

# Report to Governance and Constitution Committee

## Internal Audit Plan 2009/10 and Update

30<sup>th</sup> September 2009

### 1.0 Purpose

- 1.1 The purpose of the report is to update the Governance and Constitution Committee on the full audit plan 2009/10, summarise work during the first five months, highlight any key audit issues arising and describe future working arrangements.

### 2.0 Planning Process 2009/2010

#### 2.1 Context

An interim internal audit plan was approved for the first four months of Cheshire East and a plan is now in place for the remainder of the year. In a year of such significant reorganisation, an annual plan, agreed in March and delivered over the 2009/10 year made little sense. Resources available were uncertain, staff across the organisation are new to posts, little consultation was possible prior to April 1<sup>st</sup> and the pace of change was high. A decision was taken to adopt an interim plan over four broad areas and then build on that for the remainder of the year based on consultation, service plans and risk assessments.

#### 2.2 Progress against Plan

The Interim Plan was divided into four main sections, sub divided as follows:

##### (1) Closure/Transition Audits

This consisted of a full programme of audits across five headings: Procurement, HR, Income, Assets and ICT. This was developed jointly with Cheshire West to agree coverage of ex-County areas. The work was then sub divided into predecessor authority.

This work was extensive across the County services and the ex Districts and there are separate reports summarising the County and District findings and recommendations. There are a number of areas still outstanding namely; ICT assets cannot all be accounted for at handover (ex County) and a number of miscalculations of Voluntary redundancy (amounting to £18k). These are being progressed.

Other findings relate to numerous low- level non compliance with procedure rules and good practice e.g. orders not signed, receipts not produced for petty cash, write offs not appropriately authorised.

Many of the issues cannot be resolved retrospectively but there are a number of learning points for Cheshire East that are being reported to the appropriate department. Examples are: eligibility checks for employment were not taking place for agency staff at Macclesfield and Crewe and Nantwich Districts; leavers were not being notified within a reasonable time to payroll (Macclesfield), credit card accounts not being reviewed for accuracy or appropriateness (all), no authorised signatory list for write offs (Macclesfield).

(2) Key High Risk Areas – on going services

This consisted of a themed review of all high risk cash income services including all Leisure and culture, Tatton Park and Car Parking. The reviews was focused on basic controls and consistency across the new Borough, a challenge to the collection methodology (i.e. why do we collect cash at all, is there a better way of collecting cash; machines rather than people) and an overall review of Charging policy across the Borough including any potential income generation areas not currently being progressed (using the Audit Commission's "Positively Charged" as a base). A number of unplanned audits were completed that arose during the period e.g. review of Members' allowances process.

The interim plan has been achieved although work on Leisure venues is on-going as a result of the high number of establishments and the extent of some of the system improvements identified.

Separate reports have been issued on each of these areas and the key findings to note are:

- There are a number of improvements required to the process for administering member's allowances and the Head of Service is currently compiling a management response to address these.
- Charging – the report on this is currently issued in draft form with suggested actions awaiting a management response. This report will be circulated to CMT as it is relevant to all services. The key findings in are:
  - The Council does not yet have a Corporate Charging Policy.
  - Fees and charges are usually increased for inflation without more detailed examination of the fees in relation to cost of service and other factors.
  - Of the services included in the review, only Health and Wellbeing are yet to complete the harmonisation of prices.
  - Although the income collection methods used were generally appropriate, the Council does not yet have an Income Collection policy, and as a result there are slight variations in approach across services, which could benefit from further review.
  - The Council has a slightly inconsistent approach to concessionary access to services.

- Limited information on fees and charges is included in the budget setting process.
- There may be opportunities to generate income which the Council is not currently taking advantage of.
- Systems in place at Leisure venues differ significantly. There are some poor practices in place which have led to a number of potential irregularities and concerns about capability of staff. These have been reported to the Head of Service and additional audit work is being completed. It is not unusual for weaknesses of control to be identified at remote locations where few staff are on duty at any one time and there is constant, direct customer interface. However, this area requires attention. The Head of Service and senior managers have taken appropriate action to date and this work is on-going.

### (3) Governance Issues

This consisted of reviews of the predecessor authority Annual Governance Statements and Letters of Representation (to the Section 151 officer), setting up the framework for Governance for accounting and Internal Audit, taking an active role in the setting up of shared services and future working and reviewing third party and partnership arrangements from a governance perspective. It also included a review of plans to implement the International Financial Reporting Standard (IFRS).

Work on IFRS has not yet taken place but this will be progressed during the next quarter. In addition, further work is required on the governance of partnerships and some assurance work that we comply with best practice. Some progress has been made in that we now have a draft Local Corporate Governance Code, a Risk Management Strategy, an Anti-Fraud and Corruption Strategy, Whistle blowing awareness raising, a programme of training and awareness raising with the Governance and Constitution Committee, developed the FPRs, undertaken a brief Governance review and plugged some of the key gaps e.g. declarations of interest, gifts and hospitality.

### (4) Advice, guidance and proactive stance

This aspect was designed to give time to be a point of contact and expertise on issues relating to systems, procedures and anti fraud and corruption advice. This has included advice on Financial Procedure Rules on both their development and to individual managers in services, advice on Schemes of Delegation, Members allowances, Freedom of Information, HR procedures, waste management contractual, financial and HR issues, Contact Point implementation, Alderley Edge bypass, advice on grants policy.

### 3.0 Internal Audit Plan 2009/10 (including interim plan)

#### 3.1 Broad Principles

The plan has been developed using –

- Supporting Corporate Governance (5%)
- Core Financial and Fundamental Systems (20%)
- Key Service and Departmental Systems (35%)
- Counter Fraud and Probity (15%)
- Value for Money/Strategic Reviews (5%)

The remaining audit time (20%) is allocated to follow up and responsive work.

In the first year of Cheshire East and given the need to spend time putting in place an effective framework for audit and governance, it is intended that the plan is flexible and allows for realignment based on actual risks arising, Director and Head of Service input in the remainder of the year and also that priority is given to completing essential work to assist External audit assurance and external reporting.

#### 3.2 Consultation

Most Heads of Service/Directorates have now discussed key risks and issues arising formally with audit and issues highlighted have been used to inform the plan. A number of detailed discussions are still required and refinements will then be made to the audits actually performed. Estimations of time have been made in the plan as attached at Appendix B.

#### 3.3 Emerging Themes

The consultation discussions have resulted in some emerging themes around the risks and concerns that Senior Managers have raised and these are summarised as follows:

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#### 3.4 Content of Plan

A detailed plan is attached at Appendix B. This shows the breakdown over the five key themes and then the detailed audit assignments planned.

- (1) Corporate Governance (5%) – this includes work on the local code, the annual governance statement and Use of Resources work
- (2) Core Systems (20%) – this includes all the transition work and the “Section 151” audits required by the Audit Commission as well as the results of the team’s risk assessment of fundamental systems. The systems being subject to audit are: Main accounting, assets, investments, council tax, national non domestic rates, debtors, payroll, creditors and ICT for revenues and benefits.
- (3) Key Departmental Systems (35%) – this is the breakdown to date of the work on individual services. In People it includes LSC funding, extended services, payments to foster carers, grant funding, adult social care redesign, pooled budgets, Leisure venues and review. For Places it includes carbon footprint, depot rationalisation, integrated transport, waste, car parking, planning and other income services. There is also time allocated across a number of services within the Performance and Capacity area.
- (4) Counter Fraud Work (15%) – this includes proactive work on anti fraud measures, National Fraud Initiative Work as well as time spent on actual fraud investigations
- (5) Value for Money/Strategic Review (5%) - this section reflects the work which is not a compulsory part of the assurance requirements but which adds value by performing reviews of key aspects of the authority. This includes the early review of charging in Cheshire East and based on a suggestion from places a review of fuel usage. Other areas are under discussion.

#### 4.0 Anti Fraud and Corruption Update

##### 4.1 Strategy and Proactive Work

The strategy was approved by cabinet in June 2009 following consultation with the Governance and Constitution Committee. The overall philosophy is that it is management’s (and internal audit’s) responsibility to minimise the risk of fraud and to protect staff from systems which could lead to fraud or irregularity by implementing effective controls. Once this responsibility is acknowledged and implemented, then the authority will take a strong stance on instances of fraud and irregularity and will investigate any suspicions and pass cases to the police where relevant. Key to the strategy is that we learn from every case and continue to make system improvements to protect staff.

The strategy was discussed at Senior Management Team and a summary document circulated in July 2009 and the policy is in a prominent place on the intranet. The contents should now be included in staff induction and further awareness raising will form part of an “ethical standards” aspect of the Corporate Training programme.

The whistle blowing protocol was approved in October 2008 and will be reviewed by January 2009 by the Governance group. One aspect that needs to be developed is the link between this protocol, the safeguarding agenda and the “no secrets” policy within “People” services. There is now a summary of the protocol on the intranet and internet and this route has been used for a number of whistleblowing reports.

#### 4.2 Instances of Potential Fraud and Irregularities.

There were a number of potential fraud/irregularity cases inherited from the predecessor authorities as at April 1<sup>st</sup>. Only one case remains live. This is currently under investigation in conjunction with HR and a staff member is under suspension. Two cases have been referred to the police. The CPS has recommended that we take no further action on one case and the other is currently being taken forward. The perpetrator of the potential fraud in this case is a member of the public.

There have been eight new cases of potential fraud/irregularity since April 1<sup>st</sup> and five whistle blowing submissions. All cases are now closed. Of the potential irregularities three related to Leisure, two to Social care and three to staffing/member issues of a conduct nature. Of the whistleblowing allegations received two are actually customer complaints rather than whistleblowing, one is an ex-District allegation which is closed and the other two are in progress with the relevant departments (waste management and schools).

There are some learning points arising which have been picked up in the departments and the recommendation of a programme of “ethics “ training for staff and members emanates from some of the findings.

#### 4.3 National Fraud Initiative

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within and between audited bodies to prevent and detect fraud. This includes police authorities, local probation boards and fire and rescue authorities as well as local councils.

Results of the latest (2008) data match were received by predecessor authorities in March 2009. The potential issues raised are vast and Cheshire East has lead on this work on behalf of Cheshire West and Chester. Across all the headings for this exercise the number of queries runs to several thousand. Many of these will not be irregularities or fraudulent issues but each needs to be investigated. The areas with the highest volume of queries are insurance and trade creditors as well as housing benefits for the ex Districts.

Some of this work is still in progress and there are a number of system issues that have been raised by the results of the NFI data matching processes.

Examples are improvements in HR processes to ensure work permits are checked at recruitment highlighted by a data match between valid visas and employment records; improvements in the process to approve renovation grants following duplicate claims, recommendations on sickness absence monitoring in ex County Business Services highlighted in investigating the work permit issue.

## 5.0 Other Policies and Procedures

### 5.1 Anti-Money Laundering

This policy is being submitted for approval by cabinet on 6<sup>th</sup> October following extensive consultation with internal officers and the Governance and Constitution Committee.

It was reported in the last update that there was a case reported to the Money Laundering Reporting Officer (i.e. Head of Internal Audit) during April and this was thoroughly investigated with a conclusion that it was not a reportable case of potential money laundering that should be reported to the Seriously Organised Crime Agency (SOCE). No further cases have been reported.

### 5.2 Financial Procedure Rules (FPRs) and Schemes of Delegation

These continue to be kept under review and a reiteration of the Borough Solicitor's delegated authority and two more substantive amendments were approved at the July Council meeting. Eight amendments have now been approved and a revised version issued. A log of new amendments is regularly updated and there are currently six further amendments required which will be submitted to the Borough Solicitor for approval in October 2009. Most amendments relate either to clarification of responsibilities or improvements that would smooth out some requirements that were too cumbersome e.g. the need to get Council approval where external funding monies are generated and the possible impact on the success of being awarded the grant.

## 6.0 Relationships and Reporting Lines

6.1 Audit Commission. Regular meetings are held between the Internal Audit team and the Audit Commission Audit Manager (Andrea Castlings). The approach to planning has been presented during these meetings as well as the audit methodology and thinking. An agreement has been reached on the audit of Core systems in order to support the external audit work on the external accounts. This requires an agreement with Cheshire West which is still being discussed.

6.2 Members. Regular meetings take place with the portfolio holder for internal audit to discuss approach to risk and any key audit issues arising. Regular

meetings are also held with the Chair of the Governance and Constitution Committee and the Labour party group leader.

## 7.0 Future Issues and Ways of Working

7.1 The Internal Audit function is expected to operate under the CIPFA Code of Practice Internal Audit in Local Government. This is split into the following sections:

- Scope
- Independence
- Ethics
- Audit Committee
- Relationships
- Staffing, Training and CPD
- Audit Strategy and Planning
- Undertaking Audit Work
- Due Professional Care
- Reporting
- Performance, Quality and Effectiveness

7.2 In December 2009, the Audit Commission will carry out their Triennial Assessment of Internal Audit which is a thorough review of all our processes and outcomes. A self assessment will be completed in November and a report issued to CMT and cabinet in early 2010.

7.3 The culture that the team wants to develop is one which focuses on the difference that internal audit can make, an approachable and positive style and one where audit advice is given at the outset rather than retrospectively. There will always be an element of retrospective work, testing and commenting on systems and this has to remain an essential part of the governance regime. Auditors are in a privileged position in that they can step back from service delivery and look at consistency issues across the authority and assist management to improve controls, systems and ways of working being appreciative of the need to work with managers to balance excellent service delivery with appropriate controls and checks and balances. It is this philosophy which we would like to characterise the way of working.

7.3 Regular summary reports will be provided to Corporate Management Team and where reports have a Corporate implication the individual assignment reports will be sent to CMT members. Audit findings will only be escalated outside of this protocol when the department does not appear to be taking appropriate action or is delaying responding to audit recommendations. The Head of Audit has direct access (and regular meetings with) the Chief Executive to ensure that relevant issues can be raised directly.

## 8.0 Recommendations



- 8.1 It is recommended that the Governance and Constitution Committee discuss and comment upon the approach and content of the in-year plan, delivery against the plan to date and the key findings.

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