding the allocation of Purchase Cards to staff and currently no Contracts Register for the Authority, preventing cardholders from complying with the current Purchase Card guidance.
- 3.5 A follow up review of Debt Management has commenced following the initial audit, findings for which were reported to management in March 2010.
- 3.6 Audits of Revenues and Benefits (i.e. Housing Benefits, Council Tax and National Non Domestic Rates) are well underway. These are focussed on the legacy systems. A new system has recently been introduced and testing on this will be performed in the coming months. Work has also been carried out in supporting the project to implement the new system over the last few months.
- 3.7 Cheshire East's core business system, Oracle is being upgraded to a new release (R12) with a go-live date of early February. Internal Audit,

**Summary of Internal Audit Plan 10/11**

jointly with Cheshire West and Chester Council's Internal Audit team, has been involved in two main areas of this project:

- Supporting the project workstreams in reviewing the findings of work undertaken by PricewaterhouseCoopers which identified best practice system controls and access rights.
- Reporting back to the Programme Board on whether to progress to the next system iteration and ultimately on the 'go live' decision.

- 3.8 A number of key financial Shared Services system audits, such as Payroll have commenced during the period. This work is being carried out in conjunction with Cheshire West and Chester Council's Internal Audit team and will be reported in the final quarter of the year.

**Key Service and Departmental Systems****Adults, Community, Health & Wellbeing/Children & Families**

- 3.9 A series of establishment audits was undertaken across a sample of Adult Services Day Centres and Supported Living Networks. A recent restructure had raised concerns within the services that the control environment was not sufficiently robust. The audits focussed upon the financial management of both official and client funds and clarified the service concerns by identifying specific control weaknesses and appropriate actions required to address these issues.. Individual reports are being provided to managers with a consolidated report identifying common issues and high risk areas is being produced and will be presented to senior management within the service.
- 3.10 A Project Group has been set up within Adults Services to review processes and implement improvements and efficiencies within the broader area of finance across the Service. Internal Audit is represented on this group with a view to ensuring that any system changes retain an appropriate level of internal control to mitigate the risk of loss to the authority.
- 3.11 A review of a number of Contact Centres was undertaken during the period covering areas including income, pricing and assets. This work is still in progress and will be reported in the final quarter.
- 3.12 An audit of Supporting People systems and procedures was undertaken during the period. A small number of recommendations were made relating to contract specifications, security of ICT equipment and review of client eligibility to receive Housing Benefits. Management have responded to and agreed all the recommendations.

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- 3.13 Internal Audit continues to support the development and implementation of the Empower Card ensuring that new processes and systems are sufficiently robust to mitigate the risk of loss to the Council.
- 3.14 A review of Extra Care Housing commenced during the period, focussing on the control around expenditure. This audit will conclude and the findings reported in the near future.
- 3.15 During the period, an audit of the process in place for the accreditation of Cheshire East Schools against the Financial Management Standard in Schools (FMSiS) was due to take place. However, the Government announced in November 2010 that FMSiS would end with immediate effect. Internal Audit is liaising closely with the Schools Finance Team regarding the best way in which to proceed prior to a replacement framework being released by the Government.

**Places**

- 3.16 A review of the Building Control service was carried out towards the end of the period with the findings to be reported imminently. The audit focussed on risks surrounding income, standard of work undertaken, recovery of costs and application of relevant Standards.
- 3.17 Work was commenced on an audit of the Waste PFI contract. However, this funding was withdrawn as part of the Government's spending review and in response a revised scope for the audit is therefore being discussed with management.
- 3.18 Further work within key high risk areas in Places is planned in the remainder of 2010/11.

**Performance & Capacity**

- 3.19 A review of ICT Shared Services – Governance and Control was completed during the period with a resultant discussion paper issued to the ICT Manager. Further ICT specific work included:
- Finalising ICT security policies and guidance.
  - Producing draft guidance on seizure of ICT equipment for forensic purposes.
  - Liaison with Cheshire West and Chester's ICT Auditor on proposed joint working.
- 3.20 A review of Contracts and Tendering Processes has recently been undertaken. This focussed on the controls within the e-tendering system that the Authority introduced in April 2010. Findings are due to be reported to management shortly.

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- 3.21 Work has commenced on a Performance Management Review. This will focus on three main areas: a follow up to the National Indicator review that Internal Audit carried out in 2009/10, a review of the new Performance Management system and a review of Data Quality.

**Cross Directorate, Partnerships, Shared Services**

- 3.22 During the period an audit of Shared Services - Governance Arrangements was completed. This review assessed the governance and monitoring arrangements of Shared Services from Cheshire East's perspective. The review concluded that the setting up and maintenance of so many Shared Services was a major achievement for both Authorities although further improvements were still required.

**Counter Fraud and Probity**

- 3.23 A review of the Anti Fraud and Corruption Strategy against best practice guidance has been carried out and is subject to a separate report to this Committee detailing identified areas for improvement and recommended remedial actions.
- 3.24 A revised Whistleblowing Policy has been developed in line with the report presented to the November 2010 meeting. This document is currently undergoing a consultation process prior to being brought back to Committee for formal approval and adoption
- 3.25 Work for the 2010/11 National Fraud Initiative (NFI) is ongoing. On a bi-annual basis, local authorities are required to participate in a data matching exercise aimed at the prevention and detection of fraud. Electronic datasets have now been submitted to the Audit Commission and training has been given to nominated users within the Authority. Initial matches from the exercise are due to be received shortly.
- 3.26 A review of Declarations of Interest was carried out during the period, covering both Members and Officers. There are a number of recommendations, primarily around the process with Officer Declarations. These mainly relate to communication, guidance and secure filing of submitted forms. There are certain services within the Authority where no Declarations of Interest have been submitted. The report has been sent to the Corporate Governance Group for formal response.
- 3.27 An audit of the Anti Money Laundering Policy was undertaken in December 2010. The main findings, which have been reported to the Borough Treasurer & Head of Assets, relate to the need for current policy and guidance to be updated and better linkage with the Council's other 'reporting concerns' policies e.g. Anti-Fraud and Corruption, Whistleblowing, Complaints Procedure.



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- 3.28 Advice has been provided to management with regards to the RIPA (Regulation of Investigatory Powers Act) requirements and restrictions for the use of CCTV cameras within the workplace and their potential use in investigations.

### **Responsive – Investigations**

- 3.29 Internal Audit has assisted management in the investigation of potential irregularities of which certain cases remain on-going.

- 3.30 The investigations included:

- Potential over-claiming of travel expenses, within an area of Adults, Community, Health and Wellbeing.
- Invoices being received by school's from a particular company for goods that have not been either ordered or supplied. This is an issue across the country and was initially highlighted by the National Anti Fraud Network (NAFN). Internal Audit enquiries revealed that although some of these invoices have been received by our schools, none were paid. We were also able to provide NAFN with additional information regarding this fraud which has subsequently been circulated to all members.
- An investigation has been carried out in conjunction with Cheshire West and Chester's Internal Audit team into the charging arrangements of a company with whom we jointly contract. This resulted in improvements in the contract monitoring arrangements and a small amount being repaid to both authorities.

- 3.31 In addition to the above investigations, a number of Whistleblowing reports and tip offs have also been received and investigated.

### **Value for Money/Strategic Reviews**

- 3.32 This represents a small percentage of the overall audit plan and to date there has been no activity in this area during 2010/11.

## **4.0 Performance against Audit Plan 2010/11**

- 4.1 During the period, audit work was undertaken on the whole of the control environment comprising risk management, key control and governance processes. This work comprised of a mix of risk based auditing, regularity, computer audit, investigations and the provision of advice to officers.
- 4.2 The Section has continued to manage the Council's Risk Management and Compliance function and facilitate the development and implementation of the Risk Management and Business Continuity

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Strategies, Freedom of Information requests and Data Protection work across the organisation.

4.3 The Section has also provided advice to management as requested. This work contributes to the opinion that Internal Audit provides on the control environment. The main areas where Internal Audit has provided such advice include risks relating to new systems and procedures, application of Finance and Contract Procedure Rules, ICT Security Policies etc.

4.4 A number of staffing issues have affected the ability of Internal Audit to deliver the original plan. A number of vacancies are currently held in the Section (including the Internal Audit Manager) whilst the implications of the 2011/12 budget settlement are debated. The current budget engagement process includes significant savings from Internal Audit which will need to be considered in formulating next year's audit plan. Reasons for the shortfall between the number of audit days in the plan and those actually achieved, include:

- A Senior Auditor post and the Audit and Compliance Assistant post both vacated early in 2010/11 remain unfilled and are temporarily on hold.
- Maternity leave for a Principal Auditor and Senior Auditor.

However, during the period one Senior Auditor post has been filled.

4.5 In addition, time allocations have been revisited and prioritisation used where diversion to more high risk jobs became apparent. These include requests by management to support them in the discharge of their duties such as assisting in investigations.

4.6 Given the situation, it is necessary, in the next quarter, to align resources to the following key areas of the plan:

- Completing fundamental financial systems audits (e.g. Housing Benefits, Council Tax etc.) in order that External Audit can rely on the work of Internal Audit.
- The National Fraud Initiative exercise.
- Work on the Annual Governance Statement 2010/11.
- Work on significant partnerships.
- Further work in addressing the recommendations of the Audit Commission's 'Internal Audit Review'.
- High risk areas in Places (e.g. Car Parking) and in Children & Families (e.g. Children's Centres).

**5.0 Implementation of Recommendations**

## Summary of Internal Audit Plan 10/11

- 5.1 In order for the Council to derive maximum benefit from the work of Internal Audit, agreed recommendations need to be implemented. Internal Audit therefore continually undertakes follow-up work in respect of all audit reviews to ascertain whether agreed actions have been acted upon. Follow-up action includes a review of the timeliness and effectiveness of the implementation of recommendations. Management responses that are judged to be inadequate in relation to the identified risk are escalated in order that the risks of not taking action have been understood and accepted at a sufficiently senior management level. This escalation procedure could result in Internal Audit bringing to the attention of the Committee any relevant areas where significant weaknesses have not been addressed by management.
- 5.2 A number of potential issues are still being discussed with management and may be escalated to this Committee in the future.
- 5.3 The Section has, during the period, worked with Management to ensure that issues are being addressed. As indicated in this report progress is being made to implement improvement.

### 6.0 Performance Management

- 6.1 The main process through which Internal Audit performance is managed is through a review against the Policy & Performance Service Plan. This was published and endorsed by the Portfolio Holder early in 2010/11 and is part of our overall performance management framework.

A brief update against the Service Delivery Plan for key outcomes is as follows:

<b>Service Objective: To provide an appropriate Assurance function which takes into account transparency, good use of resources and reputational protection in accordance with the Code of Practice for local government so that the Authority adopts robust arrangements and protects public funds (PAP13)</b>	
<b>Target Outcome/Output</b>	<b>Current (December 2010)</b>
Annual Head of Audit Report to Audit Committee.	Achieved.
Development and completion of an appropriate audit strategy, annual plan and work programme covering key risk areas.	Achieved.
Adherence to CIPFA Code of Practice as judged by Audit Commission.	Achieved.
Completion of agreed programme of work to assist the external audit process and internal audit work relied on by external audit.	Achieved.
<b>Service Objective: To facilitate best practice in governance arrangements leading to the production of an Annual Governance Statement (PAP14)</b>	
<b>Target Outcome/Output</b>	<b>Current</b>

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	(December 2010)
Production of AGS by due deadline.	Achieved.
Action plan to address improvements to governance arrangements based on the AGS outcome.	Achieved.
Undertake programme of work and incorporate into the Corporate Governance Group.	Achieved.
<b>Service Objective: To promote and encourage a culture of high ethical standards, sound financial &amp; management control and proactively deters and discourages fraudulent or irregular activities so that the organisation uses its resources effectively and is a role model in this regard (PAP15)</b>	
<b>Target Outcome/Output</b>	<b>Current (December 2010)</b>
Implement an Anti- Fraud and Corruption and Whistleblowing Policy.	Achieved.
Programme of awareness raising and learning from previous or other public body fraud.	On-going
Proactive intervention as part of work within the audit plan targeting high fraud risk areas.	On-going

- 6.2 Performance management of staff is carried out through the Council's corporate Employee Performance Development Framework. Key objectives for staff are set at the start of the year and monitored formally through the year through regular individual '1-2-1's'. In addition, regular team meetings are held.
- 6.3 A key outcome achieved during the period has been the agreement of an Audit Protocol with Cheshire West and Chester Internal Audit.
- 6.4 Feedback on Internal Audit performance has been continually received since April 2009 from Corporate Management Team, Cabinet and the Portfolio Holder amongst others. To gain user feedback, a client questionnaire has been developed and will begin to be utilised on audit projects in January 2011.
- 6.5 A number of Performance Indicators are currently being developed and reviewed along with the processes to produce the information. Three Performance Indicators are currently measurable:

<b>Performance Indicator</b>	<b>2010/11 Target</b>	<b>Current 2010/11 (December 2010)</b>
Chargeable Days as a percentage of Available Working Days	80%	83.6%
Average number of days between end of fieldwork to issue of draft report	15 days	12.5 days
Percentage of significant recommendations (high & medium) which are agreed.	100%	98.4%

**Summary of Internal Audit Plan 10/11**

One indicator under development is the number of days between the issue of the draft audit report and the receiving of a formal management response. This is a key area for improvement in 2011/12 and measures are being taken to address this issue.