

## **WIRRAL COUNCIL**

### **AUDIT AND RISK MANAGEMENT COMMITTEE**

**22 NOVEMBER 2010**

#### **REPORT OF THE CHIEF INTERNAL AUDITOR**

##### **INTERNAL AUDIT ANNUAL PLAN REVIEW**

### **1. EXECUTIVE SUMMARY**

- 1.1. At the meeting of this Committee on 28<sup>th</sup> September, I indicated that I wished to present a report to this meeting to explain the need to review the 2010/11 Internal Audit Plan.
- 1.2. This report identifies the areas I consider should not be included in the Plan and the topics I consider can be deferred to enable suitable resources to be made available to review the control over significant risks to the Council that have become apparent.

### **2. THE INTERNAL AUDIT PLAN AND EMERGING ISSUES**

- 2.1. The purpose of the Internal Audit Annual Plan is to identify and record the risks that are assessed as essential to be audited within the year, so that a “safe” opinion on the control environment of the Council can be presented at the year-end, and any issues identified considered for inclusion when preparing the Annual Governance Statement.
- 2.2. The Plan is constructed on a “risk “basis and is considered “dynamic” in that it is essential we constantly review and amend it during the year, as new risks emerge. There is a system to authorise changes which includes provision for significant changes being reported to the Audit and Risk Management Committee.
- 2.3. The Council is in a period of significant change because of the implications of Budget cuts which will lead to the restructuring of departments and reductions in staff whilst still having to deliver services, some at an enhanced level, which is likely to result in diminution of controls and the consequent increase in risks and greater potential for error and fraud. Critical issues are identified below and will consequently be included in the remaining portion of this year’s Plan. However, several staff in Internal Audit are interested in accepting the offer of severance and if they are allowed to accept, further revision of the Annual Plan will be necessary.

- Strategic Change Programme

The role of Internal Audit in this project will include providing detailed assurance to support the implementation of this major corporate project by evaluating progress against targets and compliance with best professional

practice. However, successful implementation of the project is essential, and so to assist in alleviating risk to the Council, Internal Audit should review procedures and systems being developed.

- Care Quality Commission

This, together with the PIDA investigation, is one of a number of risk issues in DASS. 29 recommendations were made by the CQC, each of which referred to several issues. It is likely there will be a re-inspection in 2011 and a new Director is in charge of the Department consequently, it is essential that the Action Plan developed to address the issues raised in the inspection report on the Department of Adult Social Services is fully implemented. The issues are likely to be complex and resource intensive for Internal Audit to verify as Internal Audit staff is not specialist social service professionals, in the way Care Quality Commission inspectorate are.

- Governance

Two PIDA reports were addressed by the Council and the Audit Commission recently. The nature of the issues raised could lead to queries over the wider corporate governance of the Council and if similar situations that gave rise to the PIDA's exist in other areas. This is a significant financial and reputational risk to the Council, so I will commit audit resources to reviewing controls to address the areas of risk.

- ICT Strategic Review

Following the resolution by Cabinet on 14 October 2010 that the recommendations arising from the review of ICT provision in the Council by SOCITM, there are likely to be significant changes in procedures and controls over the provision of this crucial service that underpins the well being and effectiveness of the whole organisation.

- Centralisation of Finance Services

The transfer of the financial services currently in other Departments, agreed by Cabinet on 14 October, to the Department of Finance will result in changes in the systems, which will have significant control implications.

- Personal Budgets

The roll out of an offer of personal budgets to all eligible Wirral residents will have significant risks.

- Counter Fraud

The implementation of the Bribery Act, 2010 has significant risk implications for all organisations.

The restructure of departments and reduction in staff will have significant effects on procedures which might result in diminution of controls thus resulting in increased risks and greater potential for error and fraud.

If these areas were not included in the Plan for this year, there could be significant doubt over the quality of assurance that could be given on the control environment of the Council at the year end, and any unresolved weaknesses would likely to have to be included in the Annual Governance Statement at the year end.

### **3 PROPOSED AMENDMENTS TO THE PLAN**

- 3.1 The days estimated as necessary to conduct the audits on the areas identified will be made available by:
- i) Removing some audits of low risk areas from the Plan.
  - ii) Reducing time spent on audits identified as low risk by conducting less testing and focusing only on essential controls.
  - iii) Reviewing several risk ratings which has resulted in revision of the need to include some areas in the Plan.
  - iv) Reducing the allocation of time on audit of final capital accounts and some grants as funding is no longer available in these areas so consequently audits are no longer required.
  - v) Revising procedures so that more use is made of Control Risk Self Assessments , particularly in follow-up audits.

This process will not materially adversely affect the quality of the Chief Internal Auditor's Annual Report and opinion on the Council's control environment as audits are still planned to review the risks, and it has enabled 180 days to be made available, mostly from the Service Specific Controls area of the Annual Plan, as reported to this Committee on 24 March 2010.

- 3.2
- i) There is currently time planned for audits of the Strategic Change Programme and at the 14 October meeting of the Cabinet, an additional Principal Auditor post , with responsibility for conducting assurance work in place of the Finance Department senior manager whose post has been transferred to the Director of Technical Services, was authorised.
  - ii) There is also currently included in the Plan a review of the controls over Safeguarding Adults with Learning Disability which was the subject of the report by the Care Quality Commission.
  - iii) Governance is presently in the Plan, which included a review of PIDA procedures and specific work to review the implementation of the recommendations made following the DASS PIDA.

Consequently, together with the extra days made available should enable the areas identified to be reviewed effectively, though further revision might be needed depending upon potential losses of audit staff and further risks identified or audits and investigations requested by Chief Officers.

## 4 OTHER OPTIONS

- 4.1 Consideration was given to proposing to withdraw from the contracts to provide internal audit services to two local housing associations, and to withdraw from the agreement to conduct FMSiS inspections for schools but it was not assessed as necessary to take such actions presently though it might be essential in the future if resources are not available in Internal Audit. If this action is taken, it would be necessary for the schools to make alternative arrangements for FMSiS inspections that are satisfactory to the Director of Finance.
- 4.2 Consideration was also given to decreasing significantly the frequency of visits and depth of work conducted at schools. The indications are that some authorities have completely withdrawn from school visits and others rely more on the supervision by Education Departments. Individual school's budgets are all significant. Procedures, contracts and controls are largely decided by schools themselves and thus visits are justified as a result of any risk rating, but it might be necessary to consider the resources devoted to them and reach agreement with the Director of Children's and Young Persons Department concerning his Department's role.
- 4.3 It was not considered necessary to implement these options immediately as sufficient resources are estimated to be available to complete the revised Plan. If the option described in 4.1 were selected, there would be significant immediate difficulties for schools as it is a legal requirement that FMSiS inspections are performed. Schools would have to select appropriate alternative providers which would require significant time to manage. To implement Option 4.2 will necessitate consultation, discussion and agreement with the Director of Children and Young Persons Department and schools which would be likely to be very time consuming, but it is intended to commence these discussions as it is necessary to make more resources available to address other risks .
- 4.4 Internal Audit has worked with the managers and Directors of the Departments reviewed to agree scopes of audits, findings and practical recommendations. It is envisaged that the role is likely to have to become more "directive" particularly if weaknesses in corporate governance are revealed, or doubts over compliance are revealed in the assurance work. In accordance with standard practice, I will continue to report all critical items identified as a result of audits being completed to this Committee for their consideration of suitable action.
- 4.5 If staff in Internal Audit are able to accept the offer of EVR or severance, it is likely that further revision of the Plan will be necessary to allocate resources available to the perceived high risks areas.

## 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.

12      **RECOMMENDATION**

12.1     That the report be noted.

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FNCE/232/10