

Internal Audit Annual Report 2011/12

1 Introduction

- 1.1 In accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom, the Internal Audit Annual Report 2011/12 for Cheshire East contains the following:
- an opinion on the overall adequacy and effectiveness of the organisation's control environment (Section 2)
 - any qualifications to that opinion, together with the reasons for the qualification (Section 2)
 - a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies (Section 3)
 - any issues judged particularly relevant to the preparation of the Annual Governance Statement (Section 4)
 - 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 (Section 5)
 - comments on compliance with these standards and communication of the results of the internal audit quality assurance programme (Section 6)

2 Opinion on the Internal Control Environment

- 2.1 Internal Audit is required to form an opinion on the adequacy and effectiveness of the Council's internal control environment, which includes consideration of any significant risk or governance issues and control failures that have been identified.
- 2.2 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.
- 2.3 A number of significant issues have been reported by Internal Audit during the course of 2011/12 and the actions that management has agreed to take in response to these findings will, if implemented satisfactorily, resolve them appropriately. Internal Audit will monitor the implementation of these actions during 2012/13 and report back to the Committee accordingly.
- 2.4 There are no outstanding significant control issues identified through the work of Internal Audit that require disclosure in the Council's 2011/12 Annual Governance Statement.
- 2.5 Therefore, in the opinion of the Head of Internal Audit, as represented currently by the two Audit Managers, the Council has established a satisfactory framework of risk management, control and governance. This provides adequate assurance over the Council's control environment, with control weaknesses identified during audits and/or by management addressed or being addressed.

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This opinion is based on the following:

- the extent and coverage of Internal Audit's 2011/12 work;
- Internal Audit's delivery of the Audit Plan in accordance with the CIPFA Code of Practice
- Management's positive response to advice and recommendations;
- the AGS process.

3 Summary of Audit Work 2011/12

3.1 During 2011/12, interim reports on progress against the Internal Audit Plan were regularly brought to this Committee. A summary comparison of the 11/12 Audit Plan with Actuals is shown below (with comments on variances).

Summary Comparison of Audit Plan 2011/12 and Actuals

Area of Plan	Plan	Actual	Comments on coverage
Corporate Governance	4%	2%	AGS produced as planned.
Fundamental Financial Systems (including Shared Services)	14%	25%	Higher than planned due to: <ul style="list-style-type: none"> ▪ 2010/11 key system work overlapping into 2011/12. ▪ Additional work on Oracle accesses, which External Audit placed reliance on for 2010/11 accounts. ▪ Revenues and Benefits new systems.
Key Service and Departmental Systems	35%	40%	Broadly as planned.
Fundamental Corporate Areas	9%	1%	A general audit of Strategic Risks (SR) was carried out, using a sample of SRs rather than planned individual audits of each SR, hence reduced time spent.
Partnerships	6%	2%	As above.
Counter Fraud and Probity	15%	21%	Although close to planned overall, reactive work is far higher than planned, at the expense of proactive work.
Consultancy and Advice	9%	9%	Management requests in line with allocation.
Contingency	6%	0%	All Contingency days used.
Follow up work	2%	0%	Follow up work has been carried out in Q4, although time spent has been charged to original project.
Total	100%	100%	

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- 3.2 During the year, 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, ICT audit, investigations and the provision of advice to officers.
- 3.3 The following table shows the number of audits leading to formal reports in 2011/12 and the number of resultant actions in those reports and the numbers agreed and implemented (to date).

2011/12 Audits with formal reports

	Number/ Percentage
Total Number of Audits with a formal audit report in 2011/12¹	44
Recommended Actions per formal reports issued	261
Less: Awaiting response/ or follow up date	(24)
Recommended Actions with received management response²	237
Actions agreed	227
Percentage of Actions agreed	95.7%
Actions implemented	81
Actions in progress	146
Actions superseded/not implemented ³	10
Notes	
1 Excluding Investigations Reports (See Section 3.6)	
2 Management response to original report or follow-up audit	
3 Actions that have not been implemented due to either the action not being relevant anymore, or the manager not agreeing with the recommendation. In these latter instances, alternative actions were agreed with Internal Audit and implemented instead.	

- 3.4 At the end of March 2012, Internal Audit introduced a formal opinion within a new report format. This will enable an even clearer summary of the results of audit reviews both throughout the year and will further improve the interim reporting building up to the overall audit opinion at the end of the year.

Additional audit work

- 3.5 Internal Audit assisted management in discharging their duties through the provision of support, advice and guidance in a number of areas throughout the year. Such work does not always result in a formal audit report although it does contribute to the overall audit opinion. Examples of this work include:
- Annual Governance Statement (see Section 4 & separate report to Committee)
 - Partnerships Protocol
 - National Fraud Initiative

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- Oracle R12 follow-up
- Oracle Access Rights Review
- Client Finance Review
- Empower Audit Task Team
- School Financial Value Standard
- Lean Reviews
- 'Think Twice' monitoring
- Consultancy and Advice on Policy, Procedures & Compliance
- Grants

Counter Fraud

- 3.6 During 2011/12, Internal Audit carried out several detailed investigations across the Council with appropriate action taken where necessary.
- 3.7 In addition, support and advice was provided to investigations where management had appointed an Investigating Officer.
- 3.8 Whilst the number of investigations during the year impacted upon the amount of pro active anti fraud work carried out, the following tasks were undertaken:
- A Fraud Sub Group was established to provide further detail to members on emerging fraud risks and anti fraud work carried out by Internal Audit.
 - A Whistleblowing review was carried out and the findings reported to the March 2012 meeting of the Audit and Governance Committee.
 - National Fraud Initiative – matches for investigation are now reaching conclusion and work is being carried out in preparation for the 2012/13 exercise.

Reliance placed on work by other assurance bodies

- 3.9 Assurance is placed on the work of the Audit Commission, OFSTED, and other external bodies where appropriate. Further work is planned in 2012/13 by Internal Audit to further map the assurance framework of the Council as a whole, and in certain specific areas such as Education/Schools.

4 Annual Governance Statement 2011/12

- 4.1 In compiling the AGS, significant issues that are considered to fall short of the expected standards are commented on in the Statement. Management has identified the following significant governance issues, further detail of which can be found in the draft 11/12 AGS:
- Awareness and compliance with Council processes/procedures
 - Issues and actions arising from Lyme Green
 - Empower Card Review
 - Care Provider Failure
 - Judicial Review
 - Financial Management

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- Shared Services SLE
- Data Protection breach

4.2 The AGS has an action plan to address these issues which includes actions already in place along with other planned actions. In a number of these areas, Internal Audit is already involved in ensuring that improvements are being implemented and time has been allocated in the 12/13 Audit Plan to review the other areas. In addition, progress against the 11/12 AGS Action Plan will be monitored by Internal Audit and reported back to this Committee.

5 Internal Audit Performance

5.1 As of August 2011, Internal Audit began reporting directly to the Section 151 Officer (Director of Finance & Business Services) and is no longer part of the same team as Compliance and Risk Management. The Internal Audit establishment has been significantly reduced recently to reflect the savings required as part of the 2011/12 budget settlement. The current team is particularly lean and the Head of Internal Audit post is currently vacant. Despite this, the team has continued to deliver the Audit Plan.

Performance Indicators

5.2 Internal Audit has a number of Performance Indicators that are measured and reported on:

Performance Indicator	2011/12 Target	2011/12 Actual	Comments
Percentage of Audits completed to user's satisfaction	100%	90%	Currently below target, although a high percentage. Any low scores are discussed between the Audit Manager, Auditor, and Client (if necessary) for lessons learnt.
Percentage of significant recommendations agreed	100%	98%	This is almost on target. The new report format for 12/13 will prompt Managers to agree (or not) each recommendation.
Productive Time (of Chargeable Days)	80%	86%	Above target.
Average number of working days between end of fieldwork to issue of draft report	15 days	19 days	Below target. As reported at January 2012 Committee meeting, this indicator is extremely difficult to measure and the decision has been taken to use an alternative for 12/13. The score for 'promptness of audit report' from the Client Questionnaire will be used in future. For 11/12, this score is an average of 8.5 (out of 10).

5.3 The final Performance Indicator for 11/12 is the Percentage of significant recommendations implemented. As reported at January 2012 Committee, the

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current Audit Management system does not easily produce the data for this indicator. Considerable work has been carried out in Quarter 4 of 2011/12 to manually record this information and this is shown in 3.3.

- 5.4 The measure of Actions Implemented shows that 96% of actions have been or are in the process of being implemented. Of the remaining 4%, these have either been superseded by events or alternative recommendations, as agreed with Internal Audit, have been implemented.
- 5.5 However, there are a currently a large proportion of Actions recorded as implementation 'in progress'. This may be for a variety of reasons i.e. timing and further work will be carried out in tracking these actions and analysing progress. This will be reported back as part of Internal Audit's interim reporting during 2012/13.
- 5.6 As reported previously to the Committee, a review of the current Performance Indicators was carried out in Quarter 4 and, in addition to the new indicator mentioned in 5.2 above, there are also new indicators relating specifically to investigations and also follow up audits. Progress against these indicators will be reported through 12/13.

6 Compliance with Code of Practice for Internal Audit

- 6.1 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.
- 6.2 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 Audit Managers has concluded that, although there are areas for improvement (as detailed below), the internal audit service is being delivered to the required standard. This contributes to the assurances received for the AGS and will be shared with members of the Committee as part of the training workshop in September.

Service Improvement Plan

Area	Action
Scope of Internal Audit	
Internal Audit Terms of Reference	Update and review, picking up actions from Internal Audit Self Assessment.
Assurance Framework	Building on work of Corporate Governance Group, in developing Governance Framework for the Council, develop Assurance Framework to ensure no duplicated efforts or gaps.
Partnership Arrangements	Review and update protocol with CWaC Internal Audit, in light of SLE and auditing arrangements decision.

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Area	Action
Independence	
Audit Advice/Status of Internal Audit	Incorporate stance on advice/guidance and reporting lines/role of Head of Internal Audit in ToR.
Status of the Head of Internal Audit	Head of Internal Audit post to be filled.
Ethics of Internal Audit	
Ethics	Staff to be reminded of ethical responsibilities.
Relationships	
External Auditors	Engage with Grant Thornton and update Audit Protocol.
Other Regulators & Inspectors	Review and update as part of Assurance Framework.
Staffing, Training and Continuing Professional Development	
Skills & Competencies	In conjunction with new corporate policy, ensure periodic assessment against pre-determined skills/competencies.
Training & Development Needs	Co-ordination, review and monitoring of training and development programme.
Audit Strategy & Planning	
Audit Strategy	Update and review, picking up actions from Internal Audit Self Assessment.
Undertaking Audit Work	
Audit Manual/Work Instructions	Identify all relevant work instructions and produce or update existing ones. Develop process for ongoing review and maintenance.
Galileo (Audit Management System)	Team workshop to share best practice, identify improvements etc. Also: liaison with other Authorities/software supplier, where necessary.
Oracle & Other Systems	Hold team knowledge sharing session and identify gaps/additional training required.
Audit Documentation	Re-organisation of shared drive/potential use of Sharepoint.
Due Professional Care	
Monitoring and Review	Ensure included within Manual/Work Instructions.
Reporting	
Follow-up	Formalise procedure/report format etc.
Performance, Quality & Effectiveness	
Client Questionnaire	Review use of electronic solution (Survey Monkey).
Other Client Feedback	Gain feedback on service as a whole from management, members etc.
Audit Profile	Review/update of intranet site.

6.3 An action plan for improvement has been developed that is separate from the AGS action plan, as the latter should only include significant weaknesses.

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Consequently, the review has established that the opinion, contained within this report, may be relied upon as a source of evidence in the AGS.

Internal Audit Annual Report – Key Work in Quarter 4

Area	Key Work in Quarter 4
Supporting Corporate Governance	Production of 2011/12 AGS and development of Governance Framework.
Fundamental Financial Systems (including Shared Services)	2011/12 systems work, including joint reviews (with CWaC Internal Audit) of Accounts Payable, Payroll and Accounts Receivable. Also: General Ledger and Cash Receipting.
Key Service and Departmental Systems	<p><u>Adults</u> Continued support to Client Finance Review within Adult Services along with the provision of resource to assist the Empower Audit Task Team.</p> <p><u>Children & Families</u> Continued development, in conjunction with the Schools Finance Team, of an assurance framework to meet the requirements of the Schools Financial Value Standard including planning visits to a number of schools to pilot the proposed framework.</p> <p><u>Places</u> Advice on control framework within new Highways Maintenance contract.</p> <p><u>Performance & Capacity</u> Procurement/Health & Safety audits.</p>
Fundamental Corporate Areas	Strategic Risks review.
Partnerships	Development of Partnerships Protocol.
Counter Fraud and Probity	<p>A number of investigations were carried out during this quarter and continued into Q1 2012/13.</p> <p>A thorough and robust investigation of all issues surrounding the expenditure incurred on the proposed waste transfer station at Lyme Green; in particular to identify any governance issues and whether all financial and contractual regulations had been complied with.</p>
Consultancy and Advice	Ad-hoc work; specific larger projects include Lean Reviews, 'Think Twice' monitoring etc.
Contingency	The Contingency allocation of days for 2011/12 has been used on unplanned work.
Follow up work	Ad-hoc follow up work in period.