

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of meeting: 29 June 2010
Report of: Head of Internal Audit and Compliance
Title: Internal Audit Annual Report 2009/10

1.0 Report Summary

- 1.1 All principal local authorities subject to the Accounts and Audit Regulations 2003 (as amended) must make provision for internal audit in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 1.2 In order to comply with the Code the Head of Internal Audit and Compliance must provide a written report to those charged with governance timed to support the Annual Governance Statement. The primary purpose of the report, which is set out in Appendix A, is to provide an opinion on the overall adequacy and effectiveness of the Council's control environment.

2.0 Recommendation

- 2.1 To note the contents of Internal Audit's annual report for 2009/10.

3.0 Reasons for Recommendation

- 3.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council, via the Audit and Governance Committee (and previously the Governance and Constitution Committee), that these arrangements are in place and operating properly. The annual internal audit opinion informs the Annual Governance Statement. The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council's objectives.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

- 5.1 Not applicable.

6.0 Policy Implications including – Climate Change – Health

6.1 Not applicable.

7.0 Financial Implications 2010/11 and beyond

7.1 The internal audit team must be appropriately staffed and resourced to comply with statutory and best practice requirements. The budget for the internal audit function currently provides for sufficient staffing levels to fulfil this function.

8.0 Legal Implications

8.1 The requirement for an internal audit function is either explicit or implied in legislation with s151 of the Local Government Act 1972 requiring Councils to “make arrangements for the proper administration of their financial affairs” and the Accounts and Audit Regulations 2003 (as amended) requiring a relevant body to “maintain an adequate and effective system of internal audit ...”

9.0 Risk Assessment

9.1 The Authority is required to maintain an adequate and effective system of internal audit in accordance with Regulation 6 of the Accounts and Audit Regulations 2003 as amended. Failure to consider the effectiveness of its system of internal audit, and the opinion on Council’s control environment, could result in non- compliance with the requirements of the Regulations.

For further information:

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Background Documents:

Local Government Act 1972
Accounts and Audit Regulations (2003 and updated 2006)
CIPFA Internal Audit Code of Practice

**Report to Audit and Governance Committee
Internal Audit Annual Report 2009/10
29 June 2010**

1.0 Background

- 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. The purpose of this annual report is to facilitate compliance with the requirements of the Code of Practice and, consequently, it provides Members with the following information:
- an opinion on the overall adequacy and effectiveness of the Council's control environment comprising the systems of governance, risk management and internal control
 - any qualifications to that opinion, together with any reasons for the qualification
 - a summary of the audit work from which the opinion is derived, including:
 - a summary of Internal Audit work carried out in the period 1 January to 31 March 2010
 - progress on implementing Internal Audit recommendations for the year
 - issues that the Head of Internal Audit and Compliance judges particularly relevant to the preparation of the Annual Governance Statement (AGS)
 - a 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
 - comment on compliance with the Code and the results of the internal audit quality assurance programme.
- 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
- 1.3 The report where necessary, takes account of the year-end position of the Council's control environment and has been timed in order to support approval of the AGS. 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. Members' 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.

2.0 Opinion on the Internal Control Environment

2.1 The CIPFA Code of Practice for Internal Audit in Local Government requires the annual report to include an opinion on the overall adequacy and effectiveness of the Council's control environment. It should be noted that the assurances given by Internal Audit are never absolute because it is impossible to examine every activity and every transaction. The most Internal Audit can provide is a reasonable assurance that there are no major weaknesses, or that the weaknesses identified have been addressed.

2.2 In the opinion of the Head of Internal Audit and Compliance, the Council has generally established adequate and effective risk management, control and governance processes, given the extent of the reorganisation. The weaknesses identified during the audits have been, or are being addressed. This opinion is based upon:

- all audits and opinion based work undertaken during the year
- Management's response to advice and recommendations
- the AGS process
- Financial Management Standard in Schools (FMSiS) Chief Financial Officer (CFO) Assurance Statement 2009-2010
- informal feedback from the Use of Resources Assessment

3.0 Summary of audit work from which the opinion is derived

3.1 An interim internal audit plan was approved for the first four months of Cheshire East. 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 were new to posts, little consultation was possible prior to 1 April 2009 and the pace of change was high. A decision was taken to adopt an interim plan over five broad areas and then build on that for the remainder of the year based on consultation, service plans and risk assessments.

3.2 The full Audit Plan for 2009/10 was designed to allow Internal Audit to offer an opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes. The plan was developed using the following areas of audit activity:

- 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%) was allocated to follow up and responsive work.

- 3.3 A programme of audits has been carried out in accordance with the plan that was approved by the Governance and Constitution Committee in September 2009. A brief summary of the audit work from which the opinion is derived is contained below:

Supporting Corporate Governance

- 3.4 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) with the Authority's financial statements.
- 3.5 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 Governance and Constitution Committee in November 2009)
 - advising on and co-ordinating the assurance gathering process (see separate report)
 - completing an initial self- assessment against the CIPFA/SOLACE Good Governance Framework which fed into the self assessment that was completed by designated officers of the Council (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
 - sitting on the Corporate Governance Group and advising on risk management, control, and governance issues that have been identified through audit work.
- 3.6 This report draws attention to issues that the Head of Internal Audit and Compliance judges particularly relevant to the preparation of the Annual Governance Statement (see paragraphs 4.1 – 4.15).

Core Financial and Fundamental Systems

- 3.7 The interim audit plan work mainly consisted of a programme, developed jointly with Cheshire West and Chester Internal Audit, of closure/transition audits across five headings: Procurement, HR, Income, Assets and ICT. This work covered services across all legacy Authorities as well as the new Authority. Although many of the issues could not be resolved retrospectively there were a number of learning points for Cheshire East that have been reported to the appropriate service.
- 3.8 The completion of the closure/transition 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-reorganisation date.

- 3.9 Furthermore, work was undertaken on the Council's fundamental financial systems in order to gain assurance that the systems of financial control are in place and operating effectively. The fundamental systems have been agreed with External Audit in order that they may rely on the work of internal audit. Areas being subject to audit include: assets, investments, council tax, national non domestic rates, debtors, payroll, and creditors. Internal Audit has undertaken compliance testing (examining the evidence that the control has operated effectively throughout 2009/10) on a number of key controls that have been agreed with External Audit.
- 3.10 A joint review with Cheshire West and Chester Internal Audit on problem transactions within the Procure to Pay (P2P) process identified non compliance with the procurement vision leading to delays in time taken to pay invoices. Furthermore, it was noted that Services failed to deal promptly with transactions awaiting approval, receipt goods promptly, and establish approval hierarchies and associated budget responsibilities. A number of Supplier errors were identified, including sending invoices:
- to the wrong address,
 - with insufficient detail about the transaction
 - that do not reflect disputes or amendments
 - which are in advance of receipt of goods or service, and / or where a credit note is due before the payment can be made.
- Shared Service errors included some keying errors and some delays in keying invoices once received. This area is an ongoing development for the Authority.
- 3.11 The scope of Core Financial and Fundamental Systems work extended to the Council's use of HR and Finance Shared Service (hosted by Cheshire West and Chester Council) because it operates the integrated Accounts Payable/Accounts Receivable/Payroll and General Ledger on behalf of both Councils. Following consultation it was agreed that Cheshire West and Chester's audit team would test a number of key controls in this area using sample transactions from both Councils with support, where necessary, from Cheshire East Internal Audit Section. The results of the reviews are, as follows, with the assessment of the control environment being scored 1-4, where 4 is best:
- Accounts Payable (4)
 - Accounts Receivable (3)
 - Pensions Payroll (4)
 - HR Payroll (3)
 - Reconciliation Control (2)
 - Pension Fund Bank Reconciliation (3)

- 3.12 Recommendations made to address the control weaknesses have been agreed by the relevant Managers including a timescale for implementation.
- 3.13 Although this work hasn't highlighted any material discrepancies, issues may still arise as a result of the external audit of the Statements by the Audit Commission. Furthermore, assurances given by Internal Audit are never absolute, because it is impossible to examine every activity and every transaction.

Key Service and Departmental Systems

- 3.14 Audit work was undertaken within People, Places and Performance and Capacity. This work comprised of a mix of risk based audits, regularity audits, computer audits, investigations, and the provision of advice to officers. There was a themed review of all high risk cash income services including Leisure and Culture, Tatton Park and Car Parking. The reviews focused on basic controls and consistency across the new Borough.
- 3.15 Systems in place at Leisure venues differ significantly. There are some poor practices in place which have led to a number of investigations and subsequent issues regarding the capability of staff. These have been reported to the Head of Service and remedial action agreed. 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. Such work highlighted opportunities to improve system design and operational performance.
- 3.16 The extension to the Gorsey Bank School was reviewed in order to identify lessons for future projects. This identified a failure to adhere to Cheshire County Council Finance Procedure Rules with the company that supported the project not being procured through a competitive tendering process and appointment of Companies not being formalised under signed contracts.
- 3.17 A number of audit reviews/investigations within the People Directorate have highlighted that Cheshire East, in common with many other Councils, has some difficulties with the management of service user and Council finances. The management arrangements in some parts of the Directorate are weak and lack clear disciplined working practices. The experiences from investigations frequently highlight wider issues surrounding adherence to policies and procedures. Managers are aware of the situation and are taking action.
- 3.18 Members Allowances were reviewed focussing on the formation of the Independent Remuneration Panel and Members' claims both in the Shadow year and 2009/10. Recommendations included making the authority to appoint the Independent Remuneration Panel explicit in the Constitution, ensuring that the recruitment process for Panel complies explicitly with the guidance, ensuring claim forms are completed correctly and applying independent reality checks on the claims prior to submission for payment.

- 3.19 Management have, therefore, been informed of areas where systems are weak, or not being applied properly and appropriate remedial action has been recommended and agreed where considered necessary.
- 3.20 The Financial Management Standard in Schools (FMSiS), introduced by the DCSF provides a good opportunity to assess the level of control operated in schools. The Schools Finance Team has continued to assess schools against the standard, providing advice and guidance as necessary. The Secondary Schools have been re-accredited during 2009 -10, whereby it was felt that they had generally maintained a satisfactory standard of control since they were first accredited, but some of the requirements considered not essential to the running of the business were not complied with. The FMSiS Assurance Statement 2009 -10, completed by the Council's Chief Financial Officer, indicates that all schools are considered to be meeting the standard as at 31 March 2010.

Counter Fraud and Probity

- 3.21 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, other counter fraud work has been completed on declarations of interest and gifts and hospitality, where it was noted that procedures need to be applied consistently throughout the Council.
- 3.22 Work was undertaken 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. Internal Audit continues to work with Management 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.

Responsive – investigations

- 3.23 A review of residual fraud and irregularity cases revealed a number of learning points which were incorporated into audit programmes and discussed, on a case by case basis, with relevant managers. Particular examples are the length of time between staff suspension and case resolution (and the monitoring of this factor) and the issue of prevention of employing illegal immigrants.
- 3.24 Throughout 2009/10, Internal Audit assisted Management in the investigation of potential irregularities. Detailed reports have 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.

Value for Money/Strategic Reviews

- 3.25 Internal Audit completed a review of charging in Cheshire East using the Audit Commission's "Positively Charged" document (for further details please see paragraph 4.5 below).

4.0 Issues relevant to the Annual Governance Statement 2009/10

- 4.1 In compiling the AGS (see paragraphs 3.4 – 3.6) significant issues that are considered to fall short of the expected standards should be commented on in the Statement. An action plan explaining how the issue will be addressed in 2010/11 should also be included in the Statement.

- 4.2 The work referred to in paragraph 3.5 enables the Head of Internal Audit and Compliance to highlight any issues that are relevant to:

- the action plan for 2010/11
- the preparation of the Annual Governance Statement for 2009/10

Such issues were discussed in the interim reports to the Governance and Constitution Committee throughout 2009/10 and specifically during Quarter 3 where it was noted that Internal Audit:

- completed an assessment of the Council's arrangements against the CIPFA/SOLACE Good Governance Framework in order to determine the extent to which they comply with the Council's Code of Corporate Governance.
- reviewed the predecessor Council's AGS' in order to ensure that issues referred to Cheshire East were being considered/addressed whilst the Council develops its own governance framework.

- 4.3 The following paragraphs provide the year-end position with regard to such issues and include information taken from a detailed self assessment that was completed by designated officers of the Council during Quarter 4.

Corporate and Financial Planning

- 4.4 The review by Internal Audit and subsequent self assessment of governance arrangements by Management highlighted that there were opportunities to establish clearer corporate priorities. In particular it was noted that:

- Although the Council has had an interim Sustainable Community Strategy (SCS) in place since April 2009, a new SCS is currently being developed following a major consultation process. This sets out a collective vision for Cheshire East and the priority actions which need to be addressed.

- Throughout 09/10 there was an interim Corporate Plan. A new Corporate plan is being developed that will ensure the Council's vision and purpose is brought together and communicated. This plan will aim to ensure Cheshire East delivers its obligations and wider community leadership role.
- There is an opportunity in 2010/11 to publish an annual report to communicate the authority's activities and achievements, including its financial position and performance.

4.5 An Internal Audit review of Charging across the authority using the Audit Commission document "Positively Charged" highlighted that arrangements could be improved in order that charging policies support achievement of the corporate plan. As a result of audit recommendations Management has agreed to:

- Develop a corporate pricing policy as part of the Income and Funding Strategy 2009 – 13. This will address the criteria for concessionary access to services
- Ensure that services review their pricing policy on an annual basis as part of the budget setting process.
- Use the Household Calculator so that services and Members can appreciate the impact of various options as part of the decision making process
- Prioritise the harmonisation of Health and Wellbeing prices
- Use shared service projects to address variations in approach across services to cash collection and debt management
- Use the Income Generation Officer to work within the External Funding team to identify new areas of income generation

The findings have, therefore, been considered when determining action point 1 on the 2010/11 AGS action plan.

Financial Management

4.6 As part of the assurance gathering process for the AGS, Service Managers were asked to complete Disclosure Statements to sign off on the adequacy of controls within their service areas on significant control issues. A number of Managers raised issues around Financial Management and budgetary information. There are a number of issues that have emerged during 2009/10:

- Volatility in both the cost and budget base, as adjustments have been made to reflect on-going restructuring, staff appointments and apportionment of budgeted savings.
- Complexities caused by shared service arrangements, and delays in processing recharges.

- Technical difficulties relating to system cut-over and migration of legacy data, which have prevented consolidated reporting from a single database until the final quarter of the year.
- On-going compliance issues in respect of basic transaction processes, impacting both the accuracy and completeness of financial management information at a detailed level.
- Inexperience of budget managers and accountancy staff, who have taken time to familiarise themselves with new systems and reporting tools, and to fully understand the reconfigured cost and budget position.

Many of these issues are considered to be of a transitional nature, arising specifically from the process of reorganisation and creation of a new Council. This area will be subject to an internal audit review in 2010/11.

- 4.7 The Council's Constitution contains a scheme of delegation to officers and delineates between Council, executive and individual cabinet members regarding their powers. This is renewed in-year by the Governance and Constitution Committee. However, audit noted that schemes of financial delegation were at various stages of completion within the Authority and it is anticipated that a complete and consistent system will not be in place until 2010/11.
- 4.8 The findings of an Internal Audit review of debt management identified that a number of issues required addressing urgently in order that a consistent approach to income collection is adopted and that the collection of income is maximised. As a result of audit recommendations, Management has agreed to:
- Clarify debt management roles and responsibilities through the Business Management Review and target training appropriately
 - Develop corporate debt and credit management policies during 2010/11
 - Include a full analysis of outstanding debt in the 2009/10 out-turn report
 - Address the level of provision for bad and doubtful debt as part of the account closure process

This is an area that remains of concern and will be kept under review.

The findings have, therefore, been considered when determining action point 2 on the 2010/11 AGS action plan.

Risk Management

- 4.9 The Section has continued to manage the Council's Risk Management function and facilitate the development and implementation of the Risk Management and Business Continuity Strategies. It can, therefore, be reported that the strategy and processes have been in place throughout the year and awareness sessions and training have been held with the Governance and Constitution Committee, Cabinet and the Corporate Risk Group. Risk assessment was part of the service planning process, and reports

to all Committees include a risk management element. Furthermore, a strategic risk register is in place.

- 4.10 Development areas for 2010/11 include embedding the management of risk within the performance management process, regularly reviewing and reporting on effectiveness of mitigating actions and making more overt linkages between risk and other areas of relevance e.g. insurance, project management, health and safety and financial planning.
- 4.11 The findings have, therefore, been considered when determining action point 3 on the 2010/11 AGS action plan.

Partnerships & Governance

- 4.12 Internal Audit's initial self- assessment of the Council's arrangements against the CIPFA/SOLACE Good Governance Framework indicated that a set of governance principles for all Council partnerships was being developed by the Standards Committee that are in accordance with the Standards for England (SfE) document. This will need to be implemented in 2010/11.
- 4.13 During Quarter 4 Internal Audit assisted Management in identifying the Council's significant Partnerships and assessing their governance arrangements using the Audit Commission document 'Bridging the Accountability Gap'. The self assessment process highlighted that the partnerships, which includes the Authority's overall Shared Service agreement with Chester West and Chester Council, are at different stages of development, and whilst those that are more mature are underpinned by more formal agreements and governance frameworks, others are subject to arrangements that will need to be developed/refined as the partnerships evolve throughout 2010/11.

The findings have, therefore, been considered when determining action point 4 on the 2010/11 AGS action plan.

Performance & Cost Management

- 4.14 An internal audit of the system for producing the Council's National Indicators (NI's) was undertaken during 2009/10 which highlighted that arrangements could be improved in order that Cheshire East produces relevant and reliable data and information to support decision making and manage performance. Management's response to audit recommendations includes the following improvements:
- A data quality action plan has been prepared to support the Council's Data Quality Strategy.
 - A data quality audit will be undertaken in 2010 to confirm that quality checks and sign off are carried out by divisional managers.
 - On-going engagement with partners on data quality and sharing of information will continue.

- The Council's Data Quality Strategy has been shared with partner organisations who attended a training and briefing session with Council Managers. These initiatives will be built on with the aim of introducing a partnership Data Quality Policy.
- A register of systems and procedures will be introduced to ensure that all systems that support the production of NI's are documented.

4.15 The findings have, therefore, been considered when determining action point 5 on the 2010/11 AGS action plan.

5.0 Performance against Audit Plan 2009/10

5.1 There has been a wide range of audit coverage with most areas of the Council receiving some audit activity, be it through the interim plan, planned audit reviews, or the annual management assurance process which is also used to inform the AGS. However there is a shortfall between the number of audit days in the plan and those actually achieved. The shortfall being attributable to available chargeable days being less than planned due to:

- Two senior vacancies within the section for the whole of 2009/10.
- 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 Auditor from December 2009 and resignation of a Senior Auditor from October 2009.
- Structures within services not being finalised/in place.

5.2 In addition 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. This is to be expected in a large newly formed and complex organisation where it is necessary to deliver an audit plan that is responsive to the changing priorities of the Council. Furthermore, it should be noted that the required audit resource is difficult to determine because all relevant issues cannot be reasonably foreseen when compiling the plan.

5.3 The above issues were reported to the Governance and Constitution Committee in the 2009/10 interim reports and priorities determined. A more detailed analysis of performance against the plan is shown in Appendix 1. This includes the status of work included in the original plan and findings relating to Quarter 4 of 2009/10.

Summary of Internal Audit work in Quarter 4

- 5.4 Despite the reduction in available resources audit work has been undertaken on the whole of the control environment comprising risk management, key control and governance processes. Reports have been issued throughout the period in order to:
- prompt Management to implement agreed actions for change leading to improvement in performance and control
 - provide a formal record of points arising from the audit assignment and, where appropriate, of agreements reached with Management.
- 5.5 A summary of the audit work undertaken in the first 9 months of the year has been reported to the Governance and Constitution Committee on a quarterly basis. Work for the final quarter of 2009/10 concentrated on:
- the fundamental financial systems in order that External Audit can place reliance on the work of Internal Audit
 - assisting Management in compiling the 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
 - investigations/preparation for The National Fraud Initiative (data matching exercise)
 - a 'mystery shopper' exercise, commissioned by the Chief Executive.
- 5.6 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.
- 5.7 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, processes and procedures, application of Finance and Contract Procedure Rules, Schemes of Financial Delegation, ICT Security Policy.

Implementation of recommendations

- 5.8 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. 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.

- 5.9 An area for improvement in 2010/11 is the timeliness of management responses to audit reports and implementation of audit recommendations.

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

- 6.1 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.

- 6.2 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. (A separate assessment of the Audit Committee has been undertaken). The 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.

- 6.3 The areas for improvement can be summarised as follows:

CIPFA standard	Key Messages/Action
Scope of Internal Audit <i>The Head of Internal Audit should decide, in consultation with all parties, whether internal audit staff conduct the work to derive the required assurance for service provided through partnership themselves or rely on the assurances provided by other auditors.</i>	The Head of Internal Audit & Compliance needs to formally agree the arrangements for obtaining assurance over the operation of shared services between the Council and Cheshire West & Chester Council.
Principles of Reporting <i>Reports should be issued promptly and within laid down timescales</i>	The performance management and quality assurance framework will include timescales for reports to be issued.

<p>Staffing Training and Continuing Professional Development <i>Internal audit should be appropriately staffed to achieve its objectives and comply with these standards</i></p>	<p>There were a number of vacancies which remained unfilled as a result of the LGR transition. The Section is currently recruiting to the new structure.</p>
<p>Performance, Quality & Effectiveness <i>The Head of Internal Audit should establish policies and procedures in an audit manual to guide staff in performing their duties and complying with the Code</i></p> <p><i>The performance management and quality assurance framework should include internal quality reviews periodically to ensure compliance with the audit manual</i></p>	<p>A Cheshire East Internal Audit Manual was drafted and issued to staff in 2009/10. This is currently being finalised based on staff feedback on its use to date.</p> <p>Quality is assured by ensuring that Internal Audit Staff are appropriately supervised and work is monitored throughout all audits to review progress, assess quality and coach staff.</p>
<p>Performance, Quality & Effectiveness <i>The performance management and quality assurance framework should include user feedback for each individual audit and periodically for the whole service.</i></p>	<p>This is in development. Consideration is being given to using satisfaction questionnaires on individual audits and annual surveys.</p>
<p>Performance, Quality & Effectiveness <i>The performance management and quality assurance framework must include a comprehensive set of targets to monitor performance</i></p>	<p>A formal set of performance indicators have been included in the Service Delivery Planning process for 2010/11.</p>

- 6.4 An action plan for improvement has been developed that is separate from the AGS action plan, as the latter should only include significant weaknesses. Consequently, the review has established that the opinion, contained within this report, may be relied upon as a source of evidence in the AGS.

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Supporting Corporate Governance				
Code of Corporate Governance	Produced Code of Corporate Governance – Approved by Governance & Constitution Committee in November 2009.		Complete.	-
Annual Governance Statement (AGS)	Assessment against CIPFA/SOLACE Good Governance Framework to evidence compliance with Code.		Complete.	Supporting management in production of AGS for 09/10.
CAA Use of Resources	Production of position statements/ Key Lines of Enquiry assessments/Service baseline assessments etc.		Complete.	CAA has now ceased.
Core Financial and Fundamental Systems				
Main Accounting – Budget Monitoring	None.		C/fwd to 2010/11	Detailed review across services.
Main Accounting – Bank Reconciliation	Fact-finding review of system.		Complete.	-
Asset Management	Review of asset registers and disaggregation of assets following LGR.	Major operational assets records are incomplete in some cases and do not always	Draft report issued.	Finalise report

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
		contain comprehensive information. - Schemes of Financial Delegation are incomplete in some cases and do not identify those staff with responsibility to maintain asset registers/inventories. - Locally held asset registers/inventories are not subject to review and physical checks.		
Council Tax	Review of key controls over all 3 ex-District systems.	- Income posted to the old PARIS system should be regularly reconciled to the Great Plains ledger. (Macclesfield)	Final report issued.	-
NNDR	Review of key controls over all 3 ex-District systems.	- Reconciliations should be undertaken reconciling all of the income from the cash receipting systems to the NNDR systems and ledger on a regular basis. (Macclesfield)	Final report issued.	-
Housing Benefits	Review of key controls over all 3 ex-District systems.	- Reconciliations are not currently completed between the benefit payments and the	Final report issued.	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
		postings to the General Ledger. - The recovery process for overpayments needs to be approved and implemented at the earliest opportunity (Macclesfield).		
Debt Management	Review of key controls around raising of invoices and monitoring of debt.	- No corporate debt management policy and procedures in place resulting in an inconsistent approach - Confusion over roles and responsibilities and little communication between all sections involved in the process - Debtors are remaining unchallenged in respect of outstanding payment due - Not all relevant staff have received the appropriate training to enable them to monitor debt - Continued use of legacy systems to raise invoices due to a lack of confidence in the Oracle system	Final report issued.	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
		<ul style="list-style-type: none"> - The authority's debt position is currently not being reported to management and members 		
Payroll	Review of controls around Starters and Leavers, to specifically include CRB checks.	<ul style="list-style-type: none"> - Many former district CRB (Criminal Records Bureau) records have not yet been consolidated onto the Oracle system and there are some gaps where evidence is not available. A review is currently being undertaken by HR to clarify which posts should be subject to CRB checks together with the requirements of the Independent Safeguarding Authority Vetting and Barring policy which will come into effect in the latter half of 2010. - Whilst HR policies and procedures are available on the CEntranet for managers to reference, these are not written in a step by step manner, and not available in one easy to find location. 	Draft Report issued – response received.	Finalise report

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Treasury Management	Review of the management of the Authority's cash flow, investments and loan arrangements	<ul style="list-style-type: none"> - Need to review the best practice guidance now available and update the Treasury Management Strategy to reflect this. - To implement any strategic or operational changes to processes to achieve the requirements of best practice as adopted within the updated Treasury Management Strategy. 	Final report issued.	-
P2P Joint Review	Joint review with Cheshire West and Chester Audit on problem transactions.		Draft Report issued – Cheshire East response received.	Finalise report
Cheque Review (U)	Specific review of the cheque payment procedures and controls as part of the Transitional Review (see below).		Draft report issued	Finalise report – issues b/fwd to 10/11.
Transitional Review	Audit covering Cheshire East Council and four		Final report issued.	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
	predecessor Authorities.			
Shared Services – Review of key financial systems (U)	Specific testing on East transactions	<u>Reconciliation Control:</u> - Regular formally documented reconciliations were not being undertaken for all accounts examined. - Monthly documented reconciliations are not always completed in a timely manner, with some monthly accounts being reconciled up to five months after the month being reconciled. - Reconciliations are not always reviewed and agreed by a senior officer promptly after completion. - Some unreconciled items identified on the Northgate Control reconciliations undertaken between April – December 2009 were still unreconciled at the time of the audit.	Complete	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Extended Testing – Audit Commission (U)	Specific testing for External Audit on key controls identified by their 09/10 work.	-	Ongoing	Finalise findings for Audit Commission.
People				
LSC Funding 14-19	Review to ensure that the immediate requirements for funding provision can be met by the authority from April 2010 and that the authority is sufficiently prepared for the transfer of responsibility.	- The responsibility for preparing and approving the quarterly reconciliation statement required by the YPLA has not been allocated. - A review of the authority's Finance and Procedure Rules in the context of the LSC transfer and the roles and responsibilities which that confers on the local authority has not been undertaken.	Final report issued.	
Extended Services	-	N/A	C/fwd to 2010/11	Planned for 2010/11
Payments to foster parents/adopters	-	N/A	Ongoing	Covered under extended testing – Audit Commission
Section 17 funding	-	N/A	C/fwd to 2010/11	Planned for 2010/11
Aiming high for disabled children	Advice and guidance provided to the service	N/A	Complete.	Not planned

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Grant Funding	Fact finding review.		Complete.	Covered under extended testing – Audit Commission
ContactPoint	Assisting in the design of appropriate systems of control and monitoring of these systems and a review on the operation of these systems of control.		Draft report issued.	Finalise report. Awaiting confirmation of future of ContactPoint.
Gorsey Bank School Extension	Review of issues arising and lessons learned for future projects. Reported to Corporate Management Team.		Final report issued.	Follow up audit will be undertaken in 10/11 as agreed with management.
Social Care Redesign	Providing support and advice in a number of areas i.e. Pre loaded prepayment cards.		Ongoing.	Continued support and advice in key areas.
Pooled Budget	-	N/A	C/fwd to 2010/11	Planned for 2010/11
ShareCare	Review of project governance and resourcing.		Final papers issued.	-
East Domestic Unit imprest	Review at request of management.		Final report issued.	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
account				
Macclesfield Leisure Centre	Review of system controls, principally around income.	<ul style="list-style-type: none"> - Procedures & forms (including terms and conditions) at Crewe and Macclesfield sites are out dated and relate to former Authorities. - Manual receipting procedures are not always evident, this is particularly important in the event of a system downtime. - Inductions are not recorded satisfactorily and linked to Health Questionnaires to provide sufficient evidence that an induction has been carried out. - improvements around physical security required. 	Final report issued.	-
Crewe Pool	Review of system controls, principally around income.		Final report issued.	-
Congleton Leisure Centre	Review of system controls, principally around income.		Final report issued.	-
Lyceum Theatre (U)	Review of system controls, principally around income.	Improvements over the cashing up process, authorisation of refunds and overtime payments, and budgetary information.	Final report issued.	-
Target Income	Legacy monitoring work.		Now finished.	-
PARIS	Review of AOP Financials		Complete.	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Resource Allocation System (RAS)	Review of system to ensure it allocates resources to meet a service user's unmet eligible needs in a more objective, transparent and fair manner than the current system.	Lack of agreed and documented procedures for post-implementation review of the RAS once it has been rolled out.	Final report issued.	To be followed up during 2010/11
Places				
Car Parking	Review of key controls over ex-District systems (Crewe & Nantwich/Macclesfield).		Audit complete.	Work to be followed up during 10/11
Carbon Footprint	Fact- finding review.		Complete.	-
Places Risk register	Facilitation and development.		Complete.	-
Depot Rationalisation	-	N/A	Not planned.	Not planned.
Licensing	-		Draft report	Finalise report.
Planning & Building Control Fees	-	N/A	C/fwd to 2010/11	Planned for 2010/11
Integrated Transport Unit	-	N/A	Not planned.	Not planned.
Crewe Green Link Road Scheme	-	N/A	Not planned.	Not planned.
Other Key Areas	-	N/A	Not planned.	Not planned.

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
in Places				
Performance & Capacity Policy & Performance				
National Indicators (NI's)	Review of procedures and controls.		Draft Report	Finalise report.
Blue Badges	-		Not planned.	Not planned.
Mystery Shopper Review (U)	Mystery Shopper Review	Opportunities for improvement identified.	Report issued to Chief Executive.	-
Regulation of Investigatory Powers (RIPA) (U)	Review of the awareness and understanding within services of their obligations under RIPA and whether key potential users of RIPA have been adequately trained and that the Council's approved policy and legislative requirements are being complied with.	<ul style="list-style-type: none"> - Lack of a Council policy to identify when it is necessary and proportionate to undertake non-criminal covert surveillance (which is outside the umbrella of RIPA). - Lack of maintenance of a central register of non RIPA forms and identification of an authorisation and monitoring process, as with RIPA authorisations. - Identify which Council properties have CCTV cameras and ensure adequate signage and usage in accordance with Council 	Final report issued.	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
		policy. - Consider implications of RIPA when reviewing the ICT suite of policy documents, particularly in relation to monitoring of staff/members emails.		
Performance & Capacity Finance				
Scheme of Financial Delegation	Phase 1 - Establishing format for scheme, intranet site, liaising and monitoring with service representatives. Phase 2 – Review of Schemes to check in place, authorised, in accordance with Oracle etc.	<u>Phase 2</u> - Some services have no Schemes of Financial Delegation in place. Others have only been prepared detailing high level Senior Managers. Few schemes have provided sufficient information detailing all levels of staff. - There is a need for comprehensive training to all managers in the basics of Financial Regulations together with an Oracle overview. - In some instances oracle limits are not reflective of the Service Scheme of Financial Delegation.	Phase 2 – Draft report issued	Finalise report.

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
		- The current Schemes of Financial Delegation focus predominantly on oracle based transactions. Separate Schemes have been prepared in some services for non-oracle financial activity.		
Finance & Contract Procedure Rules	Providing advice to services/implementing changes and making recommendations to the Governance & Constitution Committee.		Ongoing.	As necessary.
Shared Services Back Office	See work under <i>Cross Cutting</i>		Ongoing.	Follow up review to consider current position for 10/11.
Cash Receipting	-	N/A	Not planned.	Not planned.
Grant Payments	-	N/A	Not planned.	Not planned.
VAT Accounting	-	N/A	Not planned.	Not planned.
Data Migration	-		C/fwd to 2010/11	Review of procedures and controls.
Opening Balance Sheet	-		C/fwd to 2010/11	Review of procedures and controls.
Performance & Capacity ICT				
ICT Business Continuity	Review plans to ensure continuity of the ICT		Review complete.	Included in Plan.

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Planning – Flu Pandemic	services used by Cheshire East in the event of a flu pandemic.			
ICT Security – Liaison and Advice	Provide advice and ensure audit view is recognised on wide variety of ICT security topics.		On-going	Continue to advise and liaise.
ICT Shared Services	Review arrangements for the governance and control of the ICT Shared Service, and their corporate impact.		Report being drafted.	Finalise report
CAATS Evaluation	Evaluation and selection of File analysis software.		Completed – recommendation accepted and software procured.	See also under <i>Counter Fraud</i>
Government Connect	Review process for achieving compliance with the Code of Connection.		Draft report issued.	Finalise report.
ICT Security Policy & Acceptable Use	Established a sub-group of the Corporate Governance Group, jointly attended by all interested parties.		ICT Security Policy drafted.	Finalise and roll-out policy.
ICT Strategy	-	N/A	Not planned.	Not planned.
Information Management – new strategy	-	N/A	Not planned.	Not planned.
Performance & Capacity Procurement				

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Tendering & Contracting System	Ongoing liaison and advice.		Complete.	
Procurement Compliance	Review and evaluation of adherence to the Council's formal tendering process.		Draft report issued.	Finalise report.
Performance & Capacity Borough Solicitor				
Council Deeds/important documents	-	N/A	Not planned.	Not planned.
Online payment of fees to HMLR/HMCS	Consultancy advice provided.		Complete.	-
Members Allowances	Review focussing on the formation of the Independent Remuneration Panel and o submitted Members' claims both in the Shadow year and 2009/10 (to date).		Final report issued.	-
Registration Services	Review of the adequacy of the systems and processes used in storing and issuing certificates, and collecting income across the		Final report issued.	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
	Registration Service's establishments.			
Cross Cutting				
Shared Services – Overall Governance	Initial review of Service Level agreements in place carried out.		Complete.	Follow up review to consider current position for 10/11.
Service Delivery Planning/Risk Management	Facilitation, assistance and challenge to Service Delivery Plans/Risk Registers.		Complete.	
Income Maximisation/ Efficiency	-		Not planned - although see work on Debt Management	Not planned - although see work on Debt Management.
Project Management	-	N/A	Not planned.	Not planned.
Support to Business Continuity and Risk	Audit support to Business Continuity and Risk function in first six months of 09/10.		Complete.	-
Counter Fraud				
Anti Fraud & Corruption Policy	Strategy drafted by Internal Audit and endorsed by G&C in May 2009.		Ongoing	Ensuring policies are developed and maintained in accordance with best practice.
Codes of Conduct	-	N/A	Not planned.	Not planned.

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
– Members/Officers				
Whistleblowing	Approved by Governance & Constitution Committee in October 2008. Work commenced to ensure that policy complies with best practice.		Ongoing	Ensuring policies are developed and maintained in accordance with best practice.
Declarations of Interest	Review of member forms – minor issue notified via e-mail.		Complete	
Gifts & Hospitality	Review of Staff/Members schemes for declaration.		Draft report issued.	Finalise report.
Anti Money Laundering	Drafted by Internal Audit, approved by Cabinet in October 2009 following recommendation from Governance & Constitution Committee.		Ongoing	Ensuring policies are developed and maintained in accordance with best practice.
Use/Development of IDEA	Following CAATS evaluation – procure appropriate software.		In progress	Training and undertake a pilot analysis.
National Fraud Initiative	Co-ordination of Initiative and investigation of matches.		Ongoing.	Ensure vulnerabilities are designed out of systems and procedures.

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Responsive Work	Support management in investigation of fraud and corruption. Details reported to Head of Policy & Performance in accordance with Fraud & Corruption Strategy.		Ongoing.	As necessary.
Value For Money Reviews				
Charging	Review of Charging in Cheshire East with the objective of establishing whether the Council is maximising potential income generation and charging opportunities.		Final report issued.	-
Other	-	N/A	Not planned.	Not planned.
Responsive Work				
Consultancy & Advice	Variety of ad-hoc consultancy and advice on risk and control issue across all services.		Ongoing.	As necessary.
Follow Up work	Various follow up work on projects relating to predecessor Authorities.		Complete.	-