

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of meeting: 30 September 2010
Report of: Head of Internal Audit and Compliance
Title: Internal Audit Plan 2010/11 and Update Report

1.0 Report Summary

- 1.1 The Code of Practice for Internal Audit in Local Government in the United Kingdom states that, “in addition to the annual report”, the Head of Internal Audit and Compliance “should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 1.2 The purpose of the report is to update the Audit and Governance Committee on progress against the Internal Audit Plan 2010/11, revisions to the plan and to summarise work during the period April – August 2010.

2.0 Recommendation

- 2.1 That the Committee note the issues identified, endorse the approach to achieving adequate audit coverage in the remainder of 2010/11 and discuss future audit issues and ways of working as appropriate.

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, 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.
- 3.2 This interim report addresses emerging issues in respect of the whole range of areas to be covered in the annual report.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications

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:

Portfolio Holder: Councillor David Brown

Officer: Vivienne Quayle, Head of Internal Audit and Compliance

Tel No: 01270-529684

Email: vivienne.quayle@cheshireeast.gov.uk

Background Documents:

Local Government Act 1972

Accounts and Audit Regulations (2003 and updated 2006)

CIPFA Internal Audit Code of Practice

Summary of Internal Audit Plan 10/11

Report to Audit and Governance Committee Internal Audit Plan 2010/11 and Update Report 30 September 2010

1.0 Background

- 1.1 The purpose of the report is to update the Audit and Governance Committee on progress against the Internal Audit Plan 2010/11, revisions to the plan and to summarise work during the period April – August 2010.
- 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 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 recommendations and will bring to the attention of the Committee any significant weaknesses that have not been addressed by Management.

2.0 Internal Audit Plan 2010/11

- 2.1 The Internal Audit Plan for 2010/11 was approved by the Governance and Constitution Committee on 27 May 2010 and was developed using the following split:

Supporting Corporate Governance (4%)	This includes work on the Local Code of Corporate Governance, the Annual Governance Statement and the CAA Use of Resources.
Core Financial and Fundamental Systems (12%)	Core system 'key control' work as required by External Audit as well as the results of Internal Audit's risk assessment of fundamental systems. Systems included are: Budget Monitoring, Debtors, Creditors, Housing Benefits, Council Tax, National Non-Domestic Rates (NNDR).
Key Service and Departmental Systems (46%)	Strategic and service risk audits including assurance work focussing on "back to basics" type work across key themed areas and establishments. People e.g. Establishment audits, Financial Management Standard in Schools (FMSiS) review, Social Care redesign and review of controls in material systems such as PARIS. Places e.g. Emergency Planning, Waste PFI, Highways maintenance contract, Car parking, Licensing, Planning

Summary of Internal Audit Plan 10/11

	& Building Control. Performance & Capacity e.g. Compliance with HR policies, Performance Management including data quality, Communications, ICT audits, Procurement including tendering/commissioning, Asset Management. Cross Directorate, Partnerships, Shared Services e.g. Governance, Service Delivery Planning, Project Management, Business Continuity.
Counter Fraud and Probity (18%)	Response to notifications under the anti-fraud and corruption policy informing opinion on the internal control environment. Pro- active work based on risk assessment including promotion of relevant policies and assessment of key controls. Includes administration of National Fraud Initiative (NFI) & creation of fraud risk assessment.
VFM and Strategic Reviews (3%)	

The remaining audit time (17%) was allocated to follow up and responsive work.

3.0 Progress against 2010/11 Plan

Supporting Corporate Governance

- 3.1 During the period Internal Audit has assisted Management in the production of the Council's Annual Governance Statement (AGS), which was presented and approved at the Audit and Governance Committee on 29 June. A training session, covering the AGS was given to Committee members in advance of the meeting.
- 3.2 Time was originally provided for in the 2010/11 Audit Plan to support the Authority's Comprehensive Area Assessment (CAA) Use of Resources assessment. This will no longer be required following the abolishment of CAA in May.

Core Financial and Fundamental Systems

- 3.3 One of the main areas of focus during the period within this area was the undertaking of 'extended testing on key controls' over a number of systems. This work covered the 2009/10 financial year and had been agreed with External Audit to support their assurance work on the financial statements. The work covered systems including Schools Finance, PARIS Care Plans, Supporting People, Home Care Roster, Asset Management, Council Tax, NNDR and Highways Term Maintenance Contract. The work was completed and reported back to External Audit in June 2010.
- 3.4 Work was also concluded within some of the key financial Shared Services systems, such as Accounts Payable and Accounts Receivable. This work was carried out on Cheshire East transactions and reported back to Cheshire West

Summary of Internal Audit Plan 10/11

and Chester Council's Internal Audit, who produced the audit reports and formally reported back to Shared Services management.

- 3.5 An audit review of the Authority's readiness for International Financial Reporting Standards (IFRS) was carried out during the period. This concluded that the Authority had an IFRS implementation plan in place but there had been slippages due to closure of accounts, staff shortages and delays by managers providing information. Management have responded to the report and this is an area on which the Committee may wish to receive updates.
- 3.6 A major review of Budget Monitoring was commenced in August 2010. This review aims to cover a wide selection of Budget Managers across all services of the Authority and at various levels within the structure from Directors and Heads of Service through to front line budget managers with devolved management responsibilities.
- 3.7 Following a recent Freedom of Information request, the BBC reported on the use of purchase cards within the authority. Although there is no suggestion of misuse, both the Chief Executive and the Leader of the Council requested an audit review in this area. This work is underway and is utilising the new IDEA (Interactive Data Extraction and Analysis) software.
- 3.8 Cheshire East's core business system, Oracle is being upgraded to a new release (Release 12 or R12) with a go-live date of January 2011. Internal Audit, jointly with Cheshire West and Chester Council's Internal Audit team, will be reviewing and commenting on any key changes to the control environment. Work on this is underway.

Key Service and Departmental Systems**People**

- 3.9 Internal Audit has carried out a review to gain assurance that Cheshire East Council has continued to comply with the accreditation criteria for the use of the Contact Point database. This informed the sign off of the Annual Compliance letters that were required to be completed prior to 30 June 2010. It should be noted that since this work was completed the coalition government have cancelled Contact Point and that the database was switched off on 6 August 2010.
- 3.10 The following establishments within Health and Wellbeing have been subject to audit in order to ensure that appropriate controls are in place over income including the security of cash, budget management, asset management and purchasing arrangements:
- Malkins Bank Leisure Centre
 - Lyceum Theatre
 - Wilmslow Leisure Centre
 - Knutsford Civic Hall & Cinema
 - Alsager Civic Hall

Summary of Internal Audit Plan 10/11

- 3.11 Detailed reports were issued for each visit and common areas of concern have been raised with the appropriate managers to ensure that they are addressed across the whole service. The main areas of weakness highlighted by the audits were:
- Charges have not been consistently updated to reflect the agreed rates for 2010/11.
 - Purchase card holders able to authorise their own transactions.
 - The level of cash floats is not accurately reflected in the financial system.
 - No time recording system to support the authorisation of timesheets.
 - Managers are unable to carry out effective budget management due to an inability to access the financial system.
- A consolidated report will now be produced for senior management.
- 3.12 With effect from April 2010, provision for the education and training of 14-19 year olds transferred from the Learning and Skills Council to Local Authorities. This included staff transferring to Cheshire East Council along with roles and responsibilities for the provision of funding streams. Internal Audit carried out a review to ensure that arrangements had been put in place to enable the authority to meet its responsibilities in accordance with the published guidance on the transfer. The audit work revealed that the risks associated with the transfer had been managed although some action points were raised to ensure that the council's responsibilities continue to be met going forward.
- 3.13 A piece of work is currently underway to support the Client Finance team within Adults in designing and implementing an effective and efficient process for auditing the accounts of social care customers who are in receipt of a direct payment. An issue has been identified in that there is a significant backlog of accounts that require an audit to be carried out but resource issues mean that this will not happen unless the process is changed or additional resources are allocated to the task. A risk based approach is being developed to ensure that the limited resources are able to focus upon the accounts which represent the highest risk of both loss to the authority and the wellbeing of the individual. Upon completion of this piece of work the amount of cash reclaimed from direct payment customers is expected to increase significantly which will have a positive effect on stretched budgets within Adult Services. Internal Audit will continue to work closely with the service to ensure that improvements are made.
- 3.14 Internal Audit continues to support the development and implementation of the Empower Card ensuring that new processes and systems are sufficiently robust to mitigate the risk of loss to the Council. In addition to the review of processes, support and advice has been provided to the Client Finance team and private homecare agencies with regards to reconciling client accounts in preparation for the transfer to Empower Cards.
- 3.15 A series of establishment audits are currently underway across a sample of Adult Services Day Centres and Supported Living Networks. The audits will

Summary of Internal Audit Plan 10/11

focus upon the financial management of both official and client funds and will identify any areas of control that have been weakened by the recent restructure of these services. Individual reports will be provided to managers with a consolidated report identifying common issues and high risk areas presented to senior management within the service.

- 3.16 During October, it is anticipated that, an audit of the process in place for the accreditation of Cheshire East Schools against the FMSiS will take place. This will provides assurance that the standard is being correctly applied in line with Department of Education guidance. The findings will inform the production of a work programme of visits to schools as this is an area that has not received audit coverage for a number of years.

Places

- 3.17 A review of the authority's Licensing activities was carried out during the first quarter focussing on the existence of key controls over pricing, processing of applications, income control and inspections/enforcement.
- 3.18 A number of issues were identified and a meeting with management has been scheduled in order to agree an action plan to address the control weaknesses.
- 3.19 Internal Audit staff have met with the relevant service managers in order to support the further development of the service risk registers.
- 3.20 Further work within key high risk areas in Places is planned in the remainder of 2010/11.

Performance & Capacity

- 3.21 During the period an audit of Absence Management was carried out and findings reported to the HR Delivery Manager. Recommendations made were predominately around strengthening guidance for managers in this area.
- 3.22 Internal Audit carried out a Regulation of Investigatory Powers Act (RIPA) review in April 2010. RIPA is led by the Compliance Team within Internal Audit & Compliance. The audit acted as a pre-inspection review ahead of an inspection by the Office of Surveillance Commissioners in May 2010 to establish whether services were aware of their obligations under RIPA, had been adequately trained, and that the Council's approved policy is being compiled with. A small number of audit recommendations were made.
- 3.23 The Commissioners report concluded that "the policies, procedures, guidance and training put into place by the Council are of the highest order and should enable a compliant use of RIPA" and praised the "conscientious attitude" of staff.
- 3.24 A follow-up review of ICT Asset Inventory was carried out. Following Local Government Re-organisation, Internal Audit reviewed the disaggregation of ICT assets across both new authorities. The review found that there was

Summary of Internal Audit Plan 10/11

confusion as to the ownership and location of many assets and uncertainty about the existence of others. The follow-up review has found that, although a compilation strategy has been adopted and is underway, it is not yet complete. There is still a need for an ICT Asset Register which accurately reflects the current disposition of assets and which is maintained and kept up to date. This has been reported to management.

- 3.25 A review of the Authority's compliance with Government Connect (partnership between national and local government providing a secure method for the electronic transfer of data between both) 'Code of Connection' was undertaken. It was concluded that the process was appropriate and effective and that planning and action was well underway to address the new increased requirements of the enhanced Code in autumn 2010.
- 3.26 An audit of procurement using the formal tendering process was completed during the period. The recent introduction of an e-tendering process is likely to address many of the practical issues identified during the review. A further review is scheduled and this will focus on the e-tendering system.

Cross Directorate, Partnerships, Shared Services

- 3.27 During the period an audit of Shared Services - Governance Arrangements was undertaken. The terms of reference were to assess the governance and monitoring arrangements of Shared Services from Cheshire East's perspective including the current progress with formalising shared services arrangements, reviewing those short term arrangements and the management arrangements for monitoring performance and the value for money achieved. This work is still in progress.

Counter Fraud and Probity

- 3.28 Following the recent appointment of the Principal Auditor (Fraud), a piece of work has commenced to review the Anti Fraud and Corruption Policy against best practice guidance to ensure that it is fit for purpose and sufficiently robust to protect Cheshire East Council against the risk of fraud and corruption.
- 3.29 In addition, it has become apparent that the existing Whistleblowing Policy does not clearly identify what is a Whistleblowing report rather than a complaint or grievance. It has also been discovered that there are some discrepancies between the various sources of information relating to Whistleblowing and a piece of work has begun to identify and address these concerns.
- 3.30 It is intended that updated versions of both policies will be presented to members for approval at the next meeting of the Audit & Governance Committee in November 2010 prior to a formal re-launch to managers.
- 3.31 Preparation for the 2010 National Fraud Initiative (NFI) has commenced and is ongoing. On a bi-annual basis, local authorities are required to participate in a data matching exercise aimed at the prevention and detection of fraud.

Summary of Internal Audit Plan 10/11

Electronic datasets are required to be submitted to the Audit Commission and further investigation is undertaken into any anomalies. The use of the data is covered by the Data Protection Act and consequently 'fair processing' notices have been required to be issued to persons concerned to inform them that information will be used for this purpose.

- 3.32 In addition to the NFI work, a further review was carried out to identify duplicate payments resulting from the simultaneous use of multiple payment systems in the lead up to LGR. This utilised the new IDEA software and provided an opportunity to cleanse the Trade Creditors dataset prior to the NFI upload
- 3.33 The review identified duplicate payments in excess of £22,000 which have been confirmed by the relevant services and have been or being recovered. In addition, a further £6,000 of potential duplicate payments is still being checked within the services involved.
- 3.34 A report detailing the duplicate payments and associated control weaknesses with recommendations for remedial action has been issued to the Borough Treasurer & Head of Assets.

Responsive – Investigations

- 3.35 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 and the Chair of the Audit and Governance Committee in accordance with the Anti Fraud and Corruption Policy. The reporting process ensures that specific learning points for the Council have/will be addressed.
- 3.36 The investigations included an Adult social care establishment and a Children's social care establishment. With regard to the latter investigation, Internal Audit is continuing to work with management to ensure that robust controls are introduced to address the concerns raised and a series of visits to other centres is planned to identify whether the control weaknesses are present throughout the service.
- 3.37 As a result of the significant weaknesses identified in the Children's establishment, Internal Audit has produced detailed guidance for the service manager on the controls that should be built into the processes to be operated at the new community based residential settings. Ongoing support and advice continues to be provided during the development of these systems.
- 3.38 In addition to the above investigations, a number of Whistleblowing reports have also been received and investigated. These have been reported to the Head of Policy and Performance and the Chair of the Audit and Governance Committee.

Summary of Internal Audit Plan 10/11

Value for Money/Strategic Reviews

- 3.39 This represents a small percentage of the overall audit plan and to date there has been no activity in this area during 2010/11.

4.0 Performance against Audit Plan 2010/11

- 4.1 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.

- 4.2 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.

- 4.3 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 and Contract Procedure Rules, ICT Security Policies etc.

- 4.4 A number of staffing issues have affected the ability of Internal Audit to deliver the original plan. There has been a shortfall between the number of audit days in the plan and those actually achieved, due to the following:

- A Senior Auditor post and the Audit and Compliance Assistant post have been vacated.
- Vacancies for two Senior Auditor posts have not been filled. One post will be filled in November 2010. Applications for the other post have been recently received; this post had to be re-advertised after the original successful candidate decided not to take up the post.
- Maternity leave for a Principal Auditor and Senior Auditor.

However, during the period the two vacant Principal Auditor posts were both filled.

- 4.5 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.

- 4.6 Given the situation, it is necessary, in the next quarter, to align resources to the following key areas of the plan:

- Undertaking fundamental financial systems audits (e.g. Housing Benefits, Council Tax etc.) in order that External Audit can rely on the work of Internal Audit.

Summary of Internal Audit Plan 10/11

- The National Fraud Initiative exercise.
- Follow up on the Annual Governance Statement Action Plan 2009/10.
- Work on the Annual Governance Statement 2010/11.
- Addressing the recommendations of the Audit Commission's 'Internal Audit Review'.
- Key high risk areas in Places.

5.0 Implementation of Recommendations

- 5.1 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.
- 5.2 A number of potential issues are still being discussed with management and may be escalated to this Committee in the future.
- 5.3 The Section has, during the period, worked with Management to ensure that issues are being addressed. As indicated in this report progress is being made to implement improvement.