

Internal Audit Interim Report 2012/13

1 Introduction

- 1.1 In accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom, the first Internal Audit Interim Report 2012/13 for Cheshire East contains “emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 1.2 Internal Audit is required, at the end of the year, to form an opinion on the overall adequacy and effectiveness of the organisation’s control environment, which includes consideration of any significant risk or governance issues and control failures that have been identified.
- 1.3 This interim report contains the following:
- a summary of the audit work in the first quarter (Section 2)
 - any issues judged particularly relevant to the preparation of the Annual Governance Statement (Section 3)
 - comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets (Section 4)
 - comments on compliance with these standards and communication of the results of the internal audit quality assurance programme (Section 5)
 - other developments (Section 6).

2 Summary of Audit Work 2012/13

- 2.1 This is the first 2012/13 interim report on progress against the Internal Audit Plan. A summary comparison of the 12/13 Audit Plan with Actuals for Quarter 1 is shown below (with comments on variances).

Summary Comparison of Audit Plan 2012/13 and Quarter 1 Actuals

Area of Plan	Plan	Actual	Comments on coverage
Corporate Governance	4%	7%	Production of AGS.
Key Financial Systems	6%	18%	Timing of Internal Audit key systems work is normally in first quarter so that External Audit can place reliance on work, if required, therefore higher percentage expected.
Shared Services	12%	7%	Key systems work undertaken. Planned work on move to Separate Legal Entity (SLE) far lower than expected, given delay in decision.
Corporate Cross-Service	12%	11%	Broadly as planned.
Children, Families & Adults	18%	13%	This is slightly lower than expected. This is a focus of work in Quarters 2 and 3.
Places & Organisational	9%	4%	This is lower than planned for first

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Area of Plan	Plan	Actual	Comments on coverage
Capacity			quarter.
Partnerships	3%	0%	Work on Partnership Protocol has taken place in Quarter 2.
Anti Fraud and Corruption	12%	34%	Almost three times greater than planned. Of the 34%, 12% is proactive work and 22% is reactive (with 14% being time spent on Lyme Green).
Improvement & Compliance	3%	0%	No time specifically coded against this heading in first quarter.
Consultancy & Advice	6%	6%	Management requests in line with allocation.
Contingency	12%	0%	As at end of first quarter, approximately 65% of 12/13 contingency of 200 days already used.
Follow Up	3%	0%	Follow up work is charged against the project in question. Coverage is on schedule.
Total	100%	100%	

2.2 During the quarter, 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.

2.3 There have been two major pieces of work during the first quarter:

- Lyme Green Report (as reported previously to Committee)
- Annual Governance Statement (see Section 3 & separate report to Committee)

2012/13 Audits with formal reports

2.4 At the end of March 2012, Internal Audit introduced a formal opinion within a new report format. The first reports with the new assurance level have been produced in this first quarter of 2012/13:

Assurance Level	Audit Reports Issued 2012/13 – Quarter 1
Good	0
Satisfactory	4
Limited	4
No	0

2.5 Internal Audit are required to provide opinions as part of each individual report as well as on the overall adequacy of governance, risk management and control within the organisation (timed to support the Annual Governance Statement).

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2.6 The assurance levels reported in the table above include a combination of opinions at a broad level for the Council as a whole (macro-level opinion):

- Cash Receipting
- Payroll
- General Ledger
- Health & Safety

and opinions on individual business processes or activities within a single organisation, department or location (micro-level opinion):

- Knutsford Civic Hall
- Homecare
- Supporting People
- Emergency Duty Team

2.7 At the macro level, satisfactory assurance is given with regards to the risks identified within the terms of reference, except for client authority controls regarding Payroll which was limited, because certain policies and procedures governing client/shared service roles and responsibilities are either not evident, not up to date or applied consistently.

2.8 At the micro level, assurance for each location is limited because improvements are required in some or all of the following areas: cashing up procedures, authorisation of expenses, contract monitoring and payments and the review of purchase card transactions. This is not entirely unexpected given, in the majority of instances, management were aware of control issues prior to the audit commencing.

2.9 Management has responsibility for ensuring that the agreed actions for improvement are implemented. Internal Audit will obtain assurance that actions have been implemented, particularly with regard to those that are deemed high priority. Therefore, the matters discussed in this part of the report are not being escalated to Members for further action. Members' interest 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, action is taken to ensure that any shortcomings are rectified promptly.

Additional audit work

2.10 Internal Audit assisted management in discharging their duties through the provision of support, advice and guidance in a number of areas throughout the quarter. 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:

- National Fraud Initiative
- Oracle Access Rights Review
- Client Finance Review
- Empower Audit Task Team

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- School Financial Value Standard
- 'Think Twice' monitoring
- Consultancy and Advice on Policy, Procedures & Compliance

Counter Fraud

- 2.11 An exercise has been carried out to review the Council's anti fraud and corruption arrangements against the National Fraud Authority's document Fighting Fraud Locally: The Local Government Fraud Strategy. The outcomes of this review are described in detail in a separate report to this Committee.
- 2.12 Work is also ongoing in preparation for the 2012/13 National Fraud Initiative which is coordinated by Internal Audit and requires data extracts to be carried out on 8 October 2012 prior to their submission to the Audit Commission for analysis.
- 2.13 Internal Audit has also assisted management in carrying out a small number of investigations into potential financial irregularities, further details of which will be discussed at the next Member/Officer Fraud Sub Group.

Reliance placed on work by other assurance bodies

- 2.14 Assurance is placed on the work of the Audit Commission, OFSTED, and other external bodies where appropriate. 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.

3 Annual Governance Statement 2011/12 & 2012/13

- 3.1 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 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
 - Shared Services SLE
 - Data Protection breach
- 3.2 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. Progress against the 11/12 AGS Action Plan will be monitored by Internal Audit and reported back to this Committee at the next meeting.

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- 3.3 There are no significant control issues identified through the work of Internal Audit in the first quarter of 2012/13 that require disclosure in the Council's 2011/12 Annual Governance Statement.

4 Internal Audit Performance

- 4.1 The Internal Audit establishment was significantly reduced 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.

Performance Indicators

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

Performance Indicator	2012/13 Target	2012/13 Qtr 1 Actual	2011/12 Actual	Comments
Percentage of Audits completed to user's satisfaction	90%	100%	90%	All are ahead or on target; however, figures are for the first quarter only and the number of reports, recommendations and questionnaires at this stage of the year is relatively low.
Percentage of significant recommendations agreed	85%	100%	98%	
Productive Time (of Chargeable Days)	80%	87%	86%	
Draft report produced promptly (per Client Satisfaction)	90%	90%	85%	

- 4.3 As reported to the Committee in June 2012, a lot of work has gone on in recent months by Internal Audit to measure recommendations implemented. At the last Committee, it was reported that there was a large proportion of Actions recorded as implementation 'in progress'. At that meeting, Members requested that a measure of the number of recommendations implemented within agreed timescale be provided.

4.4 Implementation of Recommendations (as at September 2012)

Recommendations	%
Recommendations implemented within original agreed timescale	34%
Recommendations agreed – timescale renegotiated/being renegotiated	65%
Recommendations not implemented	1%
Total	100%

- 4.5 As can be seen from the table in 4.4, approximately two thirds of recommendations have not been implemented within the agreed timescale.

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Feedback from Managers for reasons on these slippages fall under a number of different headings, including:

- Resource issues – lack of staff/‘day job’ has taken priority etc.
- Change in Manager/Service restructure since original audit
- Implementation of recommendations is dependant on other factors, outside Manager’s direct control e.g. Shared Services/new system etc.

- 4.6 Internal Audit will now do further work in escalating those recommendations not yet implemented through relevant Service and Directorate Management Teams and on to Corporate Management Team, and this Committee, if necessary.
- 4.7 Internal Audit are also currently further developing the follow up procedure for audits, based on a manager self assessment of recommendations implemented. Internal Audit would then periodically sample check, using a risk based approach on the original assurance level, for evidence of implementation.
- 4.8 For 12/13, there are new indicators, reported half yearly, relating specifically to investigations and also follow up audits. Progress against these indicators will be reported in the next interim Internal Audit report in January 2013.

5 Compliance with Code of Practice for Internal Audit

- 5.1 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. The review, completed by Audit Managers concluded that, although there are areas for improvement (as detailed in the Annual Report to Committee in June 2012), the internal audit service is being delivered to the required standard. This contributes to the assurances received for the AGS and has been shared with Committee Members as part of the training workshop in September 2012.

6 Other Developments

- 6.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA) recently launched a public consultation on the first unified set of public sector internal audit standards. It is currently proposed that the PSIAS (Public Sector Internal Audit Standards) will come into force from 1 April 2013. Further updates will be provided to the Committee, when more information becomes available.
- 6.2 Cheshire East is currently exploring opportunities around regional collaboration and Internal Audit has been involved in discussions in the last few months with its partners within the Cheshire and Warrington Sub Region around working together and how best to share information and pool limited resources, where possible.