

Report to Governance and Constitution Committee

Internal Audit Update and Plan 2009/10

21st January 2010

1.0 Purpose

- 1.1 The Accounts and Audit Regulations 2003 as amended state that Cheshire East Council must make provision for Internal Audit in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The purpose of this report is to facilitate compliance with the requirements of the Code of Practice and, consequently, it provides Members with emerging issues in respect of the whole range of areas to be covered in the formal annual report including:
- a summary of the implications arising from the findings of Internal Audit work carried out in the period 1 September to 31 December 2009 and in particular issues that the Head of Internal Audit judges particularly relevant to the Annual Governance Statement (AGS)
 - the adequacy of management response to Internal Audit recommendations
 - progress against the Audit Plan
 - compliance with the Code of Practice
- 1.2 This information is provided to the Committee in order that Members may discharge the following duties:
- reviewing internal audit performance
 - monitoring and reviewing the main issues arising and actions taken on audit recommendations

2.0 Emerging Issues

- 2.1 The Audit Plan, which was endorsed by the Governance and Constitution Committee in September, is designed to allow Internal Audit to offer an opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes. Consequently, the plan was developed to ensure that audit activity concentrated on the following areas:
- Supporting Corporate Governance
 - Core Financial and Fundamental Systems
 - Key Service and Departmental Systems
 - Counter Fraud and Probity
 - Value for Money/Strategic Reviews
- 2.2 In accordance with the CIPFA Code of Practice for Internal Audit in Local Government the opinion must be included in an annual report. The Head of Internal Audit must also make arrangements for interim reporting to the

Committee in the course of the year that address emerging issues in respect of areas to be covered in the formal annual report.

- 2.3 The following paragraphs set out the main themes emerging from audit work carried out in the period 1 September to the 31 December 2009. Where relevant, the report outlines the status of the work and Management's responses and agreed actions. A more detailed summary of the issues identified in the quarter, together with a brief description of progress against the plan, can be seen in Appendix 1.
- 2.4 The inclusion or comment on any area or function in this report does not indicate that matters are being escalated to Members for further action. Member's interest in internal audit 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 that action is taken to ensure that any shortcomings are rectified promptly. Internal Audit routinely follow- up the recommendations that have been made and will bring to the attention of the Committee any relevant areas where significant weaknesses have not been addressed by Management.

3.0 Supporting Corporate Governance - Annual Governance Statement

- 3.1 In accordance with Regulation 4 of the Accounts and Audit Regulations 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) each year with the Authority's financial statements.
- 3.2 Internal Audit has assisted Management in the production of the Council's AGS for 2009/10 by:
- Developing the Council's Code of Corporate Governance (approved by the Committee in November 2009)
 - advising on the assurance gathering process (see separate report)
 - completing an initial self- assessment against the CIPFA/SOLACE Good Governance Framework (In this way compliance with the Council's Code of Corporate Governance will be evidenced)
 - Supporting the Council in considering the key messages that were put to Cheshire East via predecessor Council's AGS' and in particular auditing some of the areas in order to establish whether the issues remain relevant to the production of the 2009/10 Annual Governance Statement
- 3.3 This work enables the Head of Internal Audit to highlight any issues that are relevant to the preparation of the Annual Governance Statement for 2009/10.
- 3.4 The Initial self- assessment against the CIPFA/SOLACE Good Governance Framework in order to gain a position statement against the Council's Corporate Governance highlighted a number of areas for improvement which can be classified as follows:

Areas where there is an opportunity to introduce procedures/processes include:

- Implementing the finalised Protocol / Code of Practice for Partnerships (e.g. the Local Area Partnerships)
- Completing an Annual Report
- Fully updating the Cheshire East Sustainable Community Strategy (currently an interim strategy)
- Introducing more formal monitoring of information that could indicate service related issues including complaints and whistle blowing.

Areas where there are procedures / processes in place, but they are yet to be fully implemented:

- Comprehensive corporate coverage of service delivery planning, approval and monitoring across the whole Council.
- Introducing a formal training programme for the Governance & Constitution Committee Members
- Communication and awareness training for new Cheshire East policies / procedures including the Code of Corporate Governance

- 3.5 In accordance with Local Government Regulations governance statements had to be prepared by each predecessor council drawing on their review, assurance and sign off processes for the period up until 31 March 2009. The AGS' included key messages that were put to Cheshire East for consideration. The Internal Audit Plan for 2009/10 included a review of the predecessor Council's AGS' in order to ensure that issues are considered/addressed whilst the Council develops its own governance framework. Details of the review to date can be seen in a separate report put to this Committee.

4.0 Use of Resources Assessment

- 4.1 From 2010/11 the Audit Commission will publish a report detailing scored judgements for the Council against the Use of Resources framework. The assessment will form part of CAA and feed into other relevant performance assessment frameworks.
- 4.2 The Commission sets out the areas subject to examination via the Key Lines of Enquiry (KLOE), against which a judgement is made and a rating applied of between 1 and 4. The specified KLOE covers: Managing Finances, Governing the Business and Managing Resources.
- 4.3 During the period Internal Audit has supported Management in this area by co-ordinating the production of position statements, service baseline assessments, gap analysis and action planning to ensure that the Council is adequately addressing the key requirements and good practice.

5.0 Core Financial and Fundamental Systems

- 5.1 The completion of the interim plan (in particular the transitional audits) supported the decision for Cheshire East not to issue an addendum or supplementary supporting statement in respect of predecessor Council's AGS'. Such a statement would have been necessary if Cheshire East (or its s151 officer) identified any issues that arose when finalising the statements of accounts post the reorganisation date.
- 5.2 During the period work has commenced on the fundamental financial systems in order that External Audit can rely on the work of Internal Audit. Work in progress and due to be completed during 2009/10 is detailed in Appendix 1 to the report.

6.0 Key Service and Departmental Systems

- 6.1 During the period audit work was undertaken within People, Places and Performance and Capacity. This work comprised of a mix of risk based auditing, regularity, computer audit, investigations, and the provision of advice to officers. Such work highlighted some opportunities to improve system design and operational performance. Management have, therefore, been informed of areas where systems are weak, or not being applied properly and appropriate remedial action has been recommended where considered necessary. Details of findings and the status of such work can be found in Appendix 1.

7.0 Counter Fraud and Probity

- 7.1 During the quarter Internal Audit has supported the introduction of key corporate policies and procedures relating to the prevention, detection and investigation of fraud & corruption including the Anti Fraud and Corruption, Whistleblowing and Anti money laundering policies. Work has also commenced on ensuring that the policies are developed and maintained in accordance with best practice. Internal Audit work aims to develop an anti-fraud and corruption culture, create a strong deterrent effect and prevent fraud and corruption by designing areas of vulnerability out of the Council's systems. As well as areas outlined above such work has been completed on declarations of interest and gifts and hospitality.
- 7.2 Work has continued on the National Fraud Initiative, an exercise run by the Audit Commission that matches electronic data within and between audited bodies to prevent and detect fraud. Although the latest data match related to predecessor authorities Internal Audit now need to ensure that vulnerabilities that may give rise to fraud and corruption identified by the exercise are designed out of Cheshire East's systems and procedures.

8.0 Responsive – investigations

- 8.1 Internal Audit has assisted Management in the investigation of potential irregularities of which certain cases remain on-going. A detailed report has been prepared for consideration by the Head of Policy and Performance in accordance with the Anti Fraud and Corruption Policy. The reporting process ensures that specific learning points for the Council have/will be addressed.

9.0 Value for Money/Strategic Reviews

- 9.1 As previously reported Internal Audit has completed a review of charging in Cheshire East using the Audit Commission's "Positively Charged" document. The report was finalised in this quarter which included obtaining Managements response and circulation to CMT. The action plan if implemented should lead to improvements in income collection and access to services.

10.0 Performance against 2009/10 Audit Plan

- 10.1 During the period audit work was undertaken on the whole of the control environment comprising risk management, key control and governance processes. This work comprised of a mix of risk based auditing, regularity, computer audit, investigations, and the provision of advice to officers.
- 10.2 The main focus for the period has been auditing the fundamental financial systems in order that External Audit can rely on the work of Internal Audit,.
- 10.3 The Section has continued to manage the Council's Risk Management and Compliance function and facilitate the development and implementation of the Risk Management and Business Continuity Strategies, Freedom of Information requests and Data Protection work across the organisation.
- 10.4 The Section has also provided advice to Management as requested. This work contributes to the opinion that Internal Audit provides on the control environment. The main areas where Internal Audit has provided such advice include risks relating to new systems and procedures, application of Finance Procedure Rules, Scheme of Delegation, ICT Security.
- 10..5 The two Audit Managers have been an integral part of linking risk management with service delivery and ensuring that managers understand the link between risks, service delivery and consequently the prioritisation of internal audit resources. Training sessions and briefings with all third tier managers have taken place with detailed discussions on areas of risk, mitigating action and the risk management process.

- 10.6 A number of issues have affected the ability of Internal Audit to deliver the original plan resulting from the reorganisation process
- Three vacancies within the section and resignation of a Senior Auditor from 1 October 2009
 - The need to sometimes review three or four different ways of working across Cheshire East whilst services are harmonising
 - Recruitment of staff into the structure, including the need to rewrite all job descriptions, complete job evaluations, slotting and interviewing.
 - Staff being located across four sites and regular temporary relocation of staff as refurbishments occurred
 - Retirement of a Principal Internal Auditor from December 2009
 - Structures within services not being finalised/in place
- 10.7 In addition, during this period, time allocations have been revisited and prioritisation used where diversion to more high risk jobs became apparent. These include requests by management to support them in the discharge of their duties such as assisting in investigations, leading on the National Fraud Initiative (NFI), co-ordinating the response to the Swine Flu Pandemic and assisting in the implementation of the Risk Management Strategy and the CAA use of Resources Assessment.
- 10.8 Given the situation it is necessary, in the next quarter, to align resources to the following key areas of the plan:
- the fundamental financial systems in order that External Audit can rely on the work of Internal Audit
 - assisting Management in compiling the Annual Governance Statement (AGS) in order to provide a continuous review of the effectiveness of the Council's governance arrangements
 - developing arrangements/auditing key systems that support the CAA Use of Resources and AGS process

Details of the alignment can be seen in Appendix 1.

11.0 Implementation of recommendations

- 11.1 In order for the Council to derive maximum benefit from the work of Internal Audit, agreed recommendations need to be implemented. Internal Audit therefore continually undertakes follow-up work in respect of all audit reviews to ascertain whether agreed actions have been acted upon. Follow-up action includes a review of the timeliness and effectiveness of the implementation of recommendations. Management responses that are judged to be inadequate in relation to the identified risk are escalated in order that the risks of not taking action have been understood and accepted at a sufficiently senior management level. This escalation procedure could result in Internal Audit bringing to the attention of the Committee any relevant areas where significant weaknesses have not been addressed by management.

- 11.2 The Section has, during the quarter, worked with Management to ensure that issues are being addressed. As indicated in this report progress is being made to implement improvement.

12.0 Compliance with Code of Practice for Internal Audit in the United Kingdom

- 12.1 Regulation 6 of the Accounts and Audit Regulations 2003 (as amended) requires relevant bodies to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the body to consider the findings.
- 12.2 In accordance with the Regulations the performance of Internal Audit has, during quarter 3, been measured using the checklist appended to the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The detailed results of the review will be considered by the Governance and Constitution Committee as part of the AGS process. The preliminary review, completed by the Head of Internal Audit has concluded that although there were areas for improvement the internal audit service is being delivered to the required standard. This has been discussed with the portfolio holder and the Chairman of the Governance and Constitution Committee.
- 12.3 Development work for quarter 4 needs to link to adherence to the Code and in particular on completing the internal audit manual; ensuring consistency of ways of working between incoming Auditors from different predecessor Councils; developing use of Gallileo as the internal audit software, fully embedding a risk based approach, team building and motivation now that staff are in post; and, developing performance indicators and the alignment of the service planning process with the internal audit plan and strategy. The Audit Commission will be undertaking a review of the Internal Audit Section during quarter 4, the results of which will be reported to the Governance and Constitution Committee.