WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

27 SEPTEMBER 2007

REPORT OF THE DIRECTOR OF FINANCE

INTERNAL AUDIT WORK: JUNE TO AUGUST 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 June and August 2007. The specific nature of the work undertaken is identified in Appendix I. 42 reports were produced during this period. 74 high and 69 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 June 2007 to August 2007 are identified below and indicate that the section is performing adequately with the resources currently available and provided that existing vacancies can be filled, should be able to effectively deliver the audit plan in the areas identified:

   a.   85% of the proportionate audit planned days have been delivered.

   b.   46% of the proportionate planned audits have been completed.

   c.   Follow-up audits have been completed for 25% of audits undertaken.

   d.   62% of the proportionate high risk audits have been completed.

   e.   100% of the Customer Satisfaction Forms returned indicates a 'good' opinion of the service.

2.3. The outturn for target c. may appear low for this period, however follow-up audits are actually conducted for all audits undertaken between three and six months after the completion of the original audit. This allows clients sufficient time to implement recommendations and provide the auditors with sufficient evidence to ensure that the action taken is improving the control environment and that the follow up audit is meaningful. Therefore it is not unreasonable for 25% of these audits to have been conducted at this stage.

3. **SIGNIFICANT ASPECTS OF CURRENT WORK**

3.1. An audit has recently been completed to review the adequacy and effectiveness of the controls in operation within the system over the Contract Register Control of Payments. The findings of the audit work indicated that there are areas of good practice, where the controls established are considered sufficient to help achieve corporate and departmental objectives. However, the overall control environment was assessed as being 'less than satisfactory' as a number of individual weaknesses including one of a high priority nature identified below, were included in a report for the Director of Technical Services, to improve the overall risk management of the system:

> Payments should only be made following the authorisation of a Certificate of Payment, in accordance with paragraph 17 of the Contract Procedures Rules, Wirral Council Constitution.

During the audit six contracts were tested and only one was found to include payments by invoice rather than certificate, however given the nature of the issue and the potential risk of duplicate payments being generated the above recommendation was made and identified as a high priority issue.

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

3.2. An audit has been completed at the request of the Chief Executive to review the procedures in operation over the Planning Applications system following the recent failure to issue four decision notices with respect to Telecommunications Antennae in the Borough. The audit was carried out in response to the wishes of the Cabinet and Planning Committee with the purpose of reviewing: -

- the reasons for the failure to issue the notices
- the appropriateness of the remedial action planned
- any other issues arising that may have been overlooked.

Systems in place were examined and evaluated regarding their fitness for purpose, effectiveness and compliance by staff. The findings of the audit indicated that the failings in the system were as a direct result of human error which was compounded by inadequate control procedures to ensure that decision notices had been issued. The proposed remedial action should help to prevent such errors in the future by significantly improving the accountability for, and monitoring of, such planning applications providing that Council Officers consistently apply the controls in place.

As the actions proposed in the Committee report to Members had only recently been introduced, substantive testing could not be undertaken at the time, however it was agreed with the Development Control Manager, that Internal Audit would conduct substantive testing during autumn 2007 to provide an opinion on the effectiveness of the remedial actions. In addition to the actions already implemented by management, the following recommendations were agreed with the Development Control Manager to further strengthen the control environment in operation:

a.   The expiry date report must be produced and checked weekly by the Development Control Manager, or in the event of absence, another appropriate senior officer. The report should be annotated to indicate the officer undertaking the review and the date on which the report was reviewed.

b.   Amendments to the Scheme of Delegation should be carefully considered to ensure that decisions are only brought out of delegation where it is necessary (i.e. the proposal is contrary to Member wishes), and there are valid planning reasons for doing so .

c.   Where the scheme of delegation is altered, appropriate control mechanisms must be implemented to formally record all action taken during the decision making process, naming the officer(s) and Member(s) involved.

d.   If control mechanisms and the associated procedures are considered too complex, the Department should consider removing all such planning decisions from Delegation.

The findings of any future internal audit work to evaluate the implementation and effectiveness of any recommendations actioned will be reported to the relevant Chief Officers, and this Committee via the Internal Audit Update report.

3.3. An audit has been completed to assess how Constructionline is used by the Council to produce selective tender lists. The audit review was undertaken following a report by the Audit Commission into the Electrical Maintenance contract arrangements, which is reported elsewhere on this agenda, that identified some issues regarding the way that these contracts are managed. The findings of the review indicated that the control environment is currently 'less than satisfactory'. A number of recommendations, including four of a high priority nature identified below, to improve the effectiveness of the controls over the system, were included in a report for the Director of Technical Services and a timetable for their implementation agreed:

   a.   Consideration should be given to;

        i.   Providing information to local contractors through the press or trade journals, explaining the requirement to register with Constructionline and CHAS, and also advising them of the significance of registering for all categories of work applicable to them.

        ii.   Ensuring department representatives are aware of the Contract Procedure Rules and benefits of using the Constructionline system to generate contractor lists.

   b.   The relevant procurement web pages should be reviewed and updated where necessary to ensure that all information detailed is in accordance with the Constitution of the Council.

   c.   The 'Policy on Construction Contracts' needs to be reviewed and updated to ensure that it is in accordance with the Constitution of the Council.

   d.   When an agent is employed by the Authority, they should be informed of the minimum requirement that contractors should only be invited to tender if they are Constructionline registered and CHAS accredited.

   Follow-up work is scheduled for later in the year to evaluate progress made towards implementing the agreed recommendations.

3.4.   An audit has been completed to evaluate the adequacy and effectiveness of the Risk Management Framework and associated control environment in operation within the Council. The review concentrated on the implementation of systems of best practice as identified in the CIPFA publication, 'A Practical Guide to Risk Based Auditing' and compliance with these systems by managers and staff. To ensure that systems were evaluated effectively it was necessary to review the eight individual risk management elements in operation, as identified below, and provide an opinion as to the risk maturity of each, utilising a five point scoring mechanism running from 'Risk Naïve' to 'Risk Enabled', the latter being the higher score;

- Vision, Commitment and Ownership
- Structures, Roles and Responsibilities
- Identifying the Risks
- Categorising and Prioritising the Risks
- Action and Response
- Monitoring and Review
- Extended Enterprise
- Embedding Risk Management

The audit opinion of the framework assessed against the CIPFA risk maturity model is a mid point score of 'Risk Defined' with good prospects for improvement. It is acknowledged that significant work is being undertaken in this area at the moment, and that a revised Risk Management Strategy for the Council was approved by Cabinet on 6 September 2007. This should ensure that the infrastructure remains in place to advance the risk maturity and embed risk management completely into the culture of the organisation. A report and action plan identifying a number of recommendations including the following of a high priority nature, to improve systems, has been prepared for Chief Officers and agreement reached regarding adequate timescales for implementation:

a.   The risk appetite and risk tolerance level for the Authority should continue to be developed through the Corporate Risk Management Forum.

b.   The job descriptions for Chief Officers and senior managers should be reviewed and details of responsibilities and targets in respect of risk management included where appropriate.

Progress towards implementing the action plan will continue to be monitored and reports prepared for Chief Officers and Members of this Committee in due course.

3.5.   Follow up audits are currently being undertaken at all of the major office complexes to evaluate progress made by Chief Officers towards the implementation of recommendations identified in audit reports completed earlier this year on Buildings Security. The findings of the original audits were reported to this Committee in June 2007 and further discussion has recently taken place between the Chair of the Complex Managers Group and the Chair of this Committee, regarding progress that has been made towards actioning recommendations identified in audit reports.

The findings of the work undertaken to date indicate that progress is being made, however it is acknowledged that work is still ongoing. Audit reports will be prepared for Chief Officers in due course and the findings, including any further actions required, reported to this Committee.

3.6. An audit was undertaken to review the Physical Security of Business Critical Servers and Network & Communication Cables to evaluate the adequacy and effectiveness of the existing arrangements. The findings of the audit indicated that the control environment is currently 'less than satisfactory' as a significant number of high priority recommendations, indicated below, were identified and included in a report for the Director of Finance, and agreement reached regarding their implementation within a reasonable timescale:

a. A security grille should be fitted over the window of the communication room to reduce the risk of it being broken into and vandalised.

b. The strong room should be kept locked during the day and overnight. Also consideration should be given to installing a swipe card entry system to ensure that only authorised people can gain entry. The swipe card system can also identify by whom and when the room was accessed. Access can then be removed when an employee leaves.

c. The ICT security policy should include who is responsible for physical ICT security within the Authority. It should also be recorded in the relevant job descriptions.

d. Instructions on what to do in the event of a security breach should be documented and issued to all relevant staff. Wirral should refer to Information Technology Infrastructure Library (ITIL) for guidance on best practice.

e. Further protection should be provided including water detectors which should be linked to alarms. Once installed the water detectors should then be tested on a regular basis. A risk assessment of the server room should be undertaken with consideration to relocating it.

f. Business Impact Reviews should be carried out and documented to establish the criticality of the systems and the risks to which they are exposed.

g. Scripts should be written that will automatically shut the servers if the uninterrupted power supply (UPS) goes down out of office hours.

Follow-up work is scheduled for later in the year to evaluate progress made towards implementing the agreed recommendations.

3.7. An audit was completed to review the Access Controls within the Mobile Teleworking systems to evaluate the adequacy and effectiveness of the existing arrangements. The findings of the audit indicated that the existing control environment is 'satisfactory'. However, the following high priority recommendations were identified to improve the current systems, and a timetable for implementation agreed:

a. The objectives of agile working should be documented in a business case or similar document. The objectives of agile working should include links to the corporate objectives. The document should be presented to Cabinet for approval.

b. Once agreed by Unison the draft tele-working policy dated August 2006; version 6 should be approved by the Employment and Appointments Committee in view of the broader implications of a corporate agile working strategy. Once approved the policy should be issued to all relevant staff..

c. Management should identify which staff are unable to change their password without being prompted. Once identified further training should be provided and the process should be incorporated into the training plan. Staff should also be reminded that the ICT security policy paragraph 6.4 (c) states that a password must be changed once it has been disclosed.

d. PC configurations should be set and 'locked down' to ensure that unlicensed and unauthorised software cannot be downloaded intentionally or unintentionally. Alternatively software can be installed to prevent software being downloaded.

e. The Head of Human Resources should on at least a monthly basis send a list of people who have left the Authority to ITS, this would ensure that any accounts managed by the active directory would be disabled promptly

Follow-up work is scheduled for later in the year to evaluate progress made towards implementing the agreed recommendations.

3.8. An audit was undertaken to review the adequacy and effectiveness of the controls in operation over the system for administering Travel Loans by the Council. The findings of the review indicated that the existing control environment is 'less than satisfactory' as the following high priority recommendations required to improve systems and alleviate risk were identified and included in a report for the Director of Finance. A timetable for implementing the recommendations has been agreed with the responsible officers and   follow up audit work is scheduled for later in the year to evaluate progress made. A report will be prepared for the Director when this has been completed.

a. The car loan scheme should be reviewed in order to confirm that it is still relevant and appropriate, in particular in relation to the objectives of other council travel loan schemes. Issues to be considered should include: -

- Loan amounts and interest rates

- Sustainability criteria for cars to qualify for lower percentage rate

- The overall appropriateness of car loans in relation to promoting more sustainable methods of transport.

b. Finance Support Services should ensure that all travel loans are supported by relevant proof of purchase in order to ensure that loans are being used for the purpose for which they were intended.

c. The Travel Loan Schemes should be subject to more formal management monitoring in relation to the inputs into the schemes and the outcomes being achieved.

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/226/07

INTERNAL AUDIT PLAN 2007/08

WORK CONDUCTED – JUNE TO AUGUST 2007

1. **SYSTEMS**

   (a)   Finance

   - NNDR
   - Procurement/Creditors
   - Insurance
   - Merseyside Pension Fund
   - Risk Management
   - Cheques
   - Gifts and Hospitality
   - ERDF
   - Debt Recovery
   - Server Security
   - Travel Loans

   (b)   Corporate Services

   - Tendering Processes
   - Standards of Conduct
   - Electoral Registration
   - Community Legal Services
   - EAT Payroll
   - Court Fees
   - Neighbourhood Renewal
   - LPSA
   - LAA
   - Performance Indicators
   - Graphics Unit
   - Teleworking
   - Buildings Security

   (c)   Children & Young People

   - Schools
   - Financial Management Standard in Schools.

   (d)   Adult Social Services

   - Income
   - Creditors

   (e)   Technical Services

   - Contract Register Payments
   - Tender Lists
   - Constructionline
   - Schedule of Rates
   - Planning Applications

(f)	Regeneration		- Museums & Art Galleries
			- Supporting People
			- Dog Wardens

(g)	Corporate Systems		- Audit Commission Reports
			- Corporate Governance

2. **SCHOOLS**

(a) 8 FMSIS Schools

3. **OTHER ESTABLISHMENTS**

(a) Leisure Centre Follow Ups

4. **ICT**

(a) Network Controls
(b) EProcurement
(e) Mobile Working Access Controls
(f) IDEA Development

5. **PERFORMANCE AND BEST VALUE**

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

6. **ANTI-FRAUD**

(a) National Fraud Initiative
(b) Travelling and Subsistence

7. **INVESTIGATIONS**

(a) Cashiers - shortages
(b) Youth Service – Belvedere Centre (ongoing)
(c) Youth Service – Scout Group Grant (ongoing)
(d) Planning Approvals
(e) Graphics

8. **OTHER**

    (a)   Family Methodist Housing Association
    (b)   8 Final Accounts (totalling £301k) examined

INTERNAL AUDIT SECTION - RECOMMENDATION MONITORING REPORT

PERIOD: JUNE TO AUGUST 2007

Department/Section	High Priority		Medium Priority	
	Agreed	Not Agreed	Agreed	Not Agreed
Children & Young People	-	-	-	-
Technical Services	2	-	-	-
Adult Social Services	-	-	-	-
Finance	5	-	9	-
Corporate Services	5	-	9	-
Regeneration	5	-	18	-
Corporate work	8	-	33	-
External Contracts	49	-	-	-
Totals	**74**	**-**	**69**	**-**