

Internal Audit Plan 2011/12 and Update Report

**Report to Audit and Governance Committee
Internal Audit Plan 2011/12 and Update Report
29 September 2011**

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 2011/12, revisions to the plan and to summarise work during the first quarter of 2011/12.
- 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 2011/12

- 2.1 The Internal Audit Plan for 2011/12 was approved by the Audit and Governance Committee on 29 March 2011 and was developed using the following split:

Supporting Corporate Governance (4%)	This includes work on the Local Code of Corporate Governance and the Annual Governance Statement.
Fundamental Financial Systems (including Shared Services) (14%)	Core system 'key control' work on systems such as: Payroll, Debtors, Creditors, Cash Receipting, Treasury Management, Housing Benefits, Council Tax, National Non-Domestic Rates (NNDR). This is assurance work that External Audit can place reliance on and the extent of the work is agreed with them.
Key Service and Departmental Systems (35%)	Departmental and service risk audits. Adults e.g. Supported Living Networks, Pooled Budget, Empower Cards, Health & Wellbeing establishments. Children & Families e.g. Direct Payments, Foster Payments, Early Education Entitlement. Places e.g. Residual Waste Treatment (PFI), Development Control, Transport Contracts, Tatton Park. Performance & Capacity e.g. ICT Assets, ICT Commissioning, Procurement.

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Fundamental Corporate Areas (9%)	Assurance work on Strategic Risks and associated mitigating controls as well as other cross cutting areas. E.g. Strategic Risks (Service Planning, Information & Business Intelligence etc.) and Other Cross Cutting (Risk Management, Performance Management etc.).
Partnerships (6%)	Assurance work on Strategic Risks involving Partnerships and associated mitigating controls. E.g. Strategic Risks (Health, Community Safety etc.)
Counter Fraud and Probity (15%)	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), Staff Vetting, Contract Award etc.
Consultancy and Advice (9%)	Where resources and skills exist, may contribute to the opinion that Internal Audit provides on the control environment.

The remaining audit time (8%) was allocated to contingency and follow up work.

3.0 Progress against 2011/12 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 will be presented for approval at this Committee. Training sessions covering the AGS have been given to Committee members in advance of the meeting.

Fundamental Financial Systems

- 3.2 During the quarter, work was carried out and concluded on a number of 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, and key controls operating within those systems, have been agreed with External Audit in order that they may rely on the work of internal audit. Areas subject to audit included:

- Payroll
- Accounts Payable
- Accounts Receivable
- General Ledger
- Cash Receipting
- Treasury Management
- Council Tax
- National Non Domestic Rates (NNDR)

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- 3.3 Testing on the key controls within the above systems has been completed with results proving satisfactory. The detailed testing results have been shared with External Audit.
- 3.4 In addition to the systems covered in 3.2, Internal Audit also carried out work on 'extended testing of key controls' over a number of systems. This work covered the 2010/11 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, CRRIS, Supporting People and Asset Management. The work was completed and reported back to External Audit in June 2011.
- 3.5 Internal audit work on Payroll, Accounts Payable and Accounts Receivable was in conjunction with Cheshire West and Chester (CWaC)'s Internal Audit team, in accordance with the agreed Internal Audit Protocol between the two Councils. Reports on the Shared Service element of these three key systems were produced by CWaC Internal Audit. The Audit Opinion for each was classed as '3' on a scale of 1 to 4 where 4 is best. All recommendations have been agreed by management and will be subject to CWaC Internal Audit's follow up procedures and reported back to Cheshire East.
- 3.6 Where there were Cheshire East specific findings and recommendations within the Payroll, Accounts Payable and Accounts Receivable audits, these have been reported to Cheshire East management and recommendations have been agreed or are awaiting agreement.
- 3.7 A 2011-12 Shared Services Internal Audit Plan, prepared jointly by Cheshire East and Cheshire West and Chester Internal Audit was agreed by the Shared Services Joint Officer Board in March 2011. This covers HR & Finance Shared Services systems.
- 3.8 The review of General Ledger during the quarter concluded that significant progress had been made, in correcting unidentified balances, since the previous audit visit. Recommendations were made, mainly involving the tightening of controls around journals, write-off of balances and general documentation of reconciliations, and have been accepted by management.
- 3.9 A review of Cash Receipting was commenced during the period and the draft report recently produced.
- 3.10 An audit of Treasury Management was undertaken during the quarter. A small number of recommendations were made, primarily around updating policy and procedure. These have been accepted by management.
- 3.11 New systems for Housing Benefits, Council Tax and NNDR were introduced in December 2010. The legacy system audit reviews for Council Tax and NNDR were completed during the period under review and all recommendations agreed by management. Reviews of the new Housing Benefits, Council Tax and NNDR systems have now taken place and draft reports will be issued shortly.

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- 3.12 During early May, Cheshire East Council's Housing Benefit payment run was delayed by several days. The Director of Finance & Business Services requested Internal Audit to carry out an immediate Lessons Learned Review. Findings were reported back to Corporate Management Team and appropriate actions have been taken or are in progress.

Key Service and Departmental Systems**Adult, Community, Health & Wellbeing**

- 3.13 Follow ups have been carried out in order to determine progress made against the implementation of actions agreed with management following the series of Establishment audits that were reported to members in January 2011. It is pleasing to report that of the 60 agreed actions, 54 have been implemented with the remaining 6 having revised timescales agreed with managers. It should be noted that there have been a number of managerial changes in the centres that have outstanding actions and that this has impacted upon their implementation.
- 3.14 Work has commenced on an audit of the ALD Pooled Budget and any significant findings will be reported at a future meeting upon completion of this piece of work.
- 3.15 Internal Audit continues to be an active member of the Adults Financials Project Group and also provides input to the regular workstream meetings in order to ensure that processes being developed are robust and effectively manage risk. Following concerns raised within the group, the governance and project management across the Adults Financials Programme have been improved significantly during Quarter 1 by the appointment of a Project Manager and the introduction of formal project management documentation that clearly links individual workstreams to the Steering Group. This has also facilitated the production of a Risk Log and detailed Action Plans with responsibility clearly allocated to individuals and regular updates provided to the weekly meetings.
- 3.16 The main focus of the programme is, currently, the further development of the Empower solution for Direct Payments and the redesign of the processes for managing Appointeeships for vulnerable adults who do not have the required capacity to safely manage their own finances.
- 3.17 With regards to Empower, issues currently being dealt with are around the assessment of client need and subsequent calculation of the level of direct payment and the wording of the formal contract between the Council and the person in receipt of social care funding. Internal Audit and Legal Services are providing advice and guidance in addressing these matters.
- 3.18 The formalisation of the Appointeeship workstream has facilitated an exercise to fully document the current process which identified a number of areas whereby the proposed preloaded card solution was not fit for purpose. As a

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result of this, further work is being carried out with the developer to ensure that the solution provided meets the needs of CEC and is compliant with relevant legislation and audit requirements.

- 3.19 Following the recent departure of the Director of Adults, Community, Health and Wellbeing, a meeting has been held with the new Strategic Director Children, Families and Adults to discuss Adult Services. The Director is currently reviewing and considering the strategic direction of Adult Services and taking stock of progress against existing targets and priorities. Reporting structures are also subject to review and an exercise has begun to map all current projects, initiatives and workstreams with a view to bringing them all under a single umbrella. The Director also acknowledged the recent improvements in project management of the Adult Financials Programme and stated that longer term arrangements were being explored to ensure that robust project management is available through the life of these projects.
- 3.20 The Client Finance Team within Adult Services have continued to make progress in clearing the backlog of direct payment audits with the latest figures showing that around £330k has been collected since January 2011. This has been progressed by the recruitment of temporary resource which has enabled a small team to be established with the remit of carrying out these reviews. The performance of this team is subject to regular management review in the form of weekly performance reports in order to facilitate the timely identification of any problems that may arise.
- 3.21 The planned follow up review by Internal Audit has not yet been carried out due to conflicting demands but regular contact is made with the team manager and the team raise queries with their audit contact where they arise and this area is no longer deemed to be a significant concern.
- 3.22 Audits of two Leisure Centres have been completed and final reports issued to the managers. There are no significant issues to report although a number of actions were raised at each centre to address operational weaknesses.
- 3.23 The previous report in June 2011 made members aware of some concerns around the management of fines and stock losses in Libraries and that it appeared that actions raised in an audit report from 2006 had not been fully implemented. This piece of work has now been completed and has confirmed the concerns about the implementation of previous actions. A final report and action plan has now been agreed with senior management to ensure that processes for the management and recovery of stock are implemented and applied consistently across the service.

Children & Families

- 3.24 The Department of Education launched its replacement for FMSiS during July 2011. This is known as the Schools Financial Value Standard (SFVS) and takes the form of a self assessment tool that must be completed by Governing Bodies and submitted to the LA on an annual basis. Details of the new standard are being communicated to schools via the first Schools Bulletin of

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the new term and assistance in completing the self assessment will be included in the Schools Business Support Agreement as a service that can be bought back from the Council.

- 3.25 As all of the schools in Cheshire East had successfully achieved the FMSiS prior to March 2010, they are not required to produce their first SFVS statement until 31 March 2013.
- 3.26 Internal Audit will need to develop a means of gaining assurance that schools are effectively managing their financial affairs and are looking to utilise work carried out by Finance colleagues and the results of the self assessments to inform future programmes of work. This will be progressed over the coming weeks in conjunction with Finance colleagues.
- 3.27 As previously reported, a piece of work has been carried out to identify the processes and procedures that need to be developed to enable Children's Services to take over responsibility for the management and administration of Direct Payments paid to the parents/carers of disabled children. A report and action plan was presented to Children's Senior Management Team and the recommended actions were agreed and responsibility allocated for their implementation. Due to the timing of the recent Ofsted inspection it was agreed that progress against the action plan would be reviewed during the second quarter of the year and as such, any issues will be reported to a future Committee.
- 3.28 As previously reported, a review of the failure of a nursery provider was carried out towards the end of 2010/11. The aim of this review was to determine the level of risk that a similar situation could happen elsewhere.
- 3.29 The review ascertained that none of the other nursery settings across the borough are funded in the same way as the failed provider and that therefore the risk of this situation being repeated is minimal.
- 3.30 The report also identified that a review of partnering guidance should be carried out and that statutory services provided on either a partnering or contractual basis should be identified and subject to a risk assessment. Internal Audit is planning to carry out a follow up of these actions quarter 3.
- 3.31 An audit of the processes for the management and administration of the Free Early Education Entitlement (FEEE), as recommended in the above report, has been carried out and a draft report is in the process of being completed prior to the agreement of recommended actions with managers.

Places

- 3.32 A review of systems and procedures operating in the Car Parking Service commenced during the quarter the results of which have recently been reported to management. Recommendations were made with regard to write offs, cash collection contracts and the control of car park permits.

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- 3.33 An audit of Section 106 monies was carried out during the period and has been recently reported to management. The authority has appointed a Section 106 Officer since an interim audit report in February 2011. The officer is taking steps to improve procedure/updating records and the recommendations from the review were focussed on improving policy and procedure in this area.
- 3.34 A review of Financial Assistance for repairs, improvements and adaptations has recently been reported to management. A number of recommendations were made mainly around policy, the scheme of delegation and consistent application of operational procedures.
- 3.35 An audit review of Tatton Park was commenced at the end of the quarter. The objective of the review was to identify and evaluate the efficiency and effectiveness of control of income, giving particular regard to changes that may realise greater economy and efficiency without diminishing control. Findings of the review will be reported shortly to management.
- 3.36 During the period, an audit began of the arrangements in place for the collection of waste from Council premises in the former Crewe and Nantwich Borough Council area, and the process that was followed in procuring this service prior to its commencement on 1 April 2011. The findings of the review are subject to a separate report to the Audit and Governance Committee.

Performance & Capacity

- 3.37 As described in 3.7, the 2011-12 Shared Services Internal Audit Plan, prepared jointly by Cheshire East and Cheshire West and Chester Internal Audit, was agreed by the Shared Services Joint Officer Board in March 2011. This covers the ICT Shared Services and East/West systems.
- 3.38 A number of ICT Shared Service audits are due to commence in the third quarter of 2011-12 e.g. ICT Asset Management. These will be resourced jointly between the two Authorities with a view to producing one Terms of Reference and report to cover both Shared Services and the two Authorities.
- 3.39 A review of Oracle system access across staff within the Policy and Performance department was undertaken to ensure that accesses were appropriate to business requirements. A number of changes have subsequently been made to reflect changes in responsibilities, particularly where staff have changed roles within the authority.

Fundamental Corporate Areas

- 3.40 This area covers Strategic Risks, as included in the Council's Strategic Risk Register. A standard approach to audit each Strategic Risk is currently being developed and work will be focussed in this area in the third and fourth quarter of the year.
- 3.41 Work on a review of Performance Management continued during the quarter. This is focussed on three main areas: a follow up to the National Indicator

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review that Internal Audit carried out in 2009/10, a review of the new Performance Management system and a review of Data Quality.

Partnerships

- 3.42 This area covers Partnership-specific Strategic Risks, as included in the Council's Strategic Risk Register. A standard approach to audit each Strategic Risk is currently being developed and work will be focussed in this area in the third and fourth quarter of the year.
- 3.43 A review of governance arrangements with respect to partnerships was carried out as part of the overall assurance work supporting the Annual Governance Statement.

Counter Fraud and Probity

- 3.44 The revised Whistleblowing Policy that was presented to and endorsed by the Audit and Governance Committee in June 2011 was passed to the Constitution Committee where members requested a number of revisions prior to it being approved and adopted by Council on 21 July 2011.
- 3.45 Work has continued in investigating National Fraud Initiative matches with a total of 1725 completed and 241 in progress.

Responsive – Investigations

- 3.46 During the quarter Internal Audit were asked to support a number of investigations into suspected financial irregularities. These are currently still on-going.
- 3.47 Internal Audit will continue to work with management to ensure that appropriate consideration is given to rectifying specific control weaknesses highlighted in respect of these cases.
- 3.48 A small number of whistleblowing reports were received during quarter 1 and whilst Cheshire East was not directly responsible for addressing the issues raised advice was provided with regards to the correct procedures to be applied.

4.0 Performance against Audit Plan 2011/12

- 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 During the first quarter, the Section 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

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organisation. As of July 2011, the Internal Audit Service now reports to the Director of Finance & Business Services.

- 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,.
- 4.4 A number of vacancies are still currently held in the Section, including the Internal Audit Manager, which is currently subject to the review of the management structure, tiers 2 to 5. The Internal Audit establishment was reduced to reflect the significant savings required as part of the 2011/12 budget settlement.
- 4.5 Internal Audit has a number of Performance Indicators that are measured and reported on. Four of these are measured quarterly:

Performance Indicator	2011/12 Target	2011/12 Actual 1st Quarter
Percentage of Audits completed to user's satisfaction	100%	95%
Percentage of significant (high and medium) recommendations agreed	100%	100%
Productive Time (of Chargeable Days)	80%	86%
Average number of working days between end of fieldwork to issue of draft report	15 days	22 days

5.0 Internal Audit Reporting

- 5.1 There are two key Internal Audit Reporting developments currently taking place:
- Audit Opinion
 - Audit Reporting Protocol
- 5.2 Following discussion at the last Audit and Governance Committee, it is proposed to introduce an 'Audit Opinion' for each Internal Audit report produced. Currently, each report has an Executive Summary and Conclusion. The Conclusion is based on the findings from the audit and reflects the number and level of recommendations, currently categorised as High, Medium or Low priority.
- 5.3 The introduction of a formal opinion for each audit review will be extremely useful both in interim reporting during the year and also in building up to the overall annual audit opinion, as it will enable a clear summary of the results of audit reviews during and at the end of the year.

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- 5.4 A formal 'Audit Reporting Protocol' is also being developed to set out the end-to-end audit reporting process for an audit review. This will include the following:
- Terms of Reference
 - Audit fieldwork
 - Draft Report
 - Management Response
 - Reminder/escalation process
 - Follow up of recommendations
- 5.5 It is proposed that both the 'Audit Opinion' and 'Audit Reporting Protocol' are subject to member and Corporate Management Team consultation. Both new developments will demonstrate compliance with the Internal Audit Code of Practice.