



Internal Audit

Interim Report 2014/15

April – September 2014

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Internal Audit

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Cheshire East Council

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Internal Audit Interim Report 2014/15 April – September 2014

1 Introduction

- 1.1 In accordance with the United Kingdom Public Sector Internal Audit Standards (PSIAS), the first Internal Audit Interim Report 2014/15 for Cheshire East Council 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 The interim report contains the following:
- a summary of the audit work carried out in 2014/15 to date (Section 2)
 - any issues judged particularly relevant to the preparation of the Annual Governance Statement (AGS) (See Sections 2.15-2.16 and 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, including the Internal Audit Charter (Section 6)

2 Summary of Audit Work 2014/15

- 2.1 This is the first 2014/15 interim report on progress against the Internal Audit Plan. A summary comparison of the 2014/15 Audit Plan with actuals for the half year to 30 September 2014 is shown on page 2 (with comments on variances).
- 2.2 During the first half 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 2014/15 and Actuals

Area of Plan		Plan		Actuals (to 30/9/14)		Comments on coverage
		Days	%	Days	%	
Chargeable Days		1450		728		
Less: Corporate Work		(70)		(49)		
Available Audit Days:		1380	100%	679	100%	
Corporate Governance and Risk		380	27%	182	27%	Includes operational risk management duties from July 14
Anti-Fraud and Corruption	Proactive Reviews	80	6%	83	12%	Higher than expected; extra work on NFI due to ASDVs/bid for Counter Fraud Fund.
	Reactive Investigations	50	4%	43	6%	Work assisting HR in investigations.
Chief Operating Officer (COO)	Key Financial Systems	195	14%	56	8%	Schools Audit Programme commenced in September and the majority of audits will take place in the second half of the year.
	Corporate Core & Cross Service	190	13%	163	24%	Work in this area was scheduled for quarter 1 & 2.
Strategic Commissioning	Children's Social Care & Education	75	6%	11	2%	A number of projects commenced just prior to half year end e.g. Children's Care Management – Case Files.
	Adult's Social Care	95	7%	28	4%	Further work planned for quarters 3 & 4; see 2.37 - 2.39
	Public Health	40	3%	18	3%	
	Communities	20	1%	1	0%	Further work planned for quarters 3 & 4 see 2.37 - 2.39
Economic Growth & Prosperity		75	6%	27	4%	Further work planned for quarters 3 & 4 see 2.37 - 2.39
Providing Assurance to External Organisations		75	6%	27	4%	Primarily work for PATROL.
Advice & Guidance		60	4%	24	4%	
Other Chargeable Work		45	3%	16	2%	Includes grant certification work; Adoption Reform Grant, Care Bill and Family Focus Programme. Some grants require annual certification, some quarterly.
Contingency		-	-	-	-	No contingency was planned.
Total Audit Days		1380	100%	679	100%	

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Summary of Audit Work to support the overall opinion

Area	Description of Audit Work	Output
Assurance Work	Audits with formal assurance level.	Audit Reports
Project Health Checks	Assessment of whether the required elements to deliver projects successfully are in place and operating effectively.	Audit Reports
Schools	Assessment against Schools Financial Value Standard	Audit Reports
Supporting Corporate Governance	Support and contribution to production of the Annual Governance Statement, including assurance statements from Heads of Service.	Annual Governance Statement, and supporting evidence
	Support and contribution to update reports from the Corporate Governance Group.	Reports to Corporate Leadership Board
	Support and contribution to AGS Action Plan, Compliance with Contract Procedure Rules reports etc.	Report to Audit & Governance Committee
Risk Management	Support and Contribution to the Corporate Risk Management Group including update reports.	Reports to Audit & Governance Committee
Counter Fraud	Review of Anti-Fraud and Corruption arrangements.	Report to Audit & Governance Committee
	National Fraud Initiative – co-ordination of matches and investigation work.	Results published on Audit Commission website/update reports to Corporate Risk Management Group/Investigation Reports.
	Investigations	Investigation Reports
Technical Enabler Group (TEG)	Support and contribution to TEG, which supports the Executive Monitoring Board (EMB).	Gateway Progress Report detailing TEG Outcome for use by EMB.
Consultancy & Advice	Ad-hoc consultancy and advice provided to services.	Various – reports etc.
Statutory Returns/ Grant Claims	Audit/assurance work on programme/project and subsequent report to statutory/funding body.	Return/Claim sign off
Implementation of Recommendations	Targeted follow up of audit recommendations based on audit opinion/recommendation.	Follow up reports/action plans/Key Corporate Indicator (see: Implementation of Audit Recommendations, (2.27 to 2.36)

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Assurance Work

2.3 A summary of the reports produced in the first half of 2014/15 with the formal assurance level is included below (some of the audit reports are still at draft stage i.e. awaiting management comments):

Summary of reports by assurance level

Assurance Level	Half year to 30/9/14 Audit Reports	Full Year 2013/14 Audit Reports
Good	0	2
Satisfactory	4	5
Limited	7	16
No	0	0

Note: includes assurance levels on Project Health Checks. Implementation of these recommendations is monitored by Executive Monitoring Board (EMB) (see 2.9 – 2.11)

2.4 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) and opinions on individual business processes or activities within a single organisation, department or location (micro-level opinion). Internal Audit continues to obtain assurance that actions have been implemented, especially those deemed high priority.

2.5 Further detail is provided on those audits with 'Limited' or 'No' assurance during the period under review.

Limited Assurance Reports

- 2.6 In each case a number of recommendations have been made. When implemented these will address the identified weaknesses and improve the control environment.
- 2.7 All actions from these audits have been, or are currently being, agreed with management and progress on implementation will be monitored through normal processes. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the 2014-15 Annual Governance Statement process.
- 2.8 One theme that has emerged from Internal Audit activity is the difficulty in ensuring that the requirements of corporate and cross cutting policies are delivered in a consistent and repeatable manner. This issue will be picked up as part of the Head of Corporate Resources and Stewardship's review into the role and membership of the Corporate Governance and Risk Management Groups.

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Summary of Assurance Reports 2014/15

Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions (for 'Limited' and 'No' Assurance reports)	Management Response
Freedom of Information (Fol)	Key corporate core and cross service risk.	Satisfactory		All actions agreed. Final report issued
PATROL (Parking and Traffic Regulations Outside London) ¹	Cheshire East Council is the host/ accountable body.	Satisfactory		All actions agreed. Final report issued
Public Health	Key departmental and service risk.	Satisfactory		All actions agreed. Final report issued
Shared Lives	Key departmental and service risk.	Satisfactory		Draft report issued.
Carbon Reduction Commitment	Key departmental and service risk.	Limited	Inconsistencies in the calculations used to forecast the level of "allowances" required for the Council in the second phase of the Carbon Reduction Commitment has increased the risk that the Council's actual Carbon usage will exceed forecasts. Additional allowances can be purchased but these are charged at a higher rate. Whilst difficult to forecast accurately, this is not expected to have a significant budgetary impact.	All actions agreed. Final report issued
Business Continuity	Key corporate core and cross service risk.	Limited	Business Continuity Planning is not being managed consistently and effectively across the organisation. For example, whilst Business Continuity Plans are in place for most services, some are out of date. The Business Continuity Planning team do not consistently review and test the quality of the plans.	Draft report issued.
Recruitment Process – Vetting and Recruiting	Key corporate core and cross service	Limited	Whilst there are controls and procedures in place they are not being managed consistently and effectively across the Council. There is a	Draft report issued.

¹ External Organisation

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Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions (for 'Limited' and 'No' Assurance reports)	Management Response
Safely	risk.		lack of monitoring of compliance with policies and guidance, which reduces the ability to provide assurance that employees are being recruited in line with the Council's policies and external guidance. A second phase of work in this key area will be carried out in Quarter 4.	
Variations to Pay	Key corporate core and cross service risk.	Limited	There is a lack of sufficiently detailed policy and guidance regarding roles and responsibilities in processing, authorising and monitoring variations to pay, which has resulted in differences in practice and the development of local arrangements.	All actions agreed. Final report issued
Management of Mobile Devices	Key corporate core and cross service risk.	Limited	There is an existing lack of clarity regarding roles, responsibilities, and accountability for budget and service delivery for Mobile Telephony Devices. ICT have assumed partial responsibility for this area, but do not control the budget. The audit identified a number of control weaknesses which will require a cross-organisational approach to resolve.	Draft report issued.

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Programme and Project Work

- 2.9 Under the Constitution, the Executive Monitoring Board (EMB) takes on a challenge role at a strategic level in monitoring the delivery of projects and programmes. To assist them with this process EMB has commissioned Internal Audit to undertake a series of “healthchecks” on specific projects/programmes and issues. The project health check process provides an independent assessment of whether the required elements to deliver projects successfully, e.g. good project management practices, appropriate resources, are in place and operating effectively. The results of these assessments are reported to Executive Monitoring Board (EMB) following agreement of recommendations with the Senior Responsible Owner (SRO) and Project Manager (PM). Progress in implementing recommendations is reported to and monitored by EMB.
- 2.10 During the first half of the year two healthchecks (Environmental Services – Programme and Bereavement Services - Project) were completed and a cross cutting review of project and programme benefits realisation was also undertaken. Two limited assurance reports were issued along with action plans that provided a formal record of issues together with the agreed management actions. The recommendations are being used to support the on-going implementation of the Council’s programme and project management framework.

- 2.11 Further work in this area is under consideration by EMB. The management actions will be followed up under normal Internal Audit procedures.

Schools

- 2.12 The Department for Education requires the Council’s Section 151 Officer to sign off an Annual Assurance Statement. That statement confirms:
- the number of School’s Financial Value Standard (SFVS) self-assessment returns received; and
 - that an appropriate audit programme is in place to provide adequate assurance over the standard of financial management, and the regularity and propriety of spending in schools.
- 2.13 During Quarter 1 of this financial year a Consolidated Schools Report was issued that confirmed the audit approach and summarised the findings of the work undertaken by Internal Audit during 2013/14. The report concluded that the majority of controls relating to high risk areas are operating effectively. While some inconsistencies in the application of controls were highlighted, these are not considered to be significant issues. This report was used to share the findings with and make recommendations to all schools using our established network. It also supported the s151 Section Officer in signing off the Annual Assurance

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Statement. Please note that individual reports have also been issued to the relevant schools throughout 2013/14.

- 2.14 Work is now underway on the 2014/15 Schools Audit Programme. A number of Secondary Schools have been selected for full 'Keeping Your Balance' audits along with a selection of primary schools for Schools Financial Value Standard (SFVS) audits.

Supporting Corporate Governance

- 2.15 In accordance with Regulation 4 of the Accounts and Audit (England) Regulations 2011 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).
- 2.16 During the first half of this financial year Internal Audit has assisted Management in the production of the Council's AGS for 2013/14 by:
- collecting evidence for and production of the 2013/14 Annual Governance Statement.
 - 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 2013/14 AGS action plan.

- Audit work in contribution to and production of CGG reports to Corporate Leadership Board.

Risk Management

- 2.17 Internal Audit assisted in the Management of Risk through:
- Delivery of a risk based audit plan; and
 - Audit Manager representation on and contribution to the Corporate Risk Management Group (CRMG) - to advise on risk management, control, and governance issues identified through audit work.
- 2.18 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.
- 2.19 From 14th July 2014, Jon Robinson (Audit Manager) has taken over temporary responsibility for Risk Management whilst the current Performance and Risk Manager is seconded to the Chief Executive's Office.

Counter Fraud

- 2.20 Internal Audit has carried out a small number of investigations in association with Human Resources

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colleagues and action has been taken in accordance with the appropriate policies. There are no significant issues arising from this work to bring to the attention of the Committee.

- 2.21 Work has been carried out with colleagues from Cheshire West and Cheshire, Warrington and Halton Councils to develop a collaborative bid for funding through the Government's Counter Fraud Fund. As a result a bid was submitted in September 2014 for funding to resource proactive work to identify and prevent fraud in high risk areas such as procurement.
- 2.22 In addition, CEC has also joined a bid led by the London Borough of Bromley to develop a smart phone app to raise awareness of fraud and improve the ease of reporting concerns. A total of 37 authorities joined this particular bid.
- 2.23 Work continued in preparation for the extract and upload of data sets to comply with the requirements of the biennial National Fraud Initiative data matching exercise. This was successfully completed on 6 October 2014 in accordance with the Audit Commission timetable. Results will be released during January 2015 at which point investigations will commence within the appropriate services. An additional match of Council Tax data against the Electoral Roll will take place in December 2014 to identify single person's discount fraud and steps have been taken in preparation for this.

Technical Enabler Group (TEG)

- 2.24 In addition to the Project Health Check work outlined in 2.9 – 2.11, Internal Audit also sits on the Technical Enabler Group (TEG) which supports EMB and comprises senior officers representing key corporate enablers.

Consultancy and Advice

- 2.25 During the year, Internal Audit provided advice - at the specific request of management. The nature and scope of these engagements are generally aimed at improving governance, risk management and control and contribute to the overall opinion. This year advice was given on new arrangements including ASDVs and the application of Finance & Contract Procedure Rules.

Statutory Returns/Grant Claims

- 2.26 Internal Audit is sometimes required to certify statutory returns and grant claims. This may be related to funding provisos or similar. In most cases the work required is either an audit or an assurance statement on a specific programme/project. During 2014/15 this has included work on the Care Bill, the Adoption Reform Grant and Cheshire East Council's Family Focus programme.

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Implementation of Audit Recommendations

- 2.27 Throughout 2014/15, Internal Audit has continued to carry out a range of follow up exercises to ensure recommendations are implemented. This work is done 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 – follow up work is usually dependent on both the nature of the investigation and any recommendations made e.g. a follow up audit may be done at the request of management.
 - Formal assurance audits (see 2.3).
- 2.28 Audits with ‘limited’ or ‘no’ assurance are subject to more detailed review. In addition, key systems (e.g. Payroll, Accounts Payable) are audited each year with recommendations followed up as part of the work.
- 2.29 In June 2014, Internal Audit reported, as part of the Annual Report 2013/14 on the implementation of audit recommendations within timescale. This is now a key indicator contributing to the Council’s *Outcome 6: ‘A Responsible, Effective and Efficient Organisation*.
- 2.30 The indicator showed that a high percentage of 2013/14 agreed recommendations had been implemented.

- 2.31 However, the indicator also showed that the majority of the recommendations were being implemented after the agreed timescale. The 2014/15 actual figure is shown below:

Implementation of agreed recommendations within timescale as at 31 October 2014

2014/15 Actual	2014/15 Target	2013/14 Actual
50%	75%	26%

- 2.32 There has been a marked improvement in the indicator in 2014/15. Further work is planned in order to reach the target including the actions noted in sections 2.35 and 2.36 below.
- 2.33 One of the common themes that led to delays in implementation of audit recommendations is the ownership of actions. Structural changes mean that actions now rest with different managers not involved in the original audit work. In most cases there is no formal handover of actions when a manager leaves the authority or moves to a different role.
- 2.34 In some cases the scale of change now means that the original recommendation is no longer appropriate. In these circumstances Internal Audit liaises with managers to agree a more appropriate action.

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2.35 The timely implementation of audit recommendations is a good indicator of both the effectiveness of Internal Audit in securing action and the Council's commitment and capacity to improve. Internal Audit will continue to work with senior managers to improve this important indicator, to include

- Reporting the Consolidated Action Plan, which summarises outstanding recommendations, to the Corporate Governance Group and to Corporate Leadership Board by exception.
- Escalating common themes or emerging patterns in relation to agreed recommendations (high and medium rated) that are not being progressed, to the COO, Corporate Governance Group and CLB as necessary.

2.36 As previously reported the COO has made a commitment to further improve this indicator in 2014/15. He will work with Internal Audit and the Corporate Leadership Board, (CLB), to ensure this happens.

Ongoing Work

2.37 The following audits commenced during the first half of the year, with work ongoing in the third quarter of 2014/15:

- Schools Audits – Assurance to S151 Officer
- Emergency AssistanCE
- Narrowing the Gap KS4
- Children's Care Management – Case Files

- Personal Budgets
- Management of Corporate Appointeeships

2.38 Other planned work, subject to final agreement with management in terms of timing and content, includes:

- Taxi Licensing
- Nursery Education Grant
- Care Leavers
- Income Management
- Council Tax
- National Non Domestic Rates

2.39 Following the changes to the audit structure and the allocation of operational responsibility for Risk Management, the audit plan will, however, need to be reviewed and areas to be audited re-assessed and prioritised. The changes will be reported in the interim report to this Committee in January 2015.

Reliance placed on the work of other assurance bodies

2.40 Internal Audit place assurance on the work of the Council's external auditors, OFSTED and other external bodies, where appropriate.

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3 Annual Governance Statement

- 3.1 Each year the Council produces an Annual Governance Statement that explains how it makes decisions, manages its resources and promotes its values and high standards of conduct and behaviour. Any significant issues that are assessed as falling short of the Council's expected high standards are reported in the Annual Governance Statement, (AGS).
- 3.2 The findings and opinions of 2014/15 Internal Audit work will be considered in preparing the 2014/15 AGS. The contents of this interim report will form part of that process.

4 Internal Audit Performance

- 4.1 Internal Audit's performance is measured in a number of ways. Its performance against the new indicator – implementation of agreed recommendations is reported in paragraph 2.31.
- 4.2 The internal audit team's performance overall is slightly above the levels achieved in 2013/14.

Performance Indicator	2014/15 Actual at 30/9/14	2014/15 Target	2013/14 Actual	Comments on 2014/15 Actuals
Percentage of Audits completed to user's satisfaction	93%	92%	89%	Above target.
Percentage of significant recommendations agreed	97%	90%	93%	Above target.
Productive Time (Chargeable Days)	83%	80%	82%	Above target.
Draft report produced promptly (per Client Satisfaction Form)	83%	95%	78%	Positive direction of travel.

Benchmarking

- 4.3 Benchmarking is an important tool to help identify areas for review, drive improvement and deliver better value for money. The Internal Audit Section has taken part in the CIPFA Benchmarking Club in 2014/15.
- 4.4 Through the Benchmarking Club, staffing cost data is collected for the internal audit function in order to derive the number of audit days available and the cost per audit day. The number of audit days per £million authority gross revenue turnover is compared and further analysed by type

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of audit, system audited and type of risk. There is also comparison and analysis of the cost per auditor and the number of chargeable days per auditor.

- 4.5 This year's exercise has been completed and the results received. The results are currently being analysed and an improvement plan drawn up. Progress on improvements will be shared with the Committee as part of the regular Internal Audit reports.

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

- 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. This review has been carried out by self-assessing compliance with the Public Sector Internal Audit Standards (PSIAS).
- 5.2 The review, completed by the Audit Managers concluded that, although there are areas for improvement, the internal audit service is being delivered to the required standard. This contributes to the assurances received for the AGS and was shared with members of the Committee as part of the AGS process in September.
- 5.3 An improvement action plan has been drawn up and will be monitored on an ongoing basis. Progress on improvements

will be shared with the Committee as part of the regular Internal Audit reports.

6 Other Developments (including Internal Audit Charter)

- 6.1 In order to provide the necessary levels of assurance to the Council with regard to internal control and compliance and support managers in delivering change and improvement; existing internal audit, risk management and compliance capacity is being co-ordinated and aligned. These separate teams have been unified under a single line of management, reporting to the new post of Corporate Manager Audit and Governance within the Corporate Resources & Stewardship service.
- 6.2 This has allowed the vacant position of Internal Audit Manager to be deleted along with one of the two Audit Manager posts in the current structure, releasing capacity for redeployment across the wider Corporate Resources & Stewardship service. The new Corporate Manager Audit and Governance will commence their role in December 2014.
- 6.3 The Internal Audit Charter was approved by the Committee in November 2013, with review due on an annual basis. A revised and updated version, that takes account of changes in structural and operational responsibility, is included as Appendix B.