

**Report to Audit and Governance Committee
Internal Audit Annual Report 2010/11
30 June 2011**

1.0 Background

- 1.1 The Accounts and Audit Regulations 2011 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. The purpose of this annual report is to facilitate compliance with the requirements of the Code of Practice and, consequently, it provides Members with the following information:
- an opinion on the overall adequacy and effectiveness of the Council's control environment comprising the systems of governance, risk management and internal control
 - any qualifications to that opinion, together with any reasons for the qualification
 - a summary of the audit work from which the opinion is derived, including:
 - a summary of Internal Audit work carried out in the period 1 January 2011 to 31 March 2011 (previous reports during the year updated the Committee on the work to date in 2010/11)
 - progress on implementing Internal Audit recommendations for the year
 - issues that the Head of Internal Audit and Compliance judges particularly relevant to the preparation of the Annual Governance Statement (AGS)
 - 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 targets
 - comment on compliance with the Code and the results of the internal audit quality assurance programme.
- 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 report where necessary, takes account of the year-end position of the Council's control environment and has been timed in order to support production of the draft AGS. 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 the recommendations that have been made and will bring to the attention of the Committee any relevant areas where significant weaknesses have not been addressed by Management.

2.0 Opinion on the Internal Control Environment

2.1 The CIPFA Code of Practice for Internal Audit in Local Government requires the annual report to include an opinion on the overall adequacy and effectiveness of the Council's control environment. It should be noted that the assurances given by Internal Audit are never absolute because it is impossible to examine every activity and every transaction. The most Internal Audit can provide is a reasonable assurance that there are no major weaknesses, or that the weaknesses identified have been addressed.

2.2 In the opinion of the Head of Internal Audit and Compliance, the Council has established adequate and effective risk management, control and governance processes and weaknesses identified during the audits have been, or are being addressed. This opinion is based upon:

- all audits and opinion based work undertaken during the year
- Management's response to advice and recommendations
- the AGS process

It should be noted, however, that work is on-going in the following areas in order to ensure that risks identified in 2010/11 are being adequately managed. These areas will be considered as part of the Annual Governance Statement process (see 3.4):

- Oracle R12 upgrade – system user accesses.
- Procurement processes within the Council.
- Recruitment – staff vetting processes.
- Client finances within Adult Services.
- Free Early Education Entitlement.
- Financial Management Standard in Schools (FMSiS).

3.0 Summary of audit work from which the opinion is derived

3.1 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:

Supporting Corporate Governance (4%)	This includes work on the Local Code of Corporate Governance, the Annual Governance Statement and the CAA Use of Resources.
Core Financial and Fundamental Systems (12%)	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).
Key Service and Departmental Systems (46%)	Strategic and service risk audits including assurance work focussing on "back to basics" type work across key themed areas and establishments.

	<p>People e.g. Establishment audits, Financial Management Standard in Schools (FMSiS) review, Social Care redesign and review of controls in material systems such as PARIS.</p> <p>Places e.g. Emergency Planning, Waste PFI, Highways maintenance contract, Car parking, Licensing, Planning & Building Control.</p> <p>Performance & Capacity e.g. Compliance with HR policies, Performance Management including data quality, Communications, ICT audits, Procurement including tendering/commissioning, Asset Management.</p> <p>Cross Directorate, Partnerships, Shared Services e.g. Governance, Service Delivery Planning, Project Management, Business Continuity.</p>
Counter Fraud and Probity (18%)	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.
VFM and Strategic Reviews (3%)	

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

- 3.2 A summary of the audit work undertaken in the first nine months has been reported to the Audit and Governance Committee throughout 2010/11. A summary of work carried out in the period 1 January 2011 to 31 March 2011 is contained below:

Supporting Corporate Governance

- 3.3 In accordance with Regulation 4 of 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) with the Authority's financial statements.
- 3.4 Internal Audit has assisted Management in the production of the Council's AGS for 2010/11 by:
- updating the Council's Code of Corporate Governance (approved by the Audit and Governance Committee in November 2010)
 - advising on and co-ordinating the assurance gathering process
 - co-ordinating the self- assessment that was completed by designated officers of the Council (In this way compliance with the Council's Code of Corporate Governance will be evidenced)

- sitting on the Corporate Governance Group and advising on risk management, control, and governance issues that have been identified through audit work.
- 3.5 Following changes in the Accounts and Audit Regulations, the AGS for 2010/11 will be approved and published at the same time as the statement of accounts i.e. by September 2011.

Core Financial and Fundamental Systems

- 3.6 During the quarter, work was undertaken on the Council's fundamental financial systems in order to gain assurance that the systems of financial control are in place and operating effectively. The fundamental systems have been agreed with External Audit in order that they may rely on the work of internal audit. Areas being subject to audit include:
- Payroll
 - Accounts Payable
 - Accounts Receivable
 - General Ledger
 - Cash Receipting
 - Treasury Management
 - Housing Benefits
 - Council Tax
 - National Non Domestic Rates
- 3.7 Internal audit work on Payroll, Accounts Payable and Accounts Receivable was in conjunction with Cheshire West and Chester Council's Audit team, in accordance with the agreed Internal Audit Protocol between the two Councils.
- 3.8 During the year, each of the three legacy (i.e. ex-District) systems for Housing Benefits, Council Tax and National Non Domestic Rates were replaced by one new system for each area. Internal Audit supported the project to implement the new systems and has carried out testing on the legacy and new systems, as well as undertaking checks on the migration of data from old to new.
- 3.9 One of the main areas of focus was the undertaking of 'extended testing on key controls' over a number of systems. This work covered the 2009/10 financial year and had been agreed with External Audit to support their assurance work on the financial statements. In addition to some of the systems referred to in 3.7, further work on the following systems was carried out and reported back to External Audit: Schools Finance, PARIS Care Plans, Supporting People, Home Care Roster and Asset Management.
- 3.10 During the year, Cheshire East's core business system, Oracle was upgraded to a new release (R12) with a go-live date of February 2011. Internal Audit, jointly with Cheshire West and Chester Council's Internal Audit team carried out the following work:

- 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.

The main findings were that:

- A number of controls were identified as manual or not in place, which weakens the overall control environment
- A review of system user access rights identified a number of instances where the scope access is wider than best practice expectations. In some cases this is due to the business model adopted.

These areas will be re-visited during the follow up in 2011/12.

- 3.11 A follow up review of Debt Management was carried out during the year and recently concluded. The main findings remain that there is:

- Minimal guidance to staff re: income/debt management.
- An inconsistent approach to managing debt across individual Services. Services have no escalation process to use if their own action does not result in payment.

Management have responded; an Income Management Strategy is currently at draft stage covering the approach to reducing the need to create debt and approaches to managing it where this is necessary. There will also be promotion of the monitoring reports available for debt management as part of the launch of the Strategy. Debt Management remains an area for future monitoring and follow up.

- 3.12 Recommendations made to address the control weaknesses have been agreed by the relevant Managers including a timescale for implementation. Key findings are included in Appendix 1.

- 3.13 Although this work hasn't highlighted any material discrepancies, issues may still arise as a result of the external audit of the Statements by the Audit Commission. Furthermore, assurances given by Internal Audit are never absolute, because it is impossible to examine every activity and every transaction.

Key Service and Departmental Systems

- 3.14 Audit work was undertaken within Adult, Community, Health & Wellbeing, Children & Families, Places and Performance & Capacity. This work comprised of a mix of risk based audits, regularity audits, computer audits, investigations, and the provision of advice to officers.

Adults, Community, Health & Wellbeing/Children & Families

- 3.15 Further to the series of establishment audits that were reported in January, a consolidated report was issued to senior management highlighting common issues and high risk areas. The actions raised were all agreed and progress is being made in implementing them across the service. This has been demonstrated by a number of queries from individual establishments as to how specific actions should be implemented.
- 3.16 Internal Audit continues to support the Adult Financials Project Group in reviewing processes and implementing improvements and efficiencies within the broader area of finance across the Service. The group is currently addressing issues around Appointeeships and the financial assessment of social care customers as well as continuing with the introduction of the pre loaded platform via Empower Cards.
- 3.17 Following the review of a number of Contact Centres as discussed in the previous Committee report some concerns were raised about the level of control in place to manage stock losses and fines in Libraries. This prompted a further review of this area that is currently being concluded. The main findings indicate, however, that actions raised during the previous audit in 2006 have not been fully implemented.
- 3.18 A follow up review was carried out within the Client Finance Team in Adult Services to determine progress in addressing a significant backlog of year end audits and the reclaim of unspent monies in relation to direct payments. Unfortunately, little progress was found to have been made at a service level and this needed to be escalated to senior management. As a result a detailed plan was put in place in the service to address all of the issues and regular contact has been maintained between the manager and Internal Audit to ensure that progress is made. This will be subject to a final review when the work has been completed. We are also working with the service on the introduction of the Empower Card as the main vehicle for personal budgets (as agreed by Cabinet on 14 March) (see 3.16).
- 3.19 Following a request from the Director of Children and Families a piece of work was commenced to identify the processes and procedures that would need to be developed to enable the service to take back responsibility for the administration of Children's Direct Payments from Adult Services. This piece of work was due to be completed in early 2011/12 and will be reported on at a later date.
- 3.20 Internal Audit has continued to liaise with the Schools Finance Team with regards to the proposed replacement for the Financial Management Standard in Schools. Further discussions have been scheduled for early 2011/12 in order to determine the resource requirements for meeting both the new assessment criteria and the Audit Commission Keeping Your Balance audit programme that had previously been included in the FMSiS work.

- 3.21 A review of the circumstances that led to the failure of a nursery provider was carried out to identify the level of risk of a similar situation occurring elsewhere in the borough. A report raising several action points to mitigate this risk was recently issued to senior management for consideration. A follow up of this work is planned in 2011/12.
- 3.22 Internal Audit were contacted by the Business Support team in Children and Families and asked to review the controls around nursery providers' compliance with Free Early Education Entitlement (FEEE) funding conditions. A number of improvement opportunities were identified and an interim report has been issued to address the issues with a full audit of the arrangements in place to manage the FEEE included in the audit plan for 2011/12.
- 3.23 Management have, therefore, been informed of areas where systems are weak, or not being applied properly and appropriate remedial action has been recommended and agreed where considered necessary. Key findings for the full year are included in Appendix 1.

Places

- 3.24 A review of the authority's Licensing activities was carried out focussing on the existence of key controls over pricing, processing of applications, income control and inspections/enforcement. A number of medium priority recommendations were made and have been accepted by management.
- 3.25 A review of the Building Control service was carried out. The audit focussed on risks surrounding income, standard of work undertaken, recovery of costs and application of relevant Standards. The review was completed with no significant findings and all action points agreed by management.
- 3.26 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 a revised scope for the audit will be discussed with management in 2011/12.
- 3.27 An interim review of Section 106 Developer Contributions was carried out in the final quarter of the year. There were a number of issues being progressed by the service at this time including the appointment of a dedicated Section 106 Officer. It was agreed that a more detailed review would be carried out in 2011/12 and this has recently commenced.
- 3.28 Terms of Reference were agreed with management for audit reviews of Car Parking and Renovation Grants. Work continues in both of these areas and any significant findings will be reported to Committee.
- 3.29 Management have, therefore, been informed of areas where systems are weak, or not being applied properly and appropriate remedial action has been recommended and agreed where considered necessary. Key findings for the full year are included in Appendix 1.

Performance & Capacity

- 3.30 An audit of Absence Management was carried out and findings reported to the HR Delivery Manager. Recommendations made were predominately around strengthening guidance for managers in this area.
- 3.31 Internal Audit carried out a Regulation of Investigatory Powers Act (RIPA) review in early 2010. RIPA is led by the Compliance Team within Internal Audit & Compliance. The audit acted as a pre-inspection review ahead of an inspection by the Office of Surveillance Commissioners to establish whether services were aware of their obligations under RIPA, had been adequately trained, and that the Council's approved policy is being compiled with. A small number of audit recommendations were made.
- 3.32 During 2010/11, ICT specific work included:
- Follow-up review of ICT Asset Inventory.
 - Review of the Authority's compliance with Government Connect.
 - Finalising ICT security policies and guidance.
 - Producing guidance on seizure of ICT equipment for forensic purposes.
 - Liaison with Cheshire West and Chester's Audit Team on proposed joint working.
 - Contribution to the work of the ICT Governance Group and Social Media Working Group.
- 3.33 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 have recently been reported to management and all recommendations agreed.
- 3.34 Work commenced on a Performance Management Review during the year. This is focussed 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.
- 3.35 Management have, therefore, been informed of areas where systems are weak, or not being applied properly and appropriate remedial action has been recommended and agreed where considered necessary. Key findings for the full year are included in Appendix 1.

Cross Directorate, Partnerships and Shared Services

- 3.36 A joint review with Cheshire West and Chester Internal Audit team was carried out of the governance and financial controls of the Learning Resource Network Shared Service. A number of opportunities for significant improvements were identified. A review of arrangements is being undertaken by the two authorities.
- 3.37 As agreed at the Audit and Governance Committee in January 2011, a review of the savings achieved through redundancy was undertaken. It was

concluded that redundancies have secured savings through reduction of staffing costs; however, redundancies since LGR in 2009 have not always been specifically incurred for that reason. The results of the review are included as Annex A.

Counter Fraud and Probity

- 3.38 A review of the council's anti fraud and corruption arrangements was completed using the Fraud Evaluation Diagnostic (FRED1) which was recently developed by CIPFA. The results of this review have been reported separately to this meeting.
- 3.39 Consultation with Human Resources and Unions on the revised Whistleblowing Policy is now complete. The updated policy is subject to a separate report to this committee.
- 3.40 Work was undertaken on the National Fraud Initiative, an exercise run by the Audit Commission that matches electronic data within and between audited bodies to prevent and detect fraud. Internal Audit continues to work with Management to ensure that vulnerabilities that may give rise to fraud and corruption identified by the exercise are designed out of Cheshire East's systems and procedures.
- Matches for investigation were received from the Audit Commission in October 2010. Investigations are currently underway in a number of areas including; Benefits, Accounts Payable, Payroll and Insurance.
 - There are a number of outcomes to date, including £60,000 which is currently being recovered from suppliers as a result of duplicate payments that have been made by the Authority; £1,050 is being recovered from an overpayment of a care contract relating to a client who had died, and a benefit claimant has accepted an administrative penalty due to claiming in more than one Authority.
 - Internal Audit are working with services to identify the reasons why matches have occurred to determine whether additional controls can be implemented in order to mitigate the risks. Full results of the exercise will be reported through the Corporate Risk Management Group.
- 3.41 An audit of the Anti Money Laundering Policy was undertaken during the year. The main findings, which were reported to the Borough Treasurer & Head of Assets, related 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.

Responsive – investigations

- 3.42 A review of residual fraud and irregularity cases revealed a number of learning points which were incorporated into audit programmes and discussed, on a case by case basis, with relevant managers.

- 3.43 Throughout 2010/11, Internal Audit assisted Management in the investigation of potential irregularities. Detailed reports have been prepared for consideration by the Head of Policy and Performance in accordance with the Anti Fraud and Corruption Policy. The reporting process ensures that specific learning points for the Council have/will be addressed.
- 3.44 The Internal Audit Update reports to the Committee in September 2010 and January 2011 included detail on on-going investigations. Investigations commenced in the final quarter of 2010/11 included:
- A low value discrepancy was highlighted in an Adults Supported Living Network, which concluded that there were training needs for staff who were responsible for completing tenants' financial paperwork.
 - A number of instances of misuse of service user finances have occurred within an Adults Supported Living Network. This has resulted in a member of staff being dismissed.
 - Internal Audit assisted an investigation led by Cheshire West and Chester Internal Audit into proprietary checks on agency staff. Cheshire East has also brought this to the attention of the External Auditors. Work on staff vetting processes is planned in 2011/12.
 - Two devices (key loggers) that record key strokes made by users were discovered at libraries on the public access network computers. This could potentially highlight passwords to fraudsters. This has concluded in libraries becoming more vigilant and consideration is being given to relocating the USB ports on the computers to make any devices more noticeable.

Value for Money/Strategic Reviews

- 3.45 This represented a small percentage of the overall audit plan and there was no specific activity in this area during 2010/11.

4.0 Annual Governance Statement 2010/11

- 4.1 In compiling the AGS, significant issues that are considered to fall short of the expected standards should be commented on in the Statement. An action plan explaining how the issue will be addressed in 2011/12 should also be included in the Statement.
- 4.2 As described in sections 2.2 and 3.3 - 3.5, work has been carried out in producing the AGS for 2010/11 and it will be brought for formal approval by the Committee with the statement of accounts by the end of September 2011.

5.0 Performance against Audit Plan 2010/11

- 5.1 There has been a wide range of audit coverage with most areas of the Council receiving some audit activity, be it through planned audit reviews, or the annual management assurance process which is also used to inform the AGS.

- 5.2 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. The Internal Audit establishment has been reduced to reflect the significant savings required as part of the 2011/12 budget settlement. 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.
- 5.3 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. This is to be expected in a large and complex organisation where it is necessary to deliver an audit plan that is responsive to the changing priorities of the Council. Furthermore, it should be noted that the required audit resource is difficult to determine because all relevant issues cannot be reasonably foreseen when compiling the plan.
- 5.4 A more detailed analysis of performance against the plan is shown in Appendix 1. This includes the status of work included in the original plan and key findings.
- 5.5 A summary of the audit work undertaken in the first 9 months of the year has been reported to the Audit and Governance Committee on a quarterly basis. Work for the final quarter of 2010/11 concentrated on:
- the fundamental financial systems in order that External Audit can place reliance on the work of Internal Audit.
 - assisting Management in compiling the AGS in order to provide a continuous review of the effectiveness of the Council's governance arrangements.
 - supporting the major upgrade of Oracle (R12), in conjunction with Cheshire West and Chester Council's Internal Audit team, and reporting back to the Programme Board on the go-live decision.
- 5.6 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 Strategies, Freedom of Information requests and Data Protection work across the organisation.
- 5.7 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, processes and procedures, application of Finance and Contract Procedure Rules, Schemes of Financial Delegation, ICT Security Policy.

Implementation of recommendations

- 5.8 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. The Section has worked with Management to ensure that issues are being addressed. As indicated in this report progress is being made to implement improvement.
- 5.9 An area for improvement in 2011/12 is the timeliness of management responses to audit reports and implementation of audit recommendations. To aid this, an Internal Audit Reporting Protocol setting out timescales for reports and management responses will be agreed with senior management in summer 2011.

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:

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)	
Target Outcome/Output	2010/11 Outcome
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.
Service Objective: To facilitate best practice in governance arrangements leading to the production of an Annual Governance Statement (PAP14)	
Target Outcome/Output	2010/11 Outcome

Appendix A

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.
Service Objective: To promote and encourage a culture of high ethical standards, sound financial & 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)	
Target Outcome/Output	2010/11 Outcome
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 2010/11 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 during the year from Corporate Management Team, Cabinet and the Portfolio Holder amongst others. To gain user feedback, a client questionnaire has been developed and utilised on audit projects since March 2011. Results will be reported back to the Committee in 2011/12.
- 6.5 In September 2010, the results of the External Audit review of Internal Audit were reported to the Committee. The review concluded that "good progress was made in developing the Council's Internal Audit arrangements during the year" and "the Internal Audit team was well placed to act as an assurance function, delivering an independent and objective opinion on the Council's control environment and assurance on internal controls through its annual audit plan". The review identified that Internal Audit met seven of the eleven CIPFA standards and partially met the other four.
- 6.6 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:

Performance Indicator	2010/11 Target	2010/11 Actual
Chargeable Days as a percentage of Available Working Days	80%	85%
Average number of days between end of fieldwork to issue of draft report	15 days	15 days
Percentage of significant recommendations (high & medium) which are agreed.	100%	98.5%

7.0 Compliance with Code of Practice for Internal Audit in the United Kingdom

7.1 Regulation 6 of the Accounts and Audit Regulations 2011 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.

7.2 In accordance with the Regulations the performance of Internal Audit has been measured using the checklist appended to the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. (A separate assessment of the Audit Committee has been undertaken). The review, completed by the Head of Internal Audit has concluded that although there were areas for improvement the internal audit service is being delivered to the required standard. This has been discussed with the portfolio holder and the Chair and Vice Chair of the Audit and Governance Committee.

7.3 The areas for improvement can be summarised as follows:

CIPFA standard	Key Messages/Action
<p>Independence <i>Internal Audit should be independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal Auditors should not have any operational responsibilities.</i></p>	<p>The Internal Audit Reporting Protocol prescribes that:</p> <ul style="list-style-type: none"> Those weaknesses giving rise to significant risks that are not agreed are brought to the attention of a more senior level of management Where agreed actions have not been effectively implemented by the date agreed the risks of not taking action have been understood and accepted at a sufficiently senior management level.
<p><i>The status of Internal Audit should enable it to function effectively. The support of the organisation is essential and recognition of the independence of Internal Audit is</i></p>	<p>The Head of Internal Audit and Compliance is a third tier post; however, it is currently vacant. Committee reports go out in the Head of Policy and Performance's</p>

<i>fundamental to its effectiveness.</i>	name with individual audit reports going out in the Auditors name.
Objectivity <i>Long term responsibility for the audit of a particular aspect of an organisation can lead to over-familiarity and complacency that could influence objectivity; assignment of ongoing audit responsibilities should be rotated from time to time within the internal audit team.</i>	Although no Auditors have long standing relationships with departments, given the age of the Authority, a staff rotation policy was introduced during the year which will be embedded in 2011/12.
Relationships <i>The Head of Internal Audit should seek to establish a dialogue with the agencies that may interact with the organisation, with a view to exchanging relevant information.</i>	A list of regulatory and inspection agencies has been produced. A protocol with External Audit already exists. Relationships with other agencies will be further developed in 2011/12.
Reporting <i>The Head of Internal Audit should determine the circulation of audit reports within the organisation, having due regard to their confidentiality and legislative requirements. The recipients of the audit report, i.e. those that have the authority to agree management actions, should be determined when preparing the audit brief.</i>	The Internal Audit Reporting Protocol prescribes that the brief includes the specific distribution list for reports.

- 7.4 An action plan for improvement has been developed that is separate from the AGS action plan, as the latter should only include significant weaknesses. Consequently, the review has established that the opinion, contained within this report, may be relied upon as a source of evidence in the AGS.