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# Internal Audit

## Interim Report 2013/14

April - December 2013

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Internal Audit

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## Internal Audit Interim Report 2013/14 April – December 2013

### 1. Introduction

1.1 In accordance with the United Kingdom Public Sector Internal Audit Standards (PSIAS), the second Internal Audit Interim Report 2013/14 for Cheshire East Council contains “emerging issues in respect of the whole range of areas to be covered in the annual report”. This interim report covers April – December 2013, with specific focus on the period October – December 2013.

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 The interim report contains the following:

- a summary of the audit work carried out in 2013/14 to date (Section 2)
- any issues judged particularly relevant to the preparation of the Annual Governance Statement (AGS) (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 2013/14

2.1. This is the second 2013/14 interim report on progress against the Internal Audit Plan. Following the half year review, areas to be audited in the remainder of the year were re-assessed and re-prioritised. A summary comparison of the 2013/14 Audit Plan (and mid-year revision) with actuals for the nine months to 31 December 2013 is shown on page 2 (with comments on variances).

2.2. During the first nine months of 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, investigations and the provision of advice to officers.

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### Summary Comparison of Audit Plan 2013/14 and Actuals

Area of Plan	Original Plan		Revised Plan		Actuals (to 31/12/13)		Comments on planned/actual coverage
	Days	%	Days	%	Days	%	
<b>Chargeable Days</b>	<b>1565</b>		<b>1510</b>		<b>1218</b>		Planned chargeable days reduced due to maternity leave.
Less: Corporate Work	(110)		(180)		(132)		Increased days for A&G Committee/Management Review etc.
<b>Available Audit Days:</b>	<b>1455</b>	<b>100%</b>	<b>1330</b>	<b>100%</b>	<b>1086</b>	<b>100%</b>	
Corporate Governance	60	4%	95	7%	74	7%	Increased due to Internal Audit leading on number of areas within the work programme.
Key Financial Systems	120	8%	90	7%	83	8%	All projects completed or carried forward to 2014/15.
Shared Services Key Financial Systems	115	8%	110	8%	108	10%	Projects completed. Some time transferred for Alternative Service Delivery Vehicles (ASDVs).
Corporate Cross-Service	180	12%	294	22%	163	15%	Planned time significantly increased at mid-year for ASDVs and Project Health Checks.
Children, Families & Adults	240	17%	230	17%	190	17%	Overall planned coverage on track.
Public Health	40	3%	40	3%	18	2%	Work planned in 4 <sup>th</sup> quarter.
Places & Organisational Capacity	120	8%	117	9%	112	10%	Some unplanned areas: Planning work, Additional Grants etc.
Working with External Organisations	50	3%	25	2%	3	0%	Some time transferred for ASDVs.
Anti Fraud and Corruption	180	12%	178	13%	177	16%	Reactive investigation work is being managed and limited wherever possible.
Consultancy & Advice	100	7%	77	6%	74	7%	Broadly in line with allocation.
Contingency	190	13%	-	0%	0	0%	All 13/14 contingency allocation now used.
Follow Up	40	3%	54	4%	81	8%	Additional time spent on Consolidated Action Plan – introduction, set up, maintenance etc.
External Work - PATROL	20	2%	20	2%	3	0%	Work planned in 4 <sup>th</sup> quarter.
<b>Total Audit Days</b>	<b>1455</b>	<b>100%</b>	<b>1330</b>	<b>100%</b>	<b>1086</b>	<b>100%</b>	

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### Assurance Work

#### Summary

2.3. As stated in the first 2013/14 Internal Audit interim report, audits within this year's plan have been focussed on high risk areas and, as expected and previously reported, the assurance levels for reports in year to date reflect this approach.

2.4. A summary of the reports produced in the first nine months of 2013/14 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 2013/14	Audit Reports Oct – Dec 2013
Good	0	0
Satisfactory	6	2
Limited	12	4
No	0	0

**Note:** The above table includes Assurance levels on Project Health Checks. Implementation of these recommendations is monitored by Executive Monitoring Board (EMB). (See 2.17 – 2.24)

2.5. Management has responsibility for ensuring that the agreed actions for improvement are implemented. Formal management responses to the above reports have been received, or in a small number of cases, are due in the coming weeks. Where responses have been received, actions have been agreed by management.

2.6. Internal Audit continues to obtain assurance that actions have been implemented, especially those deemed high priority and it is pleasing to note the overall positive progress on implementation of recommendations (see Follow up Audit Work, 2.38 – 2.42).

2.7. As reported in the first Internal Audit Interim Report 2013/14, and as agreed with the Chief Operating Officer, a review of the formal assurance levels for Internal Audit Reports is now underway, based on a number of factors including:

- Emerging risk appetite of new strategic commissioning Council.
- Reduced audit resource means that reviews carried out are normally on 'high risk' areas, naturally leading to assurance levels at the lower end of the scale.
- Ability to compare with other Internal Audit services through regional collaboration work.

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### Limited Assurance Reports

- 2.8. As previously agreed with the Committee, further detail is provided on those audits with 'Limited' or 'No' assurance during the period under review (October to December 2013). All actions from these audits have been agreed with management and progress on implementation will be monitored through the normal processes.
- 2.9. The 'limited assurance' reports within the first nine months of 2013/14 can be grouped under common themes, such as:
- New risk areas i.e. Highways Maintenance Arrangements (2.10 – 2.12), Project Health Check – pilot only (2.17 – 2.24)
  - Risk areas highlighted by management/previous audits i.e. Debt Management (2.13 – 2.14), Planning System Data (2.15 – 2.16).
  - Key Financial Systems – identified risk areas\*
  - National Fraud Initiative (NFI) exercise – identified risk areas\*

\* Areas audited in the period April to September 2013 and covered in the first Interim Internal Audit Report 2013/14, which was presented to the Committee in November 2013.

### Highways Maintenance Arrangements

- 2.10. An audit of Highways Maintenance arrangements has been carried out. The review concluded that the new arrangements were introduced at short notice prior to the adoption of the new contract in late 2011 and it has taken considerable effort to set these up, including the transfer of staff. As a result, the monitoring arrangements have not operated in practice as was originally envisaged.
- 2.11. It is now an appropriate time for progress to be reviewed and to develop and implement a strategy for monitoring and validating results. This should include more rigorous scrutiny of the quality standards of work completed, access to source documentation and validation of performance indicator results. The Highways Client Team is based on a 'thin client' approach and the strategy will need to take into account the risks involved and the level of resources required to give an appropriate level of assurance to management in the delivery of the service.
- 2.12. The action plan is currently being finalised and agreed with management.

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### Debt Management

- 2.13. An audit of Debt Management was carried out following previous year's reviews. Improvements have been made by the involvement of the Revenues Recovery Team and a Sundry Debt Collection Policy has recently been developed and approved. However, the process is not operating as effectively as it could be, with a lack of corporate ownership of the process, insufficiently detailed and sometimes contradictory guidance, lack of clear communication and a continuation of legacy practices all contributing to this.
- 2.14. An action plan has been agreed with management to implement all recommendations.

### Planning System Data

- 2.15. The Director of Economic Growth and Prosperity requested Internal Audit to review whether dates displayed on the planning website are inaccurate and/or misleading following concerns raised in a Local Government Ombudsman report and the Audit and Governance Committee. The review concluded that the arrangements in place to determine the level of information that will be made available to the public, along with the controls to ensure compliance with this, were not operating effectively.

- 2.16. A comprehensive action plan to address these weaknesses was agreed with management and this will be progressed as part of a wider review of planning arrangements in Cheshire East Council.

### Project Health Checks

- 2.17. As reported to this Committee in September 2013, the Council's external Auditors noted that "significant progress was made during 2012-13 to enable transparent decision making which are subject to appropriate scrutiny and risk management using the Gateway model. The model was introduced in August 2012 to provide overall assurance and controlled start up of major projects. This was in part a response to address criticisms around business planning and governance arrangements reported in 2012."
- 2.18. A key aspect of effectively operating the Gateway Process, which has raised the standard of project management within the Council, is the Member-led governance group called the Executive Monitoring Board (EMB). The EMB takes on a strategic role as part of the development of the Council's Three Year Plan and Medium Term Financial Strategy and the monitoring of delivery against the plan, quality and budget. One of the key aims of the EMB is to provide consistent and robust direction for all major

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Projects and Programmes in Cheshire East through the Project Gateway model.

- 2.19. It is supported by the Technical Enabler Group (TEG) that comprises senior officer representatives drawn from key corporate enablers (E.g. ICT, HR, Assets). (See 2.35).
- 2.20. Further progress has been made during 2013/14 to ensure that the Gateway process is embedded and used consistently to support the implementation of the Council's objectives. This includes Internal Audit working with the Member led Executive Monitoring Board (EMB) to develop the Health Check process that provides an independent (Internal Audit) assessment of whether the required elements to deliver projects successfully, such as good project management practices and appropriate resources, are in place and operating effectively.
- 2.21. The above assessment is reported to EMB following agreement of recommendations with the Senior Responsible Officer (SRO) and Project Manager (PM) which, when implemented, promote successful conditions and increase the chance of delivering the required outcome. Project assurance is also provided by the SRO for that project, with regard to the success of the project and whether benefits are likely to be realised. Monitoring the

implementation of the recommended actions is carried out by EMB.

- 2.22. A pilot review, looking at the new Leisure Delivery Model project, has been successfully completed and well received by the Project Team. The results of the review (limited assurance) have been reported to EMB together with an update on progress in implementing recommendations, which confirmed that the majority of actions were complete with implementation imminent for the remainder. As part of the process, the SRO provided satisfactory assurance with regard to the success of the project and whether the benefits are likely to be realised.
- 2.23. Following the pilot, Internal Audit has provided all SROs with a checklist on the controls and evidence that would be expected as part of a Project Health Check. This can be used by SROs to self assess their own project management arrangements and a briefing session on this will be held in February 2014.
- 2.24. Since the first pilot review, a second Project Health Check, on the implementation of the new Adults Financials system, has also been carried out. This was again well received by the Project Team and resulted in satisfactory assurance from both Internal Audit and the SRO.

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### Summary of Assurance Reports 2013/14 (October – December 2013)

Audit	Risk Driver	Assurance Level	Key Findings/Actions	Management Response
External Inspections of Children's Services	External Inspection Rating	Satisfactory	Governance framework exists with clear evidence of scrutiny and challenge by the Improvement Board to ensure Ofsted recommendations are implemented. Some further areas of improvement required.	Draft report issued.
Project Health Check – Adult Financials	New - Management (EMB) request	Satisfactory	Key findings and actions reported to, and monitored by, EMB.	
Debt Management	Previous Audit Findings	Limited	Improvements made since previous audits e.g. involvement of the Revenues Recovery Team/introduction of Sundry Debt Collection Policy However, process not operating as effectively as it could be e.g. lack of corporate ownership, insufficiently detailed/ sometimes contradictory guidance, continuation of legacy practices etc.	All actions agreed.
Highways Maintenance Arrangements	New Service Delivery Arrangements	Limited	Monitoring arrangements have not operated in practice as originally envisaged. The strategy going forward will need to take into account risks involved and level of resources required to give an appropriate level of assurance.	Currently being finalised and agreed.
Planning System Data	Management request following Ombudsman report	Limited	Arrangements in place to determine the level of information that will be made available to the public, along with the controls to ensure compliance with this, were not operating effectively.	All actions agreed.
Project Health Check – Leisure Delivery Model (Pilot Review)	New - Management (EMB) request	Limited	Key findings and actions reported to, and monitored by, EMB.	

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### Other Work

### Schools

2.25. Work is well underway for the 2013/14 Schools Audit Programme. A number of themed audits on income and purchasing have been carried out on primary schools and full audits of secondary schools are also in progress and will be completed in the final quarter.

2.26. As reported in November 2013, a review of the Schools Finance Team has also been undertaken, with satisfactory assurance.

### Supporting Corporate Governance

2.27. Internal Audit has assisted Management during 2013/14 so far by:

- Collection of evidence for and production of the 2012/13 Annual Governance Statement (AGS).
- Contribution to and production of Audit & Governance Committee reports on Corporate Governance.
- Audit Manager representation on and contribution to the Corporate Governance Group (CGG) in order to

advise on risk management, control, and governance issues that have been identified through audit work and ensure that the findings have been considered when determining the 2012/13 AGS action plan.

- Audit work in contribution to and production of CGG reports to Corporate Leadership Board.
- Planning and commencing work for the production of the 2013/14 AGS.

### Risk Management

2.28. Internal Audit assists in the management of risk through:

- Delivery of a risk based audit plan.
- Audit Manager representation on and contribution to the Corporate Risk Management Group (CRMG) in order to advise on risk management, control, and governance issues that have been identified through audit work.

2.29. Formal reports with regard to the risk management process are made throughout the year to Corporate Leadership Board, Cabinet and the Audit and Governance Committee. A planned internal audit of the Council's risk management arrangements is currently underway and will be completed in the final quarter of 2013/14.

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Internal Audit has supported Management in introducing a specific fraud risk in the Council's Strategic Risk Register and the development of a detailed fraud risk assessment. This helps to ensure that a structured, consistent and continuous process is applied to identifying, assessing and managing the risk of fraud including the reporting of significant fraud risk-related information up and down the organisation.

### Counter Fraud

- 2.30. Agreement has been reached with the Chief Operating Officer (COO) that responsibility for the Council's response to fraud will sit with the newly appointed Head of Corporate Resources and Stewardship with whom Internal Audit will agree an updated Anti Fraud and Corruption Policy and Fraud Response Plan.
- 2.31. The Member/Officer Fraud Sub Group continues to meet, to provide further detail to Members on emerging fraud risks and anti fraud work carried out by Internal Audit.
- 2.32. Internal Audit has carried out a small number of investigations across the Council with appropriate action taken where necessary and also continued to provide advice and support to investigations where management had appointed an Investigating Officer.

- 2.33. Work continues on the National Fraud Initiative with particular consideration being given as to how ASDVs will be covered by future exercises to ensure that there are no issues or unexpected cost implications for the new delivery vehicles. Work has also continued in preparation for the upcoming match of Council Tax and Electoral Register data which will take place in February 2014 and aims to improve the identification of Single Person Discount fraud.

### Technical Enabler Group (TEG)

- 2.34. In addition to the Project Health Check work outlined in 2.17 to 2.24, Internal Audit also sits on the Technical Enabler Group (TEG) which supports EMB and comprises senior officers representing key corporate enablers.

### Consultancy and Advice

- 2.35. During the year to date, Internal Audit has provided advice to Management; such work was performed at the specific request of the organisation. The nature and scope of the engagements are generally aimed to improve governance, risk management and control and contribute to the overall opinion. E.g. Advice on new systems, application of Finance & Contract Procedure Rules etc.

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### Statutory Returns/Grant Claims

2.36. Internal Audit are sometimes required as stipulation of funding or similar, to carry out an audit/give assurance on the programme/project or aspects, thereof, and report back to the statutory/funding body e.g. Growing Places Fund, Bus Services Operators Grant etc.

### Follow Up Audit Work

2.37. During 2013/14, Internal Audit has performed various follow up exercises to ensure recommendations are being implemented. This is carried out in a number of different ways:

- Major pieces of audit work, such as the AGS have detailed action plans which are monitored and reported separately to the Committee.
- 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 below).

2.38. In May 2013, a new process to monitor outstanding actions for the Council, including recommendations from both Internal and External Audit was introduced. The

Consolidated Action Plan (CAP) is monitored on a monthly basis by the Chief Operating Officer and Corporate Leadership Board, with managers providing progress reports on the implementation of actions assigned to them.

2.39. The following table shows the status of 'open' Internal Audit actions as at 31 December 2013. This shows a small increase from the figure as at 30 September 2013, reported in the first interim report. However, within that period, approximately sixty new actions have been raised, so overall progress is positive in terms of recommendations being implemented.

#### Status of Internal Audit Agreed Actions (as at 31/12/13)

Agreed Actions	Total	High	Medium
Implementation date not yet due	27	9	18
Implementation date passed – action part implemented or not yet implemented in full	56	18	38
<b>Total Agreed Actions</b>	<b>83</b>	<b>27</b>	<b>56</b>

2.40. In addition, for those recommendations where the original implementation date has passed, feedback and evidence from managers is that generally progress has been made on

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implementing the recommendations but due to a variety of factors, they have not yet been fully implemented. Such factors include:

- Resource issues – lack of staff/‘day job’ has taken priority etc.
- Change in Manager/Service restructure since original audit
- Implementation of recommendations dependent on other factors outside Manager’s direct control e.g. Transition to strategic commissioning authority/introduction of new system etc.

2.41. High priority actions and progress on implementation are discussed with the Chief Operating Officer at regular meetings with Internal Audit.

### Additional Audit Work

2.42. Internal Audit assisted management in discharging their duties through the provision of support, advice and guidance in a number of areas through 2013/14. Such work does not always result in a formal audit report, although it does contribute to the overall audit opinion at the end of the year. Examples of this include:

- National Fraud Initiative (NFI) work
- New cash receipting system
- Grant sign off work
- Lyme Green Freedom of Information (Fol) responses
- ‘Think Twice’ Monitoring

### Key Areas and Emerging Work

2.43. Following the end of the first half of the year, the audit plan was reviewed and areas to be audited in the second half of the year were re-assessed and prioritised. Key audit areas agreed for the remainder of the year were :

- Alternative Service Delivery Vehicles (ASDVs)
- Programme and Project Management – Project Health Checks

2.44. The following audits have commenced with work ongoing in the final quarter of 2013/14, and reports will be issued in due course:

- Risk Management
- Project Health Checks - Various
- Officer and Members Disclosures Review

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### Assurance Framework

2.45. Work has continued on developing an Assurance Framework for the Council using a recognised 'Three Lines of Defence' model. This approach assesses the various sources of assurance, both internal and external, allowing any duplication or gaps to be identified, and in the latter case, plugged. Internal Audit is committed to exploring collaborative opportunities within the Council and also outside, with External Audit and regional partners, to ensure the Assurance Framework is sufficiently robust and adds value.

### 3. Annual Governance Statement (AGS) 2012/13 & 2013/14

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 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 13/14 Audit Plan to review the other areas. Progress against the 12/13 AGS Action Plan is monitored by Internal Audit and an update on this was reported to the Committee at its November 2013 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. A summary comparison of the 13/14 Audit Plan with Actuals is shown on page 2.

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

Performance Indicator	2013/14 Actual	2013/14 Target	2012/13 Actual	Comments
Percentage of Audits completed to user's satisfaction	91%	90%	94%	Above target.
Percentage of significant recommendations agreed	92%	85%	93%	Above target.
Productive Time (of Chargeable Days)	82%	80%	84%	Above target.
Draft report produced promptly (per Client Satisfaction Form)	91%	90%	90%	Above target.

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### **5. Compliance with the Public Sector Internal Audit Standards (PSIAS)**

of new delivery models. The arrangements will be reviewed during 2014/15.

- 5.1. 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.
- 5.2. The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 and an Audit Charter was approved in November 2013 by this Committee.
- 5.3. An initial self assessment against the PSIAS has been carried out. This is currently being updated and the results will form part of the 2013/14 AGS process.

### **6. Other Developments**

- 6.1. From January 2014, Internal Audit now reports directly to the new Head of Resources and Stewardship with a continuing indirect reporting line to the Chief Operating Officer (COO), as Section 151 Officer.
- 6.2. Internal Audit was removed at a late stage from the recent Management Review in the light of the Council's transition to a strategic commissioning authority and the introduction