



Internal Audit

Interim Report 2013/14

April - September 2013

www.cheshireeast.gov.uk

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Internal Audit Interim Report 2013/14 April – September 2013

1 Introduction

- 1.1 In accordance with the United Kingdom Public Sector Internal Audit Standards (PSIAS), the first Internal Audit Interim Report 2013/14 for Cheshire East Council contains “emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 1.2 Internal Audit is required, at the end of the year, to form an opinion on the overall adequacy and effectiveness of the organisation’s control environment, which includes consideration of any significant risk or governance issues and control failures that have been identified.
- 1.3 The interim report contains the following:
- a summary of the audit work carried out in 2013/14 to date (Section 2)
 - any issues judged particularly relevant to the preparation of the Annual Governance Statement (AGS) (Section 3)

- 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 (Section 4)
- comments on compliance with these standards and communication of the results of the internal audit quality assurance programme (Section 5)
- other developments (Section 6)

2 Summary of Audit Work 2013/14

- 2.1 This is the first 2013/14 interim report on progress against the Internal Audit Plan. A summary comparison of the 2013/14 Audit Plan with actuals for the half year to 30 September 2013 is shown on page 2 (with comments on variances).
- 2.2 During the first half of the year, audit work was undertaken on the whole of the control environment comprising risk management, key control and governance processes. This work comprised a mix of risk based auditing, regularity, investigations and the provision of advice to officers.



Internal Audit Interim Report 2013/14 April – September 2013

Summary Comparison of Audit Plan 2013/14 and Actuals

Area of Plan	Plan		Actuals (to 30/9/13)		Comments on coverage
	Days	%	Days	%	
Chargeable Days	1565		813		Chargeable percentage above target.
Less: Corporate Work	(110)		(81)		Includes unplanned time on Management Review.
Available Audit Days:	1455	100%	732	100%	
Corporate Governance	60	4%	61	8%	Higher than planned due to Internal Audit leading on a number of areas within Corporate Governance work programme.
Key Financial Systems	120	8%	53	7%	Majority in progress and on track.
Shared Services (incl. key financial systems)	115	8%	87	12%	Majority completed. Alternative Service Delivery Vehicles (ASDVs) including the Shared Service SLE are a priority for remainder of 13/14.
Corporate Cross-Service	180	12%	96	13%	First draft Project Healthcheck imminent. This is priority in second half of year.
Children, Families & Adults	240	17%	98	13%	Major projects for second half of year include Care Management for Adults and Children. Also: a number of schools planned for third quarter.
Public Health	40	3%	16	2%	Work planned in third/fourth quarters.
Places & Organisational Capacity	120	8%	86	12%	Some unplanned areas: Planning work, Grants work etc.
Working with External Organisations	50	4%	3	0%	ASDVs will be a priority for second half of 13/14.
Anti Fraud and Corruption	180	12%	117	16%	Reactive – investigation work is being managed and limited wherever possible.
Consultancy & Advice	100	7%	52	9%	Broadly in line with allocation.
Contingency	190	13%	0	0%	108 days (57%) used to 30/9/13.
Follow Up	40	3%	61	8%	Consolidated Action Plan – introduction, set up, maintenance etc.
External Work - PATROL	20	1%	2	0%	13/14 audit will commence in last quarter.
Total Audit Days	1455	100%	732	100%	



Internal Audit Interim Report 2013/14 April – September 2013

Assurance Work

- 3.1 A summary of the reports produced in the first half of 2013/14 with the formal assurance level is included below (some of the audit reports are still at draft stage i.e. awaiting management comments):

Assurance Level	Audit Reports 2013/14
Good	0
Satisfactory	4
Limited	8
No	0

- 3.2 The assurance levels reported in the table above include a combination of opinions at a broad level for the Council as a whole (macro-level opinion) e.g. Housing Benefits, Procurement and opinions on individual business processes or activities within a single organisation, department or location (micro-level opinion) e.g. Social Care establishment, Library.

- 3.3 The individual audit reports, along with details of the assurance level and key findings can be found in the table on pages 6 and 7.

Limited Assurance Reports

- 3.4 There are a number of 'limited assurance' reports in the first half of 2013/14 and these can be grouped under common themes:
- Key Financial Systems – identified risk areas (3.5/3.6)
 - National Fraud Initiative (NFI) exercise – identified risk areas (3.7)
 - Risk areas highlighted by management/previous audits (3.8 - 3.10)
- 3.5 The approach to key financial systems audits in 2013/14 was determined using self assessments completed by the Shared Services SLE, Cheshire West and Chester and Cheshire East Council management, and the respective Internal Audit teams. This resulted in audits being carried out on specific identified risk areas within the wider system/process, as detailed in 3.6.



Internal Audit Interim Report 2013/14 April – September 2013

3.6 Key Systems Audits – identified risk areas audited in 2013/14 to date:

- Over £10k Workflow (Payments) – review of process whereby all orders over £10,000 go to the Procurement Team, via electronic workflow, to ensure compliance with Finance and Contract Procedure Rules.
- Changes and Leavers (Payroll) – review of processes in respect of employee changes and leavers including updating system accesses.
- Quick Invoice Rendering (Payments) – review of an 'agreed exception' process that enables end users to key invoices into Oracle or where there is no invoice to create a payment.
- Feeder and Web Based Ordering Systems (Payments) – review of systems, in the first instance, Atrium, which is the Council's property management system and interfaces into the Oracle Payments system.

3.7 During the last National Fraud Initiative (NFI) exercise, issues were highlighted in two areas which led to more detailed audits being carried out:

- Licensing – an issue in the efficiency of obtaining data arising from problems in data transfer from the former Council's legacy systems. A subsequent review of licensing data was carried out.
- Tax and NI – some employees are paid for additional duties outside of their substantive job role. A review of the processes the Council has in place to determine such payments and whether they should be subject to an employee arrangement was carried out.

3.8 An audit of Delegated Decisions and Non Compliances has been carried out. This was included in the 2013/14 Audit Plan and Management also requested that this review be carried out early in the year, as there were some concerns that the process had become excessive and unwieldy. The review's conclusions included that the process in place was in excess of that specified in F&CPRs and that Delegated Decisions were making use of already specified exemptions and required input from a considerable number of senior staff and also took a considerable amount of time to process.



Internal Audit Interim Report 2013/14 April – September 2013

- 3.9 A follow up audit of Purchase Cards has been carried out recently. The original audit report issued in September 2012 had a 'limited assurance' opinion. The follow up audit concluded that significant weaknesses still remained and that the key factor was a failure to allocate responsibility within the Council for ensuring recommended actions are successfully implemented.
- 3.10 Management has agreed to implement all the actions from the Purchase Cards audit report with overall responsibility resting with the Council's Procurement function, and delivery of the action plan jointly being delivered by Procurement and Business Support.
- 3.11 The audits detailed in 3.6 to 3.10 have all resulted in 'limited assurance', which is not unexpected, as they were all identified as risk areas. This is also consistent with the Internal Audit Opinion for 2012/13 (reported to Committee in June 2013) i.e. that 'although appropriate strategies and policies are in place and have been communicated, understanding, application and compliance is inconsistent across the organisation'.
- 3.12 Management has responsibility for ensuring that the agreed actions for improvement are implemented. Formal management responses to the above reports have been received, or are due in the coming weeks. Where responses have been received, all actions have been agreed by management. Internal Audit will obtain assurance that actions have been implemented, especially those deemed high priority.
- 3.13 Formal assurance levels for Internal Audit Reports were introduced in 2012/13. It is now considered an opportune time to review the levels for a number of reasons:
- They have been in operation for over 18 months.
 - Request by the new Chief Operating Officer to consider in light of emerging risk appetite of new strategic commissioning Council.
 - Reduced audit resource means that reviews carried out are normally on 'high risk' areas, naturally leading to assurance levels at the lower end of the scale.
 - Ability to compare with other Internal Audit services through regional collaboration work.



Internal Audit Interim Report 2013/14 April – September 2013

Summary of Assurance Reports 2013/14

Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions	Management Response
Council Tax	Key Financial System	Satisfactory	Controls are adequate - some inconsistencies in application.	Meeting scheduled to agree final report.
Imprests	Planned Audit Area	Satisfactory	Majority of Imprest accounts are working as expected. Some issues arising from either a lack of guidance, recent updates to coding structures or a lack of compliance with best practice.	All actions agreed.
NNDR (National Non Domestic Rates)	Key Financial System	Satisfactory	Controls are adequate - some inconsistencies in application.	Meeting scheduled to agree final report.
School Financial Value Standard (SFVS) – Review of School Finance Team Arrangements	Supports SFVS Annual Assurance sign off	Satisfactory	Financial management of schools buying back services is effective; level of advice and support for schools is good; returns reflecting whether the schools are meeting the required standards of financial management. Some actions related to the good practice audits to take forward.	All actions agreed.
Changes and Leavers	Key Financial System – Identified Risk Area	Limited	Guidance needs improvement and some delays in processing changes and leavers.	All actions agreed.
Delegated Decisions and Non Compliances	Identified Risk Area	Limited	Process in place is in excess of that required in F&CPRS and not streamlined. Key action is for senior management, in conjunction with Members, to review the current arrangements and to determine what, if any changes, are necessary to ensure that the process is fit for purpose.	All actions agreed.
Feeder System - Atrium	Key Financial System –	Limited	Strengthening of segregation of duties required. Some	Formal response

Internal Audit Interim Report 2013/14 April – September 2013

Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions	Management Response
	Identified Risk Area		manual controls in operation.	awaited.
Licensing	NFI Identified Risk Area	Limited	Migration of data from legacy systems to the FLARE system not carried out in line with project management methodologies which resulted in an ineffective data migration.	All actions agreed.
Over £10k Workflow	Key Financial System – Identified Risk Area	Limited	A number of instances of potential non-compliance with F&CPRs were identified. Recommended that the Procurement Team investigate the remaining potential instances.	All actions agreed.*
Purchase Cards- Follow Up	Identified Risk Area – previous Limited Assurance	Limited	Insufficient progress in implementing recommendations from previous audit report. Ownership/responsibility for purchase cards needs allocating at a senior management level to ensure effective and robust operation.	All actions agreed.
Quick Invoice Rendering	Key Financial System – Identified Risk Area	Limited	Evidence where the process is working efficiently, on vision and in accordance with F&CPR. However, also evidence of potential non-compliance with F&CPR.	All actions agreed.
Tax & NI	NFI Identified Risk Area	Limited	Actions have been put in place to demonstrate compliance with HMRC regulations. This needs extending to a review of existing arrangements to identify and address historic issues.	All actions agreed.

*one action partially agreed subject to business case for additional resources being approved.



Internal Audit Interim Report 2013/14 April – September 2013

Other Work

Schools

3.14 Work is underway for the 2013/14 Schools Audit Programme. A number of Secondary Schools have been selected for a full audit along with a selection of primary schools for a themed audit of income and purchasing. These were areas identified as part of last year's programme that required additional audit work.

3.15 A review of the Schools Finance Team has also been undertaken. A large number of Cheshire East schools buy back the standard management package and there is therefore a high level of reliance by the schools on the services provided by the Schools Finance Team, which supports the need to obtain assurance that the arrangements are robust. The review concluded that satisfactory assurance could be placed on the arrangements. This overall work package supports the Annual Assurance sign off by the Section 151 Officer and confirms the number of Schools Financial Value Standard (SFVS) self assessment returns received and that there is an appropriate audit programme in place to provide assurance

over the standard of financial management, regularity and propriety of spending in schools.

Supporting Corporate Governance

3.16 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).

3.17 Internal Audit has assisted Management during 2013/14 so far by:

- collecting evidence for and production of the Annual Governance Statement 2012/13
- contribution to and production of the Audit & Governance Committee report on Delegated Decisions and Non Compliances
- Audit Manager representation on and contribution to the Corporate Governance Group (CGG) in order to advise on risk management, control, and governance issues that have been identified through audit work and ensure that the findings have been considered when determining the 2012/13 AGS action plan.



Internal Audit Interim Report 2013/14 April – September 2013

- Audit work in contribution to and production of CGG reports to Corporate Leadership Board.

Risk Management

3.18 Internal Audit assists in the management of risk through:

- Delivery of a risk based audit plan
- Audit Manager representation on and contribution to the Corporate Risk Management Group (CRMG) in order to advise on risk management, control, and governance issues that have been identified through audit work.

3.19 Formal reports with regard to the risk management process are made throughout the year to Corporate Leadership Board, Cabinet and the Audit and Governance Committee.

3.20 A planned internal audit of the Council's risk management arrangements is due to be undertaken in quarter 3/4.

3.21 Internal Audit has supported Management in introducing a specific fraud risk in the Council's Strategic Risk Register and the development of a detailed fraud risk assessment. This

helps to ensure that a structured, consistent and continuous process is applied to identifying, assessing and managing the risk of fraud including the reporting of significant fraud risk-related information up and down the organisation.

Counter Fraud

3.22 Work has continued on implementing the Action Plan produced in response to the review of anti-fraud and corruption arrangements against the National Fraud Authority document 'Fighting Fraud Locally', the findings of which were reported to Committee in September 2012. Progress is monitored by the Fraud Member/Officer Group and a separate report detailing the progress made will be considered at this meeting.

3.23 The Member/Officer Fraud Sub Group continues to meet, to provide further detail to members on emerging fraud risks and anti fraud work carried out by Internal Audit.

3.24 Internal Audit has carried out a small number of investigations across the Council with appropriate action



Internal Audit Interim Report 2013/14 April – September 2013

taken where necessary and also continued to provide advice and support to investigations where management had appointed an Investigating Officer.

- 3.25 Work continues on the National Fraud Initiative including the coordination and monitoring of matches by services and progressing control weaknesses identified by Payroll against Creditor matches that were investigated earlier in the year. Work has commenced in preparation for the upcoming match of Council Tax and Electoral Register data which will take place in February 2014 and aims to improve the identification of Single Person Discount fraud.

Technical Enabler Group (TEG)/Projects Work

- 3.26 The Council operates a Project Gateway model to provide a strong quality assurance model for major projects and programmes. A key aspect of this model is the formation of a Member led governance group called the Executive Monitoring Board (EMB). As part of its role EMB is responsible for undertaking high-level project monitoring which includes commissioning Health Checks on individual

projects. Responsibility has been assigned to Internal Audit for completing project Health Checks. During the period Internal Audit has worked with EMB to develop the Health Check process and commenced a pilot looking at whether the required elements to deliver projects successfully are in place and there is evidence that they are operating effectively.

- 3.27 The assessment will be reported to EMB and other stakeholders together with any recommendations which, if implemented, can help reduce project failure, promote successful conditions and increase the chance of delivering the required outcome. Internal Audit also sits on the Technical Enabler Group (TEG) which supports EMB and comprises senior officers representing key corporate enablers.

Consultancy and Advice

- 3.28 During the year to date, Internal Audit has provided advice to Management; such work was performed at the specific request of the organisation. The nature and scope of the



Internal Audit Interim Report 2013/14 April – September 2013

engagements are generally aimed to improve governance, risk management and control and contribute to the overall opinion. e.g. Advice on new systems, application of Finance & Contract Procedure Rules etc.

Statutory Returns/Grant Claims

3.29 Internal Audit are sometimes required as stipulation of funding or similar, to carry out an audit/give assurance on the programme/project or aspects, thereof, and report back to the statutory/funding body e.g. Growing Places Fund, Bus Services Operators Grant etc.

Follow Up Audit Work

3.30 During 2013/14, Internal Audit have performed various follow up exercises to ensure recommendations are being implemented. This is carried out in a number of different ways:

- Major pieces of audit work, such as the Annual Governance Statement have detailed action plans

which are monitored and reported separately to the Committee.

- Investigations – the form of follow up is dependent on the nature of the investigation and the resultant recommendations e.g. follow up audit carried out on request of management.
- Formal assurance audits (see below).

3.31 In May 2013, a new process to monitor outstanding actions for the Council, including recommendations from both Internal and External Audit was introduced. The Consolidated Action Plan (CAP) is monitored on a monthly basis by the Chief Operating Officer and Corporate Leadership Board, with managers providing progress reports on the implementation of actions assigned to them.

3.32 The following table shows the status of Internal Audit actions as at 30 September 2013. This shows a reduction in agreed actions, where the implementation dates have passed, from 73 (as at 1 May 2013, reported to Committee in June 2013) to 43.



Internal Audit Interim Report 2013/14 April – September 2013

3.33 For those recommendations where the original implementation date has passed, feedback from managers is that generally progress has been made on implementing the recommendations but due to a variety of factors, they have not yet been fully implemented. Such factors include:

- Resource issues – lack of staff/‘day job’ has taken priority etc.
- Change in Manager/Service restructure since original audit
- Implementation of recommendations dependent on other factors outside Manager’s direct control e.g. Transition to strategic commissioning authority/introduction of new system etc.

3.34 High priority actions and progress on implementation is discussed with the Chief Operating Officer at regular meetings with Internal Audit.

Status of Internal Audit Agreed Actions (as at 30/9/13)

Agreed Actions	Total	High	Medium
Implementation date not yet due	27	7	20
Implementation date passed – action part implemented or not yet implemented in full	43	13	30
Total Agreed Actions	70	20	50

Additional Audit Work

3.35 Internal Audit assisted management in discharging their duties through the provision of support, advice and guidance in a number of areas throughout the first six months of 2013/14. Such work does not always result in a formal audit report, although it does contribute to the overall audit opinion at the end of the year. Examples of this include:



Internal Audit Interim Report 2013/14 April – September 2013

- Technical Enabler Group (TEG) work
- Project Health Check development
- National Fraud Initiative (NFI) work
- Grant sign off work
- Lyme Green Freedom of Information (Fol) responses
- 'Think Twice' Monitoring

- Project Health Check – Leisure Delivery Model
- Planning Data
- Debt Management
- General Ledger
- Housing Benefits
- External Inspections
- Highways Maintenance
- Schools – various

Key Areas and Emerging Work

3.36 Following the end of the first half of the year, the audit plan has been reviewed and areas to be audited in the second half of the year have been re-assessed and prioritised. Key audit areas for the remainder of the year are:

- Alternative Service Delivery Vehicles (ASDVs) – Compliance with ASDV Framework
- Programme and Project Management – Project Healthchecks

3.37 The following audits commenced in the first half of 2013/14 with work ongoing in the third quarter of 2013/14 and reports either issued or are due to be issued shortly:

Assurance Framework

3.38 Work is well underway on developing an Assurance Framework for the Council using a recognised 'Three Lines of Defence' model. This approach assesses the various sources of assurance, both internal and external, allowing any duplication or gaps to be identified, and in the latter case, plugged. Internal Audit is committed to exploring collaborative opportunities within the Council and also outside, with External Audit and regional partners, to ensure the Assurance Framework is sufficiently robust and adds value.



Internal Audit Interim Report 2013/14 April – September 2013

4 Annual Governance Statement (AGS) 2012/13 & 2013/14

- 4.1 In compiling the AGS, significant issues that are considered to fall short of the expected standards are commented on in the Statement. The AGS has an action plan to address these issues which includes actions already in place along with other planned actions. In a number of these areas, Internal Audit is already involved in ensuring that improvements are being implemented and time has been allocated in the 13/14 Audit Plan to review the other areas. Progress against the 12/13 AGS Action Plan is being monitored by Internal Audit and is reported back to the Committee at this meeting.
- 4.2 As with previous years, those audits given 'limited assurance' and 'no assurance' are considered as part of the AGS process.

5 Internal Audit Performance

- 5.1 A summary comparison of the 13/14 Audit Plan with Actuals is shown on page 2.

- 5.2 For the majority of 2013/14, Internal Audit has reported to the Head of Governance and Democratic Services with an indirect reporting line to the Chief Operating Officer (COO) as Section 151 Officer. This indirect reporting line will continue going forward and Internal Audit will report directly to the new Head of Resources and Stewardship post, which has recently been advertised.
- 5.3 Internal Audit was removed at a late stage from the recent Management Review, pending further discussion and review of Internal Audit resources in the light of the Council's transition to a strategic commissioning authority and the introduction of new delivery models.
- 5.4 Internal Audit has a number of Performance Indicators that are measured and reported on:



Internal Audit Interim Report 2013/14 April – September 2013

Performance Indicator	2013/14 Actual	2013/14 Target	2012/13 Actual	Comments
Percentage of Audits completed to user's satisfaction	92%	90%	94%	Above target.
Percentage of significant recommendations agreed	95%	85%	93%	Above target.
Productive Time (of Chargeable Days)	83%	80%	84%	Above target.
Draft report produced promptly (per Client Satisfaction Form)	93%	90%	90%	Above target.

6 Compliance with the Public Sector Internal Audit Standards

6.1 Regulation 6 of the Accounts and Audit Regulations 2011 requires relevant bodies to conduct an annual review of the effectiveness of its internal audit and for a committee of the body to consider the findings.

6.2 During 2012/13, in accordance with these Regulations, the performance of Internal Audit was measured using the checklist appended to the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

6.3 The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 and an update on the Standards and draft Audit Charter were brought to the Committee in September 2013 with a revised updated Charter brought to this Committee for approval.

6.4 The review in 2012/13 concluded that, although there are areas for improvement, the internal audit service is being delivered to the required standard. This review contributed to the assurances received for the 2012/13 AGS. An initial review against the PSIAS has been carried out and this will be updated and formalised in early 2014.

6.5 Grant Thornton's Review of the Council's Arrangements for Securing Financial Resilience for the year ended 31 March 2013, presented to the Committee in September 2013 reported that the Council's Internal Audit service was 'well



Internal Audit Interim Report 2013/14 April – September 2013

respected within the Council', met the CIPFA Code of Practice requirements and 'continues to provide an independent and satisfactory service to the Council'.