

## WIRRAL COUNCIL

### AUDIT AND RISK MANAGEMENT COMMITTEE

28 SEPTEMBER 2011

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

#### **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 are no items of significance identified during the audit process that require action by the Members for this period however a number of items of note concerning ongoing audit work are 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.

#### **2.0 RECOMMENDATION**

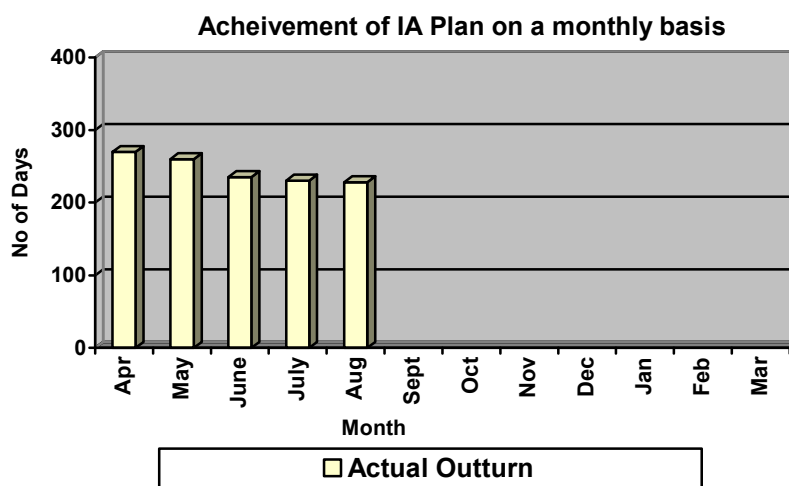
- 2.1. That the report be noted and appropriate action be taken by the Members as deemed necessary.

### 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 1<sup>st</sup> June 2011 to 31<sup>st</sup> August 2011. The specific nature of the work that has been undertaken or is currently ongoing is identified in Appendix I. 41 audits were undertaken during this period identifying over 50 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.

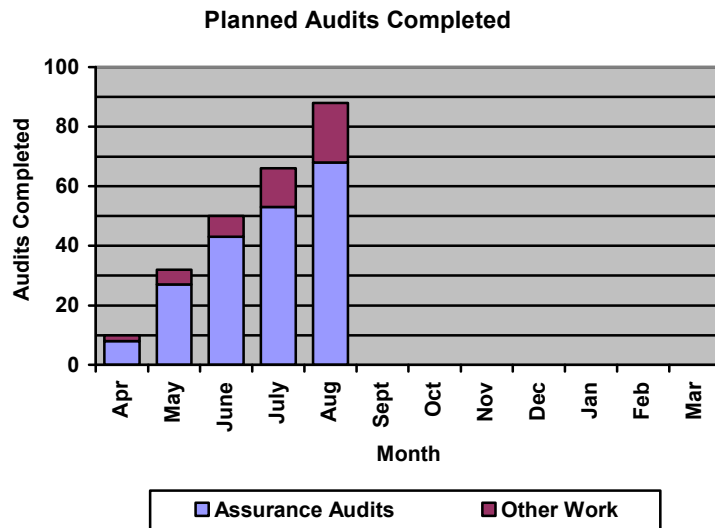


- (a) This is an input based measure i.e. the estimated number of days required each month to deliver the whole of the Internal Audit Plan. 3600 days were identified at the start of the year as being necessary to deliver the plan, equating to approximately 300 days per month. As can be seen from the graph, approximately 265 days on average were available during April and May of this year however this has reduced to 230 during June, July and August. This is mainly due to a shortfall in staff resources due to professional

studies, some members of staff being deployed assisting an external investigation and the permanent loss of a number of a number of members of staff. We are currently attempting to recruit to these vacant posts, however we are also aware of a further two members of staff who are shortly due to leave on maternity. It might therefore be necessary to restructure the Section in order to ensure that service delivery is maintained and targets are achieved for 2011/12 and beyond. Discussions are currently taking place with the Director of Finance in respect of this and Members will be notified in due course of any progress in this area and of any adverse effects on performance, via these regular update reports.

#### 4.2.2 To ensure that all planned audits are completed.

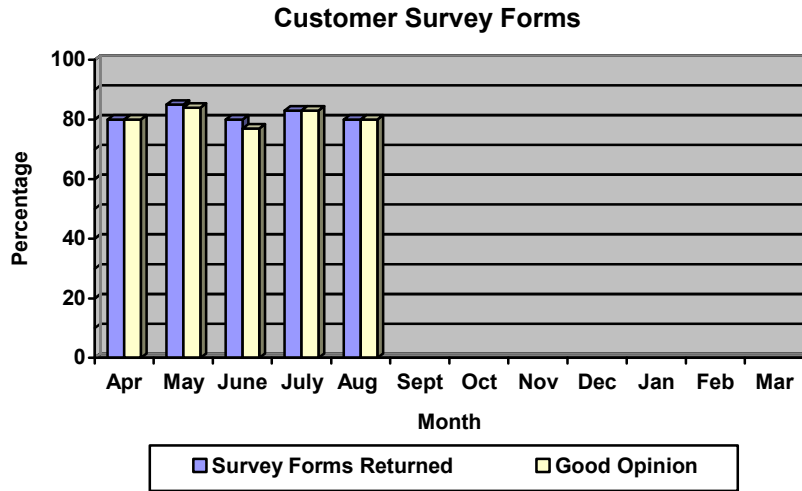
- (a) The Internal Audit Plan as agreed by this Committee at its meeting on 23 March 2011 comprised a substantial number of audits essential to the provision of the 'annual assurance opinion' and was designed to review the key risks to Council systems at the time of writing. Delivery of the identified 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) Over 80 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 70% 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.

- (d) Actions are currently being taken with the Director of Finance 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 this period no significant delays in implementing recommendations have been identified and no outstanding issues require the attention of the Audit and Risk Management Committee.

#### 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. 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
Payment Card Industry – Data Security Standards	6	-	1*
Registrars	11	-	1*
Related Party Transactions	1	-	3*
Estimates for Works Contracts	1	-	3*
Contracts Evaluation Models	1	-	3*
Council Tax – Fair Debt Policy	1	-	3*
DASS Travel and Subsistence	1	-	2*
Contact Alterations – Pensby Park	2	-	2*
Transport Service Contract - CYPD	1	-	3*
Debtors – Technical Services	1	-	2*
Central Admin – Wallasey Complex	4	-	2*
Licensing	1	-	3*
Job Evaluation	1	-	3*
Redeployment	1	-	3*
Financial Procedures – Birkenhead Park	3	-	1*
Fair Debt Policy	1	-	3*
Risk Management – Law, HR & Asset Management	5	-	2*
Risk Management – DASS	2	-	3*
Wirral Multicultural Organisation	10	-	1*

- (b) All of the action plans in respect of the audits identified have been returned fully completed and 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:
- 12.5% received four stars,
  - 44% received three stars
  - 31% received two stars,
  - 12.5% 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) Redeployment System

The Internal Audit Service has recently completed a review of the system in operation to manage the redeployment of staffing resource across the Council following the recent severance exercise. The objective of the audit was to appraise the operation of the Council's Redeployment Policy, ensuring compliance with corporate guidelines and consistency of operation. The aim was to consider the principles regarding entry on to the list and the management control and monitoring of this on an ongoing basis, including the effectiveness of dealing with individuals, all relevant professional bodies, and the system for reporting to Members. The findings of the review indicated that whilst the system is fairly robust a number of areas for improvement were identified that mainly involved the introduction of systems, procedures and policy guidance for the management of the redeployment list. In particular clear policy and guidance in relation to how long officers should remain on the list and the position regarding the rejection of multiple job offers by individuals. These issues have been discussed and agreed with senior management and an action plan agreed to improve systems in operation. Follow up work to evaluate progress made to address these issues will be conducted later in the year and update reports provided to Members.

(b) Schools Assurance Statements

All Schools are required to provide an annual assurance to the Director of Finance on the adequacy of their internal control systems. For the year 2010/11, because of the removal of the FMSiS standard, the Internal Audit Service were required to devise an assurance statement for completion by all schools to assist them in this process and evaluate their responses. As part of the process Schools were required to assess their internal controls and comment upon their adequacy utilising a key controls questionnaire. An overall statement was then required to be compiled and signed by the

Headteacher and Chair of Governors and Chair of Finance Committee. Following the audit evaluation exercise a number of recommendations were made to improve systems in operation relating to the requirement for schools to ensure that where a control weakness is identified, remedial action is taken and the need for improvement in internal communication within schools.

(c) Cultural Services Financial Procedures

Following a request from the Director of Technical Services a review of the financial procedures within a range of Cultural Services establishments has been undertaken. Three establishments were reviewed: Leasowe Recreation Centre, Birkenhead Park Visitors' Centre and Williamson Art Gallery and the full range of key financial controls were evaluated. The audit opinions provided varied significantly between establishments (Birkenhead Park - one star, Williamson Art Gallery - two stars, Leasowe Recreation Centre - three stars) and so a range of recommendations were made including the need to document financial procedures, ensuring that adequate separation of duties is in place over the receipt, banking and reconciliation of income, and the consistent application of charges across centres. Actions to address issues identified have been agreed with the Director and progress towards implementation will be monitored over the coming months.

(d) Departmental Risk Management

The Internal Audit Service is currently undertaking a review of Risk Management systems in operation across all departments of the Council. The objective of the audit is to obtain assurance that departmental risk management processes are operating in accordance with corporate risk policies, strategies and guidelines. Three departments, DASS, Law, HR and Asset Management and Corporate Services have been reviewed to date with others to follow over the coming months. The main aim of the review is to ensure that regular reviews of risks are undertaken across all service delivery areas and are evidenced accordingly, and that consistent systems exist across the Council identifying and approving new risks for entry onto the departmental and corporate risk registers. It was also necessary to evaluate the effectiveness of the systems for revisiting and amending the risk status of items on the registers following agreed actions to address risks being completed. The findings for the audits completed to date indicate that the fundamental systems are in place with good support from Risk and Insurance Section, however a number areas were identified for improvement concerning effective operational systems and compliance with procedures. Actions have been agreed with responsible Chief Officers to address issues identified and follow up work scheduled for later in the year to monitor progress.

(e) Care Quality Commission

A review of the completion of the milestones identified within the Improvement Plan produced following the Care Quality Commission's report on Adult Social Services (2010) is ongoing. Evidence has already been provided for many of the milestones, and so the work is focusing on those still outstanding. The final report will be produced prior to the peer review of implementation, which is to be undertaken during November. An update on this will be brought to this committee scheduled for that month.

(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 have taken place with senior management from within the department and actions agreed to address these issues. Internal Audit has assisted the department in the development of an action plan that encompasses all of the outstanding recommendations and identified a timescale for implementation. A report by the Director of Law HR and Asset Management is on the agenda for this Committee and an update on progress made to date will be delivered. Internal Audit has work scheduled in this area for October 2011 to evaluate progress made by the department and an update on this will be provided to Members of this Committee at the meeting in November 2011.

**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.

FNCE/224/11

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## **APPENDICES**

Appendix 1: Internal Audit Work Conducted/Ongoing – June 2011 to August 2011

## **REFERENCE MATERIAL**

Internal Audit Plan 2011/12

## **SUBJECT HISTORY (last 3 years)**

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

## **APPENDIX I**

### **INTERNAL AUDIT PLAN 2011/12**

#### **WORK CONDUCTED/ONGOING – JUNE 2011 TO AUGUST 2011**

##### **1. SYSTEMS**

- (a) Finance
  - Debt Recovery
  - Council Tax – Fair Debt policy
  - Benefits (HB & CT) – Appeals
  - Main Accounting System
  - Payroll – Core System
  - Payroll – Self Service
  - Pensions – Electronic Data
  - Benefits – Write Offs
  
- (b) Law, HR and Asset Management
  - Corporate Governance
  - Anti Money Laundering
  - Bribery Act
  - Job Evaluation
  - Redeployment
  - Partnerships
  - Licensing
  - Registrars
  
- (c) Children & Young People
  - Risk Management
  - 16-19 Funding
  - Transport Services Contract
  
- (d) Technical Services
  - Works Contracts (Estimates/Variations)
  - Cultural Services – Financial Systems
  - Debtors
  
- (e) Adult Social Services
  - Travel and Subsistence
  - Commissioning & Procurement
  - Care Quality Commission review
  - Personal Budgets
  - Risk Management
  
- (f) Corporate Services
  - Advertising Hoardings
  - Empty Property Strategy
  - Central Admin
  
- (g) Corporate Systems
  - Corporate Governance
  - Annual Governance Statement
  - National Fraud Initiative
  - Performance Indicators
  - Fair Debt Policy
  - Risk Management
  - Electronic Tendering

**2. SCHOOLS**

- (a) Repairs and Maintenance
- (b) Assurance Statements

**3. ICT**

- (a) Automated Invoice Scanning
- (b) Information Management
- (c) National Signposting Service
- (d) Payment Card Industry
- (e) Electronic Tendering Portal
- (f) Webmail
- (g) HR Self Service

**4. ANTI-FRAUD**

- (a) National Fraud Initiative
- (b) Bribery Act
- (c) Receipt of Tenders
- (d) Fraud Awareness exercise (Meritec)

**5. INVESTIGATIONS**

- (a) DASS
- (b) Multicultural Centre
- (c) Children's Care Home
- (d) Whistleblowing Case (WB)

**6. OTHER**

- (a) Final Accounts