

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

29 NOVEMBER 2011

SUBJECT:	INTERNAL AUDIT UPDATE
WARD/S AFFECTED:	ALL
REPORT OF:	CHIEF INTERNAL AUDITOR
RESPONSIBLE PORTFOLIO HOLDER:	COUNCILLOR ADRIAN JONES
KEY DECISION ?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 In order to assist in effective corporate governance and fulfil statutory requirements, the Internal Audit Section of the Finance Department reviews management and service delivery arrangements within the Council as well as financial control systems. Work areas are selected for review on the basis of risks identified on the Corporate Risk Register and as assessed by Internal Audit in consultation with Chief Officers and Managers.
- 1.2. This report identifies and evaluates the performance of the Internal Audit Section and includes details of the actual work undertaken during the period. There is one item of significance identified during the audit process that requires action by the Members for this period and this is identified at 4.3. (b.i). A number of items of note concerning ongoing audit work are also included at Section 4.6.
- 1.3. The Internal Audit Plan for 2011/12 was approved by this Committee at its meeting in March 2011.
- 1.4. The Internal Audit Plan identifies all audits required to provide the Council with adequate assurance regarding the effectiveness of its systems to manage and mitigate identified risks to the achievement of the Council's objectives. It is essential therefore that the audit plan is delivered to ensure that the 'annual assurance opinion' on the effectiveness of the Council's control environment supports the delivery of the Annual Governance Statement. I am confident of achieving this objective by year end.
- 1.5. The format and content of this report is currently under review and a working party consisting of officers and Members of this Committee have recently met to discuss this and develop a revised template for future reports. Details are currently being finalised and once a format has been agreed it is planned to utilise this new template for reporting on the work of Internal Audit at all future meetings of this Committee.

2.0 RECOMMENDATION

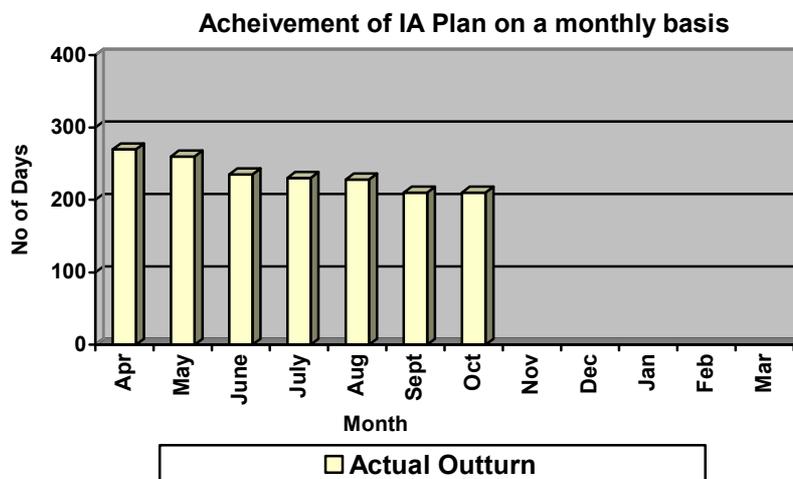
- 2.1. That the report is noted.
- 2.2. That appropriate action is taken by the Members in response to any items raised by Internal Audit requiring input.

3.0 REASON FOR RECOMMENDATION

- 3.1 To provide the Members with assurance that the Council is taking appropriate measures to comply with statutory requirements to provide an adequate and effective internal audit service.
- 3.2 To ensure that risks to the Council are managed effectively.
- 3.3 To ensure that the Council complies with best practice guidance identified in the CIPFA publication 'A Toolkit for Local Authority Audit Committees'.

4.0 BACKGROUND AND AUDIT OUTPUT

- 4.1. This report summarises the audit work completed during the period 1st September 2011 to 31st October 2011. The specific nature of the work that has been undertaken or is currently ongoing is identified in Appendix I. 30 audits were undertaken during this period identifying over 40 high and medium priority recommendations to address risks and improve systems in operation across the Council. Management has agreed to implement all of the recommendations made within a satisfactory timescale and follow up audits are scheduled to monitor progress. Those reports identifying high priority recommendations are analysed in more detail in section 4.4 of this report.
- 4.2. The Service constantly evaluates the effectiveness of its performance including a number of performance indicators in key areas as identified for the period 2011/2012 financial year.
 - 4.2.1. To ensure that the Internal Audit Plan is delivered by the 31 March 2012.



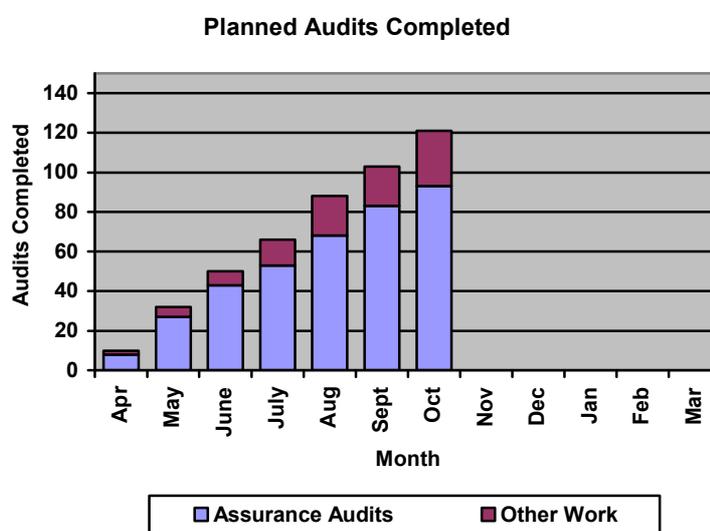
- (a) This is an input based measure i.e. the estimated number of days required each month to deliver the whole of the Internal Audit Plan. 3600 days were

identified at the start of the year as being necessary to deliver the plan, equating to approximately 300 days per month. As can be seen from the graph, approximately 265 days on average were available during April and May of this year, however this has reduced to 245 days on average from June. This is mainly due to a shortfall in staffing resources resulting from some members of staff being deployed assisting an external investigation and the permanent loss of a number of staff members.

In addition, a further three members of staff will be absent for a combined period of 21 months over the next twelve calendar months due to maternity leave and long term sickness. A review of the Internal Audit Service is currently being undertaken following the external review of the Council's governance arrangements that will probably result in a restructure to accommodate additional areas of work and will also consider staffing resource levels. However, in the short term in an attempt to ensure that service delivery targets are achieved for 2011/12 and the annual assurance opinion is provided, the Director of Finance/Deputy Chief Executive has agreed that the recruitment of a number of temporary agency appointments should be researched.

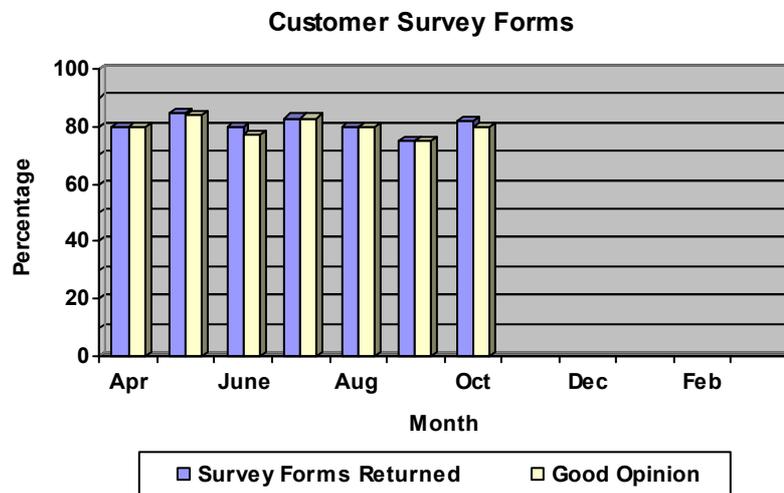
4.2.2 To ensure that all planned audits are completed.

- (a) The Internal Audit Plan as agreed by this Committee at its meeting on 23 March 2011 comprised a substantial number of audits essential to the provision of the 'annual assurance opinion' and was designed to review the key risks to Council systems at the time of writing. Delivery of the identified audits accounts for 2709 days of the plan. The remainder of the plan, 920 days, relates to audits designed to evaluate the effectiveness of the Council and the achievement of its overall objectives and, whilst important, is not regarded as being essential to support the actual assurance opinion. This 'other' work is considered essential to the well being of the organisation and complies with CIPFA best practice guidance.
- (b) The graph below shows the planned work completed and the assurance provided.



- (c) 120 audits plus follow ups and investigations have actually been undertaken during the year to date and reports in respect of these have either been discussed with managers or are in the process of being. This represents 76% of those planned for the period and overall performance is slightly below target, primarily as a result of a number of investigations not originally included in the audit plan and the shortfall in the staffing resource identified in 4.2.1(a) above. Unless this situation is resolved soon the Service may not be able to provide the annual assurance opinion on the effectiveness of the Council's control environment.
- (d) Actions are however currently being taken with the Director of Finance/Deputy Chief Executive to address the staffing resource issues and Members will be regularly updated regarding progress in this area and any impacts upon the Audit Plan delivery.

4.2.3. Percentage of Customer Satisfaction Forms returned indicating a 'good' opinion of the service.



- (a) Customer feedback forms are completed by the clients following the completion of an audit and pose a number of questions relating to the usefulness and value added by the actual audit and its findings, as well as the conduct of the auditor. The chart identifies the percentage of those forms returned that indicate a positive opinion of the service. This clearly indicates that the Internal Audit Service is viewed very positively by its clients and is regarded as adding real value to the systems that it audits. Where feedback from clients identifies issues appropriate measures have been taken by management to address these and prevent any re-occurrence.

4.3 Follow up Audits

- (a) To comply with current best practice and Audit Commission recommendations, follow-up audits are undertaken up to six months after the completion date, to confirm the implementation of agreed recommendations. It is the responsibility of managers and Chief Officers to ensure that any weaknesses in control or any areas identified for improvement are addressed in accordance with the audit action plan and timescale provided. If, in the opinion of the auditor appropriate action is not taken then the issues are

brought to the attention of the relevant Chief Officer, the Section 151 Officer, the Chief Executive and ultimately this Committee for further action.

(b) For the period September to October 2011 the following matter is brought to the attention of this Committee and appropriate action requested:

(b.i.) A follow up audit was undertaken in respect of the DASS Day to Day Procurement system where one of the five high priority recommendations identified in the original report has still not been addressed, this is shown below:

- The contract with 1 Call Business Solutions Ltd should be located.

Once the contract has been located the invoices for April and May 2010 should be checked to ensure that they are correct and any discrepancies identified are resolved.

Prior to paying future invoices, the invoice details should be checked to the contract to ensure it is correct for payment.

A copy of the Committee approval to extend the contract until 2011 should be obtained and kept on file with the contract.

This recommendation was originally detailed in an internal audit report dated 27 August 2010 and subsequently followed up in May 2011 at which time and following detailed discussion with management an extended target implementation date of 1 August 2011 was agreed and senior management notified accordingly.

A number of requests to the department regarding swift resolution of this matter were despatched by Internal Audit on 15 and 24 August 2011 and 14 September 2011 and to date no response has been received.

It should be noted that responsibility for the management of this system now rests with Department of Law, HR and Asset Management following a recent reorganisation.

4.4 Audits Identifying High Priority Recommendations

(a) The following table identifies audits undertaken over the period which include recommendations of **a high priority nature** where a significant risk has been identified that might effect the ability of a specific service area to achieve it's key objectives. The table also indicates the audit opinion provided on the effectiveness of the control environment, where 4* indicates an excellent rating.

Audit	Total Recs Agreed	Recs Not Agreed	Audit Opinion Provided
Council Advertising Income (Roadside)	8	-	**

Translation Services	1	-	**
DASS – Day to Day Procurement	1	-	*
DASS - Performance Indicators testing	1	-	**
CYPD – 16 to 19 Funding	1	-	***
Pension Fund - Administration	1	-	***
Licensing	1	-	***
Road Safety	1	-	***
CYPD - Performance Indicators	1	-	****
Carbon Reduction	1	-	***
Post EVR/VS Account Management	2	-	**
CYPD – Travel and Subsistence	2	-	**

- (b) All of the action plans in respect of the audits identified have been returned fully completed with the exception of the DASS Procurement audit which is referred to at 4.3. (b.i). These all identify appropriate timescales for the implementation of recommendations agreed to mitigate or remove weaknesses.

4.5. Audit Opinion Provided

- (a) Each audit completed is graded using a star system with four stars being the highest level of assurance that can be provided that objectives for the area reviewed are likely to be achieved. Of the audits completed this period:
- 19% received four stars,
 - 56% received three stars
 - 25% received two stars,
 - 01% received one star.
- (b) Detailed discussions have taken place with Chief Officers and senior managers and actions agreed to improve systems where unsatisfactory opinions are provided and follow up work scheduled to monitor progress

4.6 Items of Note

(a) Fraud Awareness Training

The Internal Audit Counter Fraud Team has now rolled out the online fraud awareness training to all employees of the Council with access to the Internet and the Intranet and take up to date has been good. The training is being delivered at two different levels across the workforce, one is aimed at managers who have direct responsibilities in key areas including staff, processes and budgets and the other is aimed at all workers who may encounter potentially fraudulent behaviour on a daily basis either from within or outside of the Council. The actual training is designed to raise awareness across the whole of the workforce of the potential threat posed by fraud and identify appropriate actions for staff to take in response to this. It involves worked exercises that alert the user to the different types of fraud and warning signs to look for, and includes specific reference and direct links to Council policies and procedures to reduce the threats in these areas. Members of this Committee are encouraged to familiarise themselves with this training facility by following the e-learning link on the Wirral Intranet home page.

(b) Counter Fraud Investigation

The Internal Audit Counter Fraud Team is currently undertaking an investigation into a number of concerns raised by a whistleblower in relation to the activities of an arms length organisation that undertakes work on behalf of the Council. The Chief Executive and the Director of Law HR & Asset Management are aware of the investigation and a report will be prepared for the Chief Executive upon completion of this work.

(c) Information Assurance and ICT Governance

The Principal ICT Auditor is currently providing significant input to a working group set up by the Deputy Director of Finance to address issues identified in internal audit reports on Information Assurance and ICT Governance where a number of high priority recommendations were identified across a range of issues involving the ownership, risk assessment and management of information. The group is reviewing these arrangements across the Council to ensure that appropriate policies, structures, roles and responsibilities are in place to protect and make more effective use of business critical information.

(d) Roadside Advertising Income

An exercise has been undertaken during the period to review the procedures in operation over Roadside Advertising following attendance at a national fraud seminar where it was identified that many councils had experienced problems ensuring that this valuable source of revenue was effectively exploited to the full. The review was timely in that responsibility for this system had recently moved from the Technical Services department to Corporate Services following the Council reorganisation. The review identified eight high priority recommendations aimed at ensuring that all possible

income was being collected and monitored effectively. These have been discussed and agreed with senior management and a reasonable timescale identified for their implementation determined.

(e) Carbon Reduction Energy Efficiency Scheme

The review of the Council's system for complying with the requirements of the Carbon Reduction scheme have now been reviewed and finalised. Building on the interim report issued in July 2011, this work tested the Annual Report and Evidence Pack to provide assurance that these were based on accurate and complete data. The opinion of the review was three stars, as there was found to be an effective process in place. Recommendations identified to improve systems in operation related to the need to ensure that accurate data is provided by CBRE in respect of properties owned by Merseyside Pension Fund, and the documenting of the roles and responsibilities of schools.

(f) Governance Issues – Law, HR & Asset Management

Following a report to this Committee in June 2011 regarding the lack of progress towards implementing recommendations identified in Audit Commission and Internal Audit reports by the department of Law, HR and Asset Management meetings took place with senior management from within the department and a number of actions were agreed to address these issues.

Internal Audit has subsequently completed an exercise to determine the progress made by the department to address these issues within the agreed timescales and to test the effectiveness of actions taken to address a number of the more significant issues identified. Findings of this work indicate that the majority of the recommendations made have now been implemented and those that have not are progressing in line with the agreed timescale. Testing indicates that of those recommendations implemented these controls are being complied with and have improved the overall control environment reducing risks in these areas. Further testing of those recommendations not yet fully implemented is scheduled for later this quarter and an update on this will be provided to this Committee.

(g) Foster Care Approval and Payment

A review of the system for the approval of Foster Carers and the procedures for making payments to foster carers has been undertaken. The review examined the processes for approving prospective foster carers, and looked at the system for the payment of allowances to foster carers. The review was awarded a three star opinion, however a number of recommendations to improve existing systems were agreed with management. These related to the update of the Foster Care Approval Procedure document and the Foster Care Payments Procedure relating to cash payments for foster carers; and the review of foster care allowances agreed. The audit also provided a range of recommendations for improving controls in the area of cash payments to foster carers. The audit has been very positively received by CYPD.

(h) Performance Management

A review of Performance Management systems in operation across the Council is currently being undertaken to evaluate the efficiency and effectiveness performance indicators in these arrangements. The review involves examining systems in operation to manage aspects of performance across a range of service delivery areas and undertaking detailed testing of a number of key performance indicators in operation across a range of key services in departments. Reports identifying areas for improvement are scheduled for completion during the next quarter and a summary update will be provided to Members of this Committee in due course.

It is noted that responsibility for this system has now transferred to the Director of Finance/Deputy Chief Executive.

5.0 RELEVANT RISKS

- 5.1 Appropriate actions are not taken by officers and Members in response to the identification of risks to the achievement of the Council's objectives.
- 5.2 Potential failure of the Audit and Risk Management Committee to comply with best professional practice and thereby not function in an efficient and effective manner.

6.0 OTHER OPTIONS CONSIDERED

- 6.1 No other options considered.

7.0 CONSULTATION

- 7.1 Members of this Committee are consulted throughout the process of delivering the Internal Audit Plan and the content of this regular routine report.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 8.1 There are none arising from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

- 9.1 There are none arising from this report.

10.0 LEGAL IMPLICATIONS

- 10.1 There are none arising from this report.

11.0 EQUALITIES IMPLICATIONS

- 11.1 There are none arising from this report.

12.0 CARBON REDUCTION IMPLICATIONS

- 12.1 There are none arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are none arising from this report.

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APPENDICES

Appendix 1: Internal Audit Work Conducted/Ongoing – September to October 2011

REFERENCE MATERIAL

Internal Audit Plan 2011/12

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit and Risk Management Committee	Routine report presented to all meetings of this Committee.

INTERNAL AUDIT PLAN 2011/12

WORK CONDUCTED/ONGOING – SEPTEMBER 2011 TO OCTOBER 2011

1. SYSTEMS

- (a) Finance
 - Debt Recovery
 - Bank Reconciliation
 - FIS Feeder System
 - Pensions – Write Offs
 - Pensions - Administration
 - Benefits – Write Offs

- (b) Law, HR and Asset Management
 - Corporate Governance
 - Payroll – Self Service
 - Payroll – Core System
 - Partnerships
 - Licensing

- (c) Children & Young People
 - Risk Management
 - 16-19 Funding
 - Performance Indicators
 - Schools Risk Assessments
 - Schools Debtors

- (d) Technical Services
 - Townlink Viaduct Tender
 - Carbon Reduction
 - Performance Indicators
 - Road Safety

- (e) Adult Social Services
 - Foster Care
 - Procurement
 - Performance Indicators
 - Personal Budgets
 - Risk Management

- (f) Regeneration Housing and Planning
 - Advertising Income - Roadside
 - Miscellaneous Advertising
 - Translation & Interpretation
 - European Social Fund
 - Performance Indicators

- (g) Corporate Systems
 - Corporate Governance
 - Annual Governance Statement
 - National Fraud Initiative

- Performance Indicators
- Contractor Liaison
- Mayors Charity

2. **SCHOOLS**

- (a) Risk Assessments
- (b) Debtors

3. **ICT**

- (a) Post EVR/VS Account Management
- (b) Information Assurance and ICT Governance
- (c) Oracle Enterprise Asset Management
- (d) Desktop Management
- (e) Government Connect Secure Extranet
- (f) Webmail
- (g) HR Self Service

4. **ANTI-FRAUD**

- (a) National Fraud Initiative
- (b) Translation Services
- (c) Travel and Subsistence
- (d) Fraud Awareness exercise (Meritec)

5. **INVESTIGATIONS**

- (a) DASS
- (b) Whistleblowing Case (WB)

6. **OTHER**

- (a) Final Accounts