

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

28 JUNE 2007

REPORT OF THE DIRECTOR OF FINANCE

INTERNAL AUDIT WORK: MARCH TO JUNE 2007

1. 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 as assessed by Internal Audit in consultation with Chief Officers and Managers.

2. INTERNAL AUDIT ANNUAL PLAN – PROGRESS OF WORK

2.1. This report summarises the audit work completed between 6 March 2007 and 5 June 2007. The specific nature of the work undertaken is identified in Appendix I. 59 reports were produced during this period. 36 high and 73 medium priority recommendations were identified in the reports issued. Management has agreed to implement all of the recommendations made within a satisfactory timescale. Appendix II analyses this in more detail.

2.2. The section constantly evaluates the effectiveness of its performance through the utilisation of a number of performance indicators that effectively monitor progress towards the delivery of the Internal Audit Plan in a number of key areas. The performance figures for the period 1 April 2007 to 31 May 2007 are identified below and indicate that the section is performing adequately with the resources currently available. A significant amount of work is currently nearing completion and is therefore not reflected in the figures identified below. Also, additional resource has been made available to the section over the period in the form of a number of trainees. These individuals, at the current stage of their development are significantly less productive than more experienced members of staff and this invariably impacts upon the more productive elements of the Audit Plan, as evidenced by the percentage of planned audits completed. Provided that existing vacancies can be filled with appropriately trained and experienced staff, it is anticipated that the section will be able to effectively deliver the audit plan in the areas identified:

- a. 95% of the proportionate audit planned days have been delivered.
- b. 40% of the proportionate planned audits have been completed.

- c. Follow-up audits have been completed for 25% of audits undertaken.
- d. 40% of the proportionate high risk audits have been completed.
- e. 100% of the Customer Satisfaction Forms returned indicate a 'good' opinion of the service.

3. SIGNIFICANT ASPECTS OF CURRENT WORK

3.1. An audit has been completed to review the effectiveness of the controls over the system for Merseyside Pension Fund Investments. The audit involved undertaking compliance testing of a sample of equity transactions, short term loans and overnight deposits to evaluate the efficiency and effectiveness of the controls over these functions, and compliance with policy and procedure. The findings of the review indicated that there were a number of areas of good practice and overall control over these functions was assessed as being 'satisfactory', despite their being a number of high priority weaknesses identified during the audit. The assessment rating acknowledges that these issues are currently being addressed; however it is imperative that management implement the recommendations to improve the overall risk management and ensure that the control environment does not deteriorate. These recommendations, identified below, have been included in an audit report for the Head of Merseyside Pension Fund and a reasonable timetable for implementation agreed.

- a. A list of authorised State Street users, as well as the method by which it will be updated on an annual basis, should be agreed.
- b. It should be ensured that when a statutory disclosure is required (i.e. when stockholding reaches 3%) it is undertaken within the required timeframe and in accordance with the necessary regulations. When a delay occurs, the reasons for such a delay should be clearly evidenced.
- c. Work on reviewing and updating the Compliance Manual should continue. Once completed the Manual should be approved by the Pensions Committee.

A follow-up audit is scheduled for the next quarter to evaluate progress made by the Pension Fund towards implementing the recommendations identified.

3.2. Follow-up audits have recently been completed to evaluate progress made by Chief Officers towards implementing recommendations identified in audit reports completed in 2006/07 on Conflicts of Interest and Gifts and Hospitality systems in operation across the Council. Action Plans have been returned by all departments and audit testing indicates that all of the recommendations agreed with management to improve systems have either been implemented in full or are in the process of being implemented.

- 3.3. To comply with the requirements of the Education Act 2002 all local authorities are required to seek assurance that Secondary Schools can comply with the Financial Management Standard in Schools (FMSIS) by 31 March 2007. Internal Audit have completed detailed assessments at each of the 22 schools to evaluate compliance and all of these have now achieved the Standard.

The requirements for Primary and Special Schools have now been finalised by the Department for Education and Skills (DfES) and came into effect from April 2007. Compliance with the Standard is required for all 112 of these schools by March 2010. The requirements have been discussed with the Director of Children's Services and work is scheduled to start shortly.

- 3.4. Action Plans in respect of audit work undertaken on the Recruitment and Selection systems in operation across the Council have not yet been returned for the following departments:

Corporate Services – Human Resource
Adult Social Services
Children and Young People
Finance – Merseyside Pension Fund

Follow up audits are scheduled for the next quarter.

- 3.5. An audit has been completed following a request by the Director of Regeneration to assist in reviewing the procedures followed in letting contracts at the Liscard Complex, a facility managed by the Liscard Community Facilities Complex Joint Management Committee (JMC), a registered charity that is not part of Wirral Council but is provided with support and assistance by designated officers of the Council. A complaint was received by a Member concerning the letting of a number of contracts at the complex and the circumstances leading to the awarding of these contracts. The systems in operation for managing these activities were examined for efficiency, effectiveness and compliance with policy and good governance. The findings of the review indicated that the procedures being followed were satisfactory, in accordance with good practice and where officers of the Council were involved were in compliance with the Contract Procedure Rules. A recommendation was made in a report to the Director of Regeneration concerning the importance of regularly reviewing and updating policies and procedures on all aspects of governance in organisations to which the Council provides financial or other assistance.

3.6. An audit has been completed to review the effectiveness of the controls within the interim system for allocating work to Schedule of Rates contractors. The audit focussed on key controls in operation within existing systems in all departments and the identification of risks that require consideration when implementing the Enterprise Asset Management system. The findings of the audit work indicated that the control environment is currently 'less than satisfactory' as a number of high priority recommendations were included in a report for the Director of Technical Services to improve the overall risk management of the system:

- a. All work orders should include the relevant priority of the works so that contractors can undertake works efficiently and so that invoices can be checked back to orders in full. Consideration should also be given to including priorities as items in the Enterprise Asset Management module.
- b. An explanation for all differences between the original works order and final invoice should be recorded in order to ensure that payments are only made for legitimate works.
- c. Details of the request for works from client departments and establishments must be evidenced in order to provide a clear trail of the requests for works.
- d. The origination of works orders and the checking of works should ideally be undertaken by different people.
- e. To ensure the efficiency of administration and to ensure that the payments are correct, the schedule of rates contractors should be reminded to invoice the Council with the relevant code from the Schedule of Rates. Where the work is not Schedule of Rates work, evidence of quotes should be retained to comply with the Constitution Contract Procedure Rule 18.

Follow-up audit work is scheduled to be completed in the next quarter to evaluate progress made towards implementing the agreed recommendation.

3.7. An audit has been completed to review the controls operating within the Leasing system as managed by the Financial Services Division for efficiency, effectiveness and compliance with policy, procedure and relevant legislation. The findings of the review indicate that there are many areas of good practice and the overall control environment is assessed as being 'satisfactory'. However, there was one high priority issue identified concerning one contract that had not been put out to tender for renewal at appropriate intervals. There is a risk that the Council may not be complying with European procurement legislation or obtaining value for money in respect of this contract and consequently the following high priority recommendation was included in a report for management:

The Leasing contract should be renewed and managed through an E.U. process. However, if sole supplier status can be established an exemption should be requested in a report to Cabinet.

Follow-up audit work is scheduled to be completed in the next quarter to evaluate progress made towards implementing the agreed recommendation.

- 3.8. Follow up audits have recently been completed to evaluate progress made by Chief Officers towards the implementation of recommendations identified in audit reports completed in 2006/07 on Creditors Payments and reported to this Committee on 29 March 2007. The findings of the work undertaken indicate that progress to date has been limited. However it is acknowledged that work is ongoing and some progress has been made towards implementing the recommendations identified in audit reports issued. A report has been prepared for the Head of Support Services identifying the findings and actions still required to fully implement the action plan and improve the control environment in operation. Further audit work is scheduled for later this year.

4. FINANCIAL AND STAFFING IMPLICATIONS

- 4.1. There are none arising from this report.

5. LOCAL MEMBER SUPPORT IMPLICATIONS

- 5.1. There are no local Member support implications.

6. LOCAL AGENDA 21 STATEMENT

- 6.1. There are no local agenda 21 implications.

7. PLANNING IMPLICATIONS

- 7.1. There are no planning implications.

8. EQUAL OPPORTUNITIES IMPLICATIONS

- 8.1. There are no equal opportunities implications.

9. COMMUNITY SAFETY IMPLICATIONS

- 9.1. There are no community safety implications.

10. HUMAN RIGHTS IMPLICATIONS

- 10.1. There are no human rights implications.

11. **BACKGROUND PAPERS**

11.1. Internal Audit Annual Plan 2006/07 and 2007/08.

11.2. Audit Reports.

12. **RECOMMENDATION**

12.1. That the report be noted.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/132/07

INTERNAL AUDIT PLAN 2006/07 AND 2007/08

WORK CONDUCTED – 6 MARCH TO 5 JUNE 2007

1. SYSTEMS

- (a) Finance
 - Treasury Management
 - Procurement/Creditors
 - Cashiers
 - Merseyside Pension Fund
 - Payroll
 - Bank Charges
 - Risk Management
 - Manual Cheques
 - Leasing

- (b) Corporate Services
 - PIMS Testing
 - Tendering Processes
 - Access
 - Wirral Direct
 - LPSA
 - LAA
 - Community Focus
 - Service Delivery

- (c) Children & Young People
 - Schools
 - Financial Management Standard in Schools
 - Foster Care
 - Boarding Out

- (d) Adult Social Services
 - Income
 - Care Needs Assessment

- (e) Technical Services
 - Highways Project Group
 - Tender Lists
 - Building Control
 - Schedule of Rates

- (f) Regeneration
 - Museums & Art Galleries
 - Environmental Health
 - Licenses
 - Joint Management Committees

- (g) Corporate Systems
 - Audit Commission Reports
 - Corporate Governance
 - Statement on Internal Control
 - Gifts and Hospitality
 - Recruitment and Selection
 - Document Retention
 - Buildings Security
 - Conflicts of Interest

2. **SCHOOLS**

- (a) 4 Schools
- (b) 8 FMSIS Schools

3. **OTHER ESTABLISHMENTS**

- (a) Leisure Centre Follow Ups
- (b) 1 Children's Centre

4. **ICT**

- (a) 1 Business Systems
- (b) Physical Security of ICT Equipment
- (e) Mobile Working
- (f) IDEA Development

5. **PERFORMANCE AND BEST VALUE**

- (a) Local Public Service Agreements
- (b) Performance Indicators
- (c) PIMS Testing

6. **ANTI-FRAUD**

- (a) National Fraud Initiative

7. **INVESTIGATIONS**

- (a) Cashiers - shortages
- (b) Supported Living (A.S.S.)

8. **OTHER**

- (a) Wirral Methodist Housing Association
- (b) 5 Final Accounts (totalling £453k) examined

INTERNAL AUDIT SECTION - RECOMMENDATION MONITORING REPORT

PERIOD: 6 MARCH TO 5 JUNE 2007

Department/Section	High Priority		Medium Priority	
	Agreed	Not Agreed	Agreed	Not Agreed
Children & Young People	6	-	4	-
Technical Services	7	-	4	-
Adult Social Services	-	-	2	-
Finance	8	-	10	-
Corporate Services	11	-	9	-
Regeneration	1	-	17	-
Corporate Systems	3	-	27	-
Totals	36	-	73	-