

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

01 FEBRUARY 2012

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 are a number of items of note concerning audit work undertaken that are brought to the attention of the Members for this period and these are identified at Section 4.7.
- 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 that with the acquisition of additional staffing resource identified at 4.4 this objective can be achieved by the 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 1st November 2011 to 31st December 2011. The specific nature of the work that has been undertaken or is currently ongoing is identified in Appendix I. 27 audits were undertaken during this period identifying 50 high 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 4.6 of this report.
- 4.2. The Service constantly evaluates the effectiveness of its performance including a number of performance indicators in key areas that includes the provision of sufficient resource to deliver the annual Internal Audit Plan and ensuring that all of the audits identified in the plan are delivered on schedule.
- 4.3. Due to an unforeseen shortfall in staffing resource during the year to date mainly resulting from a number of members of staff being deployed assisting an external investigation and the permanent loss of a number of members of staff, delivery of the audit plan is below the specified target for this time of the year, and currently running at 76% achievement against the target. This equates to 150 audits plus follow ups completed to date by the service.
- 4.4. 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 due to be 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 a total of five agency staff have been appointed on a temporary basis to make up the staffing shortfall and assist with the delivery of the audit plan. These appointments come into effect from January 2012.
- 4.5. 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.

4.6 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 affect the ability of a specific service area to achieve its key objectives. The table also indicates the audit opinion provided on the effectiveness of the control environment, where 4* indicates an excellent rating and 1* poor.

Audit	Total Recs Agreed	Recs Not Agreed	Audit Opinion Provided
Bidston Village CE Primary School	17	-	*
Sundry Debtor Refunds	1	-	**
Stanton Road Primary School	5	-	*
St Annes Catholic Primary School	1	-	***
St Andrews C of E Primary School	2	-	**
Orrets Meadow Primary School	2	-	***
Gayton Primary School	5	-	**
Priory Parish C of E School	4	-	**
Church Drive Primary School	1	-	***
Youth Services – Bank Accounts	12	-	*

- (b) All of the action plans in respect of the audits identified have been returned fully completed. These all identify appropriate timescales for the implementation of recommendations agreed to mitigate or remove weaknesses.

4.7. Items of Note

(a) Care Quality Commission (CQC)

The audit review of the Implementation of the DASS Improvement Plan arising from the Care Quality Commission Review in May 2010 has now been finalised. Building on the interim internal audit report issued in May 2011, this tested the remaining 89 milestones previously outstanding following the interim audit in May 2011. An effective process was found to be in place to implement the plan and the audit opinion given was a 3*. However two high priority recommendations were reported regarding the evidence maintained to support the achievement of some of the milestones. Actions have been agreed with management to address this and follow up work scheduled for later in the year including an exercise to evaluate the effectiveness of the changes and outcomes associated with the implementation of the Improvement Plan. Internal Audit have also confirmed that reports have subsequently been prepared and actions approved by the sub group of the Health & Well Being Overview & Scrutiny Committee on 8 November 2011 and Cabinet on 24 November 2011 in respect of this work.

(b) Counter Fraud Investigation

The Internal Audit Counter Fraud Team is currently concluding 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. Meetings have been scheduled with the Chief Executive and the Director of Law HR & Asset Management for mid January 2012 to present the draft report and findings and discuss any actions required

(c) DASS Procurement (Day to Day)

Following the previous meeting of this Committee ongoing discussions have been held with the Service Manager (Asset and Support) and the Group Solicitor to ensure that required actions to address issues identified in audit reports are addressed and controls over this system strengthened. Further testing has also been conducted and the findings indicate that appropriate actions have now been undertaken in accordance with our recommendations.

(d) Universal Youth Support Service Accounts

Following discussions with the Head of the Universal Youth Support Service regarding potentially significant risks in systems of control a review of a sample of individual bank accounts held by the Youth Service was completed in November 2011. The findings indicated that controls over these accounts for managing voluntary funds were not adequate and twelve high and seven medium priority recommendations were included in a report to management covering the following areas:

- Independent review of income received to income banked
- Reconciliation of bank statements

- Full supporting documentation for items of income/expenditure
- Annual declaration of accounts held provided to the Director of CYPD
- Cash held in accordance with insurance/safe limits
- Production of year end accounts for voluntary funds
- Prompt banking of income received
- Relevant quotes/discounts obtained for purchases

Detailed discussions have taken place with relevant senior management regarding these issues and a timescale agreed for implementation.

(e) Cultural Services

Following the completion of a sample of establishment audits from this division which focussed on income and financial procedures, the Head of Service requested audit assistance in determining the strength of the control environment across the whole of the division. A control questionnaire was devised and issued to each establishment and the findings from the returns coordinated and reported to the Head of Service.

The exercise identified a variety of control weaknesses across all of the establishments with the following being the most common:

- Financial procedures not documented,
- A lack of separation of duty on collecting, reconciling, banking of income and debt management,
- Appropriate records of income not being maintained,
- Ineffective security of income prior to banking,
- Postal remittance procedures not being in place,
- No formalised Charging Policy for lettings/hiring's in place.

Discussions are currently taking place with relevant managers to identify necessary actions to be taken to address identified issues.

(f) School Audits

(i) A number of thematic reviews have been completed over the period. The thematic review covers the controls in one specific area of the School's financial management and the audit opinion relates only to this area and not to the whole control environment. Seven schools were audited during this exercise and reports prepared for Headteachers and Governors identifying a significant number of findings and areas for improvement. Items of note include the following:

- Stanton Road Primary (Debtors System) – 5 high priority recommendations were identified to address control risks in the following areas and the overall opinion provided was 1*.

- Review and approval of the School Charging Policy
 - Prompt invoicing for the hire of facilities
 - Separation of duties within the Income system
 - Review of the Financial Procedures
- St Andrews C of E Primary (Creditors) – 2 high priority recommendations. 2* audit opinion.
 - Gayton Primary (Debtors) – 5 high priority recommendations. 2* audit opinion.
 - Priory Parish C of E (General Financial Procedures) – 4 high and 2 medium priority recommendations. 2* audit opinion.
- (ii) A full audit was completed at Bidston Village CE Primary School on 12/13 December which covered the following areas:
- Accountability
 - Internal Control
 - Insurance
 - Security of Assets
 - Petty Cash
 - Voluntary Funds
 - Budget & Treasury Management
 - Personnel & Payroll
 - Debtors
 - Creditors

Seventeen high priority recommendations were identified in a report to the Headteacher and Chair of Governors to address a significant number of risks covering all aspects of the schools activities. Some of these issues have been identified previously and have not been adequately addressed since the last visit. The overall opinion provided on the effectiveness of the schools systems of internal control was a 1* audit opinion.

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 – November to December 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.

APPENDIX I

INTERNAL AUDIT PLAN 2011/12

WORK CONDUCTED/ONGOING – NOVEMBER TO DECEMBER 2011

1. SYSTEMS

- | | |
|---------------------------------------|---|
| (a) Finance | <ul style="list-style-type: none">- Debt Recovery- Treasury Management- Bank Reconciliation- Sundry Debtor Refunds- Pensions - Investments- Pensions – Governance- Performance Indicators- Corporate Procurement |
| (b) Law, HR and Asset Management | <ul style="list-style-type: none">- Corporate Governance- Payroll- Licensing |
| (c) Children & Young People | <ul style="list-style-type: none">- Youth Services- Governance- Performance Indicators- Schools Finances |
| (d) Technical Services | <ul style="list-style-type: none">- Cultural Services Establishments- Performance Indicators- Governance- Williamson Art Gallery- Parks Contractors |
| (e) Adult Social Services | <ul style="list-style-type: none">- Care Quality Commission- Procurement- Performance Indicators- Governance- Risk Management |
| (f) Regeneration Housing and Planning | <ul style="list-style-type: none">- Governance- Translation & Interpretation- European Social Fund- Performance Indicators |
| (g) Corporate Systems | <ul style="list-style-type: none">- Corporate Governance- Annual Governance Statement- National Fraud Initiative- Performance Indicators- Contractor Liaison |

2. **SCHOOLS**

- (a) Financial Systems

3. **ICT**

- (a) IDEA Payroll Testing
- (b) Information Assurance and ICT Governance
- (c) Payments - IDEA Continuous Monitoring
- (d) Webmail
- (e) HR Self Service

4. **ANTI-FRAUD**

- (a) National Fraud Initiative
- (b) Fraud Awareness exercise (Meritec)
- (c) IDEA Testing - All Systems

5. **INVESTIGATIONS**

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

6. **OTHER**

- (a) Final Accounts