

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 second 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 2012/13, and specifically that carried out in the second and third quarters (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 second 2012/13 interim report on progress against the Internal Audit Plan, following the previous report in September 2012. A summary comparison of the 12/13 Audit Plan with Actuals for Quarters 1-3 is shown below (with comments on variances).

Summary Comparison of Audit Plan 2012/13 and Quarter 1-3 Actuals

Area of Plan	Plan	Actual	Comments on coverage
Corporate Governance/AGS.	4%	6%	Higher than planned due to Internal Audit leading on a number of areas within Corporate Governance work programme.
Key Financial Systems	6%	12%	Higher number of days than planned. Includes some testing of systems so that External Audit may place reliance on work for 11/12 audit.
Shared Services	12%	3%	Key systems work undertaken. Planned work on Separate Legal Entity (SLE) lower than planned as decision delayed.
Corporate Cross-Service	12%	19%	Higher than planned including additional coverage on areas highlighted through

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Area of Plan	Plan	Actual	Comments on coverage
			AGS and Lyme Green work e.g. Procurement/Schemes of Delegation.
Children, Families & Adults	18%	17%	Broadly as planned. Focus of work in Quarters 2 and 3.
Places & Organisational Capacity	9%	8%	Broadly as planned. Focus of work in Quarters 2 and 3.
Partnerships	3%	1%	Further work planned in Quarter 4.
Anti Fraud and Corruption	12%	18%	10% is proactive and 8% is reactive work.
Special Project	0%	7%	Lyme Green work.
Consultancy & Advice/Improvement & Compliance	9%	9%	Management requests broadly as planned.
Contingency	12%	0%	At end of third quarter, 93% of 12/13 contingency of 200 days used.
Follow Up	3%	0%	Follow up work is charged against the project in question. Coverage is on schedule.
<b>Total</b>	<b>100%</b>	<b>100%</b>	

2.2 During the second and third quarters, 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, investigations and the provision of advice to officers.

#### 2012/13 Audits with formal assurance level

2.3 During 2012/13, Internal Audit introduced a new report format, including for the first time, a formal audit assurance level. A summary of the reports produced in the first three quarters of 2012/13 with the formal assurance level is included below (some of the audit reports are still at draft stage i.e. awaiting management comments):

Assurance Level	Audit Reports Issued 2012/13 Quarter 1-3
Good	0
Satisfactory	13
Limited	9
No	1

2.4 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).

2.5 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) e.g. Housing Benefits, Procurement and opinions on individual business processes

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or activities within a single organisation, department or location (micro-level opinion) e.g. Social Care establishment, Library.

- 2.6 At the macro level, satisfactory assurance, with regard to the risks identified within the terms of reference, has been given in all cases, except the following which have been given limited assurance, and covered in the following paragraphs:
- Procurement (2.7)
  - Duplicate Payments (2.8)
  - Purchase Cards (2.9)
- 2.7 The Procurement audit focussed on a number of procurement exercises undertaken across the whole Authority and by its nature examined historical processes, some of which have since changed. The majority of findings and recommendations in the report are already known to management and many of the actions have already been put in place or are planned i.e. through the Lyme Green Action Plan work.
- 2.8 The Duplicate Payments audit report summarises findings and actions from a recent review by Internal Audit. As it is a review based on exceptions i.e. duplicate payments, the 'limited' assurance is unsurprising. This was a 'pre-review' before an external company carried out its own review, for which it receives a commission for any duplicate payments identified and recovered. The combined reviews have identified in excess of £400,000 in potential duplicate payments of which over £250,000 has so far been recovered, with recovery work ongoing. There are a number of control weaknesses identified in the internal audit report and East management has responded to all actions, although in some cases these are dependent on Shared Services implementing the recommendation.
- 2.9 A review of the Purchase Card systems and procedures was carried out recently as a proactive anti-fraud audit. The audit concluded that there was 'limited assurance' and a number of recommendations have been made aimed at improving the control environment. These were reported to Corporate Management Team in September 2012, with Heads of Service responsible for implementing a number of actions.
- 2.10 At the micro level, assurance in the majority of cases 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. In many cases, this is expected as, in the majority of instances, management were aware of control issues prior to the audit commencing.
- 2.11 The Third Sector Payments audit led to 'no assurance' being given. There were significant weaknesses found in contract management and compliance with Finance and Contract Procedure Rules and EU regulations. This has been through the Non Compliance procedure (as described in a report to Committee in September 2012) with approval at CMT and Portfolio Holder

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level. Progress on the action plan is being monitored through the Directorate's Senior Management Team and Internal Audit will review as part of planned follow up work.

- 2.12 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.

Follow Up audit work

- 2.13 All internal audit work is subject to follow up and this is carried out in a number of different ways:

- Major pieces of audit work, such as the Lyme Green Report and the Annual Governance Statement have detailed action plans which are monitored and reported separately to the Committee.
- Key systems audits, such as Payroll, Accounts Payable, Council Tax etc. are carried out on an annual basis and recommendations are followed up as part of the next year's audit.
- Investigations – the form of follow up is dependent on the nature of the investigation and the resultant recommendations e.g. follow up audit carried out on request of management.
- Formal assurance audits (see 2.14 and 2.15)

- 2.14 In the previous interim report to Committee in September 2012, Internal Audit reported back that although agreement of recommendations continued to be near 100%, implementation within agreed timescales was far lower with approximately two thirds of recommendations 'slipping' beyond the original agreed timescale. 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 dependent on other factors, outside Manager's direct control e.g. Shared Services/new system etc.

- 2.15 Internal Audit have now further developed the follow up procedure, reported in the last interim report, whereby managers self assess recommendations implemented. A number of follow ups have been carried out in this way and the results have been positive although again there has been some slippage in implementation, due to reasons mentioned above. In some cases, audit recommendations are also being superseded by those same events e.g. local restructure. This is unsurprising and given the level of change the Council is facing in the coming months, this is likely to increase.

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Additional audit work

2.16 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 include:

- Technical Enabler Group work
- National Fraud Initiative work
- Grant sign off work
- Accountable body work e.g. Growing Places Fund
- Shared Services SLE work
- Oracle Access Rights Review
- Client Finance Review
- Empower Audit Task Team work
- School Financial Value Standard work
- 'Think Twice' monitoring
- Consultancy and Advice on Policy, Procedures & Compliance

Counter Fraud

2.17 Work has continued in preparation for the receipt of National Fraud Initiative data matches which are due to be released on 29 January 2013. Following receipt of the matches Internal Audit will coordinate and monitor the investigation of matches by services in addition to carrying out the investigations into a number of the Payroll and Creditors matches.

2.18 Internal Audit has produced a draft Fraud Risk Assessment that is currently being shared with managers in order to identify any additional risks and also to document the controls that are in place to mitigate the risks of fraud. Upon completion of this exercise the assessment will be considered by Corporate Risk Management Group and circulated to members of the Member/Officer Sub Group. The completed Risk Assessment will inform the proactive anti fraud work in the 2013/14 Audit Plan.

2.19 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

2.20 Assurance is placed on the work of the Audit Commission, OFSTED, and other external bodies where appropriate. Work was included in the 2012/13 plan 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. The AGS has an

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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 is being monitored by Internal Audit and is reported back to the Committee at this meeting.

3.2 As with previous years, those audits given ‘limited assurance’ and ‘no assurance’ are considered as part of the AGS process.

**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, with no current Head of Internal Audit, and a Senior Auditor has recently left the Authority with no replacement currently planned.

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 1-3 Actual	2011/12 Actual	Comments
Percentage of Audits completed to user’s satisfaction	90%	95%	90%	Above target. Any below average scores or feedback is looked at by the Audit Managers.
Percentage of significant recommendations agreed	85%	96%	98%	Above target.
Productive Time (of Chargeable Days)	80%	84%	86%	Above target.
Draft report produced promptly (per Client Satisfaction)	90%	87%	85%	Still slightly below target but positive movement.

4.3 In addition, feedback on the new audit report format was also sought via an additional client questionnaire and results showed that the new format with audit opinion had been positively received.

**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

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improvement (as detailed in the Annual Report to Committee in June 2012), the internal audit service is being delivered to the required standard.

- 5.2 This review contributed to the assurances received for the AGS 2011/12 and was shared with Committee Members as part of the training workshop in September 2012. An updated version of this review has also been given to External Audit to form part of their 2012/13 work.

**6 Other Developments**

- 6.1 The Public Sector Internal Audit Standards (PSIAS) come into effect on 1 April 2013. The new standards reaffirm the importance of robust, independent and objective internal audit arrangements in providing senior management with the assurance that they require to support the management of the organisation and the production of the Annual Governance Statement.
- 6.2 These are the first unified set of public sector internal audit standards and CIPFA are due to provide additional guidance on the implementation of the new standards in March 2013. The current Internal Audit Terms of Reference and Internal Audit Strategy will be reviewed against the PSIAS in line with the CIPFA guidance, with a view to bringing a report to this Committee in June 2013.
- 6.3 Cheshire East has been exploring opportunities around regional collaboration and Internal Audit has been involved in discussions in 2012 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. Further work will be carried out with partners as part of the 13/14 internal audit planning process.