

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting: 29 March 2011
Report of: Head of Policy and Performance
Title: Internal Audit Plan 2011/12

1.0 Report Summary

1.1 The purpose of the report is for the Audit and Governance Committee to receive and approve the Internal Audit Plan for 2011/12.

2.0 Recommendation

2.1 That the approach to internal audit planning is endorsed and the Internal Audit Plan 2011/12 be approved.

3.0 Reasons for Recommendations

3.1 In accordance with the Code of Practice for Internal Audit in Local Government, the Internal Audit Plan is put to the Audit and Governance Committee for approval.

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications

6.1 None.

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 staffing levels in accordance with the plan produced. Changes in the current assumptions made with regard to schools and Shared Services may impact on the number of audit days required.

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 All principal local authorities subject to the Accounts and Audit Regulations 2003 (as amended) must make provision for internal audit in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 10.2 In order to comply with the Code the Head of Internal Audit has prepared a risk-based audit plan (Appendix A) that is put to the Audit and Governance Committee for approval, but not direction. The legislation and Code of Practice specifically state that those charged with governance approve the Plan but that this is not in a directing role as the Head of Internal Audit retains the independence and balance of judgement to implement the plan based on their assessment of risk and requirements.

11.0 Access to Information

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

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Report to Audit and Governance Committee
Internal Audit Plan 2011/12
29 March 2011

1.0 Purpose

- 1.1 The Accounts and Audit Regulations 2003 (as amended) state that Cheshire East Council must make provision for internal audit in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
- 1.2 In order to comply with the Code a risk-based audit plan for 2011/12 has been prepared, which is fixed for a period of no longer than twelve months, and is designed to implement the audit strategy.
- 1.3 In accordance with the Code, this plan is put to the Audit and Governance Committee for approval. In discharging this duty Members should consider whether the scale and breadth of activity is sufficient to allow Internal Audit to provide an independent and objective opinion to the Council on the control environment taking account of whether:
 - the level of resources in any way limits the scope of internal audit, or prejudices the ability to deliver a service consistent with the Code.
 - Internal Audit is sufficiently independent of the activities it audits.
 - the level of non-assurance work does not impact on the core assurance work.

2.0 The Internal Audit Plan

- 2.1 The outcomes of the Council's risk management, performance management and other assurance processes have been used to determine the scale and breadth of potential audit areas for 2011/12. Furthermore, the Head of Internal Audit has consulted stakeholders (Corporate Management Team, Service Managers, Joint Officer Board, External Audit, Cheshire West and Chester Internal Audit) and a draft plan produced. The programme of work (as detailed in Appendix 1) outlines the assignments to be carried out, their respective priorities where applicable, and the estimated resources needed. The plan differentiates between assurance and other work.
- 2.2 It is anticipated that the outcomes from the Service Delivery Planning/Annual Governance Statement processes, when known, will be used to further define the programme of audit work. This approach will enable Internal Audit to focus work on the key risks facing the organisation and, consequently, provide assurance that these risks have been effectively managed.
- 2.3 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 Organisation's objectives. In order to achieve this, the

Internal Audit Section will carry out a comprehensive range of audits comprising a mix of risk based system auditing, regularity, contract and computer audit.

- 2.4 The plan includes an annual contingency of 100 days, for additional work that may arise over the period that could not have been reasonably foreseen when compiling the plan. There is also an annual contingency of 150 days for the provision of advice to departments in response to ad hoc requests. Such work supports the formulation of Internal Audit's opinion on the Council's governance, risk management and internal control arrangements.

A summary of audit coverage (in days) for 2011/12 is shown below:

	Planned	Comments
Total Available Days	2174	Maximum Days less leave, sickness and maternity leave.
Non Chargeable Days	444	Includes training, management, administration and service development.
Corporate Duties	100	Representation at corporate meetings, compliance with corporate initiatives. Supporting A&G Committee.
Supporting Corporate Governance	60	Supporting AGS process.
Fundamental Financial Systems	230	In agreement with External Audit.
Key Service & Departmental Systems	575	Adults, Children & Families, Places, Performance & Capacity.
Fundamental Corporate Areas	140	Strategic risks and other cross cutting reviews.
Partnerships	100	Strategic risks and strategic partnerships.
Anti Fraud and Corruption	250	Promotion & investigations.
Consultancy & Advice	150	Responding to ad hoc requests.
Contingency	100	
Follow up	25	Of outstanding recommendations.
Total	2174	

- 2.5 It should be noted that the plan is based on a number of assumptions regarding posts currently vacant/on hold. It is also based on assumptions regarding the audit of schools and Shared Services. The plan will, therefore be regularly reviewed and updated taking these issues into account along with the results of audit work, the risk management process, and any other factors that may affect the Council's priorities. It is anticipated that more detail

relating to the programme of work re the assignments to be carried out, their respective priorities where applicable, and the estimated resources needed will be worked up when the outcomes from the Service Delivery Planning and Annual Governance Statement processes are made available. Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to the Audit and Governance Committee.

3.0 Key Themes/Messages within the Internal Audit Plan

3.1 The plan is split into six key areas. These are:

- work to support corporate governance
- fundamental financial systems
- key service and departmental systems
- fundamental corporate areas
- partnerships
- anti- fraud and corruption

In addition time is planned to provide advice and guidance on a responsive basis.

3.2 It has become clear from reviewing the authority's current position that there are a number of key drivers for establishing the audit plan and programme of work and included within the detailed plan is an recognition of these drivers which include:

- considered a strategic risk
- considered a key service risk
- significant in affecting the reputation of the Council
- significant in achieving Corporate Plan priorities
- significant in achieving effective ways of working (e.g. partnerships)
- high risk of fraud or irregularity
- high risk resulting from previous findings
- significant growth area
- high financial value/risk
- issues affecting successful inspection and action points arising from inspections.

3.3 In order to articulate the audit plan to staff, auditees and interested parties the overall emphasis for the year is as follows:

- (1) supporting the service planning process
- (2) preventing fraud and corruption and promoting ethics
- (3) maximising working in partnerships e.g. risk management, performance etc.
- (4) reviewing and challenging corporate risks.

4.0 Conclusion

- 4.1 The report supports an effective audit planning process, based on the risks to the Authority and in accordance with the Code of Practice for Internal Audit.

Internal Audit Plan 2011/12

Appendix 1

Audit Area	Drivers/Risks	Assessment Method	Outline of work	2011/12 Planned Audit Days	2010/11 Planned Audit Days
Maximum Resources Available			Based on a number of assumptions regarding the filling of vacant posts	2639	3116
Annual Leave, Bank Holidays, Sickness, Medical Absence, Maternity Leave			Outside the control of Internal Audit	465	709
Available Working Days			82% of maximum available days	2174	2407
Training, Management & Administration, Service Development			Non chargeable days to support employee development, continuous improvement in Internal Audit as well as day to day operations	444	493
Available Chargeable Days			80% of available days	1730	1914
Corporate Work External Audit liaison, Cheshire West and Chester Internal Audit liaison, supporting Audit and Governance Committee.			Primarily non- assurance work that enables the Section to identify changing risks and priorities of the Council. Helps to determine any amendments to the plan.	100	60
Available Audit Service Days			94% of chargeable days	1630	1854
Supporting Corporate Governance Annual Governance Statement, Corporate Governance Group.	Statutory requirement.	Statutory requirement.	Assurance work that enables Audit to advise the organisation that arrangements are in place and operating properly. Supporting the Governance Working Group and challenging assurance statements/self assessments made by management. Developing the AGS action plan	60	70
Fundamental Financial Systems Housing Benefits, NNDR, Council Tax, Cash Receipting, Treasury Management, General Ledger, Budget Monitoring follow-up.	Risk of material mis-statement of the Authority's Financial Statements.	Key mitigating controls. To be agreed with External Audit.	Audit of controls and accounting records, work that the Audit Commission can place reliance on. Assurance work that enables Audit to advise the organisation that arrangements are in place and operating properly. Extent of work to be determined with External Audit.	120	220
Fundamental Financial Systems – Shared Services Oracle R12 follow-up, Accounts Payable, Accounts Receivable, Payroll	Risk of material mis-statement of the Authority's Financial Statements.	Key mitigating controls. To be agreed with External Audit, CWaC Internal Audit and Shared Services Joint	As above.	110	- (Included in 220)

Internal Audit Plan 2011/12

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Audit Area	Drivers/Risks	Assessment Method	Outline of work	2011/12 Planned Audit Days	2010/11 Planned Audit Days
		Officer Board.			
Key Service & Departmental Systems	Key Departmental/ Service Risks.	- Budget Review - Previous Audit work - Materiality - AGS Action Plan	Departmental and service risk audits. Assurance work that enables Audit to advise the organisation that arrangements are in place and operating properly.		
Adults <u>Care4CE</u> – Supported Living Networks, HomeCare. <u>Strategic Commissioning</u> – Supporting People, Pooled Budget, Emergency Duty Team, Third Sector payments. <u>Individual Commissioning</u> – CRISS, PARIS, Personal Budgets, Empower Cards, Appointeeships. <u>Health & Wellbeing</u> – Establishments (new and follow-up), Parks and Open Spaces, Libraries Central Stores.	As above.	As above.	As above.	220	300 (People)
Children & Families <u>Schools</u> – FMSiS/successor framework issues, Whistleblowing/Complaints/Statement of Internal Control Procedures. <u>Other</u> – Direct Payments, YPLA Finance, Charges for Looked After Children, Foster Payments, Early Education Entitlement.	As above.	As above.	As above.	85	- (Included in People)
Places <u>Environmental Services</u> – Residual Waste Treatment (PFI). <u>Safer & Stronger Communities</u> – CCTV Contract, Emergency Planning (Shared	As above.	As above.	As above.	160	200

Internal Audit Plan 2011/12

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<p>Service). <u>Planning & Housing</u> – Development Control, Section 106 Monies. <u>Regeneration</u> – Highways Maintenance Procurement, Transport Contracts, Tatton Park, Carbon Management Plan.</p>					
<p>Performance & Capacity <u>HR & Organisational Development</u> - Health & Safety. <u>Policy & Performance</u> – see <i>Fundamental Corporate Areas and Partnerships</i>. <u>Treasury & Assets</u> – Asset Management follow-up, ICT – Security/Assets/Commissioning/Governance, Procurement – Savings, Shared Services – Governance follow-up.</p>	As above.	As above.	As above.	110	250
<p>Fundamental Corporate Areas <u>Strategic Risks (SR's)</u> - Service Planning (SR 1), Budget Setting/Financial Management (SR 2), Equality (SR 6), Workforce (SR 10) – Pay Harmonisation, Long Term Planning (SR 12), Transformation (SR 13), Information & Business Intelligence (SR 14), Reputation (SR 15), External Environment (SR 16). <u>Other Cross Cutting</u> – Risk Management, Performance Management, Data Quality.</p>	Strategic Risks.	<ul style="list-style-type: none"> - Strategic Risks - AGS Action Plan - Cross Cutting projects 11/12. 	Assurance work on Strategic Risks and associated mitigating controls as well as other cross cutting areas. Enables Audit to advise the organisation that arrangements are in place and operating properly.	140	100
<p>Partnerships <u>Strategic Risks (SR's)</u> - Community Safety (SR 3), Vulnerable Children (SR 4), Vulnerable Adults (SR 5), Partnerships (SR 7), Education (SR 9), Health (SR 8), Opportunities (SR 11). <u>Other Strategic Partnerships</u>.</p>	Partnership Risks	<ul style="list-style-type: none"> - Strategic Risks - AGS process. 	Assurance work on Strategic Risks involving Partnerships and associated mitigating controls. Enables Audit to advise the organisation that arrangements are in place and operating properly.	100	- (Included in P&C/Corporate areas)

Internal Audit Plan 2011/12

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Audit Area	Drivers/Risks	Assessment Method	Outline of work	2011/12 Planned Audit Days	2010/11 Planned Audit Days
Anti Fraud and Corruption National Fraud Initiative, Staff Vetting – recruitment/existing staff, Abuse of Position – payments, new employees, Blue Badges, Housing and Council Tax Benefits, Procurement – Tender, Contract Award, Whistleblowing, Anti Money Laundering follow-up, Insurance Claims, Data Matching, Bribery Act 2010.	- Statutory requirement (NFI) - Fraud trends.	- 'Protecting the Public Purse' (Audit Commission). - 'Annual Fraud Indicator 2011' (The National Fraud Authority).	Includes work responsive to notifications under the anti-fraud and corruption policy; will inform opinion on the internal control environment. Pro- active work based on risk assessment including promotion of relevant policies and assessment of key controls.	250	330
Strategic Review				-	60
Responsive Work					
Consultancy & Advice			Where resources and skills exist, may contribute to the opinion that Internal Audit provides on the control environment.	150	174
Contingency			The plan needs to be flexible to be able to reflect changing risks and priorities. This could include non assurance work at the request of management.	100	100
Follow Up			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.	25	50
Planned Audit Service Work				1630	1854