

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

13 MARCH 2012

SUBJECT:	INTERNAL AUDIT UPDATE
WARD/S AFFECTED:	ALL
REPORT OF:	CHIEF INTERNAL AUDITOR
RESPONSIBLE PORTFOLIO HOLDER:	COUNCILLOR TOM HARNEY
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 2.7.
- 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 those elements of the audit plan designed to support the provision of the 'annual assurance opinion' on the effectiveness of the Council's control environment and also support the delivery of the Annual Governance Statement are delivered effectively. Following the recent acquisition of additional staffing resource identified at 2.4 I am confident that this objective will be achieved by the year end.

2.0 BACKGROUND AND AUDIT OUTPUT

- 2.1. This report summarises the audit work completed during the period 1st January 2012 to 28th February 2012. The specific nature of the work that has been undertaken or is currently ongoing is identified in Appendix I. 25 audits were undertaken during this period identifying 44 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 2.6 of this report.

- 2.2. 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.
- 2.3. 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 79% achievement against the target. This equates to 160 audits completed to date by the service, it is anticipated that the overall year end outturn will be approximately 90% as a substantial amount of work is currently ongoing. This is a considerable achievement given some of the resourcing problems experienced during the year to date and includes all of the work necessary to support the provision of the annual audit opinion on the effectiveness of the Council's control environment.
- 2.4. In addition, and as previously reported a further three members of staff will be absent for a combined period of 21 months over the next ten calendar months due to maternity leave and long term sickness. A review of the Internal Audit Service is currently being 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 us with the delivery of the audit plan.

2.5. Follow Up Audits

The table attached at Appendix 2 identifies the status of those recommendations made in internal audit reports that have been followed up during the period:

2.6 Audits Identifying High Priority Recommendations

- (a) The table at Appendix 3 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 it's 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. Actual recommendations are identified where the audit opinion provided is 1*:
- (b) All of the action plans in respect of the audits identified have been returned fully completed with the exception of those identified below. Those returned all identify appropriate timescales for the implementation of recommendations

agreed to mitigate or remove weaknesses. Relevant managers have been contacted regarding the return of these overdue action plans:

- Bidston Village Primary School
- Townfield Primary School
- Members Allowances, Sources of Income (Law/HR/AM)
- Building Security – Wallasey (Law/HR/AM)
- Redeployment (LAW/HR/AM)
- Departmental Risk Management (LAW/HR/AM)
- Departmental Risk Management (DASS)

2.7. Items of Note

(a) Annual Governance Statement

A significant amount of work has been undertaken by the Internal Audit Service this period to ensure that the Council complies with the statutory requirements of Regulation 4 of the Accounts and Audit Regulations 2003 (amended 2006 and 2011). This well established process for reviewing the control system, collating information and contributing to the compilation of the Annual Governance Statement is implemented in full compliance with the CPFA/SOLACE Best Practice Framework to evaluate the effectiveness of governance arrangements in operation across the Council. Whilst Internal Audit is responsible for undertaking the assurance work used in compiling the Statement, it is important to recognise that this is not a document owned by the audit function but an Authority statement on the effectiveness of its governance processes.

The process undertaken by Internal Audit involves:

- Reviewing key governance processes, covering such areas as the adequacy of Performance Management, key HR functions and policies; and Risk Management.
- Reviewing reports completed by external review agencies, so as to ensure that key findings are considered for inclusion in the Annual Governance Statement and ensuring that appropriate actions have been taken or are planned to address any issues highlighted.
- Requiring Chief Officers and Managers to review and comment upon the adequacy and effectiveness of key processes in their areas of responsibility so as to provide assurance that the governance arrangements are sufficiently robust.
- Evaluating through testing some of the key areas identified for adequacy, efficiency and effectiveness.
- Preparing reports for Chief Officers identifying areas for improvement and reporting these outcomes to the Chief Executive and Executive Team for consideration.

Further extensive ongoing work is scheduled during 2012/13 to assist management in the improvement of these systems and processes in line with developing best practice and regular updates will be provided to Committee during the year.

(b) Counter Fraud

Following the enforced absence of the two members of staff from the Counter Fraud Team and their subsequent short term replacement with a number of temporary appointments, work in this area is now progressing well. A number of proactive audits designed to detect any fraudulent activity across a number of systems are currently being undertaken in the following areas:

Mileage Claims
Overseas Travel
Corporate Credit Cards
Expenses

In addition to this, the team has been busy delivering the counter fraud message across the Council through the development of various training tools and face to face sessions including the production of a new Money Laundering presentation to be made available via the e-learning facility.

Work is also currently ongoing to update the Fraud Risk Evaluation Diagnostic provided by CIPFA and designed to evaluate and test the effectiveness of the Council's existing arrangements for the prevention of fraud and the organisations appetite for fraud prevention. The results of this exercise will be reported to Members of this Committee in due course.

(c) Schools Audits

Audits have been conducted at a number of Primary Schools recently were a significant number of issues have been identified that were of a very similar nature presenting risks of a very fundamental and serious control nature. Following the audits, reports were prepared for Headteachers and Governors for each of the Schools in question and actions discussed and agreed to address all of the weaknesses identified with immediate effect and strengthen the overall control environment. However because of the seriousness of these issues and their increasingly widespread nature a meeting has been held with the Director of CYPD and the LMS Bursars Unit to alert them to these issues and discuss their increased support and involvement with Schools in these areas. The majority of the weaknesses identified were of a financial nature and included the following:

- Governors declaring pecuniary interests,
- Bank Mandates being complete and readily available,
- Approval of Charging Policies for hiring and lettings,
- Timesheet review and approval,
- Raising purchase orders before the payment of invoices,
- Separating duties in key processes such as purchasing and asset control,
- Adherence to agreed tendering procedures,
- Maintaining and approving financial procedures.

(d) National Fraud Initiative (NFI)

Extensive work has been conducted this period to ensure that sufficient progress is being made by the Council to implement the National Fraud Initiative for this year. Matching and investigating reports of potential fraud and error is ongoing with 67 reports having been closed from a total of 78 provided by the Audit Commission, leaving 11 outstanding. Some reports have had no activity to date and responsible officers have been identified to ensure that they complete the necessary follow up and investigation work. Testing is also underway to ensure that reports have not been closed without proper follow up. Investigation of the matches has, so far, identified 230 cases of overpayment, due to fraud and error, amounting to £242,198.92, of which £193,288.54 is in the process of being recovered. Of the 230 cases, 7 have, so far, been confirmed to be fraudulent resulting in 6 formal cautions. The remaining confirmed fraud case was not pursued on grounds of ill health but is in the process of being recovered.

3.0 RELEVANT RISKS

- 3.1 Appropriate actions are not taken by officers and Members in response to the identification of risks to the achievement of the Council's objectives.
- 3.2 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.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 No other options considered.

5.0 CONSULTATION

- 5.1 Members of this Committee are consulted throughout the process of delivering the Internal Audit Plan and the content of this regular routine report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 6.1 There are none arising from this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

- 7.1 There are none arising from this report.

8.0 LEGAL IMPLICATIONS

- 8.1 There are none arising from this report.

9.0 EQUALITIES IMPLICATIONS

- 9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are none arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are none arising from this report.

12.0 RECOMMENDATION

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

13.0 REASON FOR RECOMMENDATION

13.1 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.

13.2 To ensure that risks to the Council are managed effectively.

13.3 To ensure that the Council complies with best practice guidance identified in the CIPFA publication 'A Toolkit for Local Authority Audit Committees'.

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APPENDICES

Appendix 1: Internal Audit Work Conducted/Ongoing – January to February 2012

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 – JANUARY TO FEBRUARY 2012

1. SYSTEMS

- (a) Finance
 - Housing Benefits Write Offs
 - Debtors Write Offs
 - Treasury Management
 - Sundry Debtor Refunds
 - Pensions – Payroll
 - Pension Fund - Investments
 - Pensions - Admin
 - Performance Indicators

- (b) Law, HR and Asset Management
 - Corporate Governance
 - Payroll
 - Licenses
 - Members Allowances

- (c) Children & Young People
 - Youth Services
 - Governance
 - Out of Borough Placements
 - Performance Indicators
 - Metro Catering
 - Schools Bursar Support

- (d) Technical Services
 - Cultural Services Establishments
 - On line Leisure Bookings
 - Performance Indicators
 - Transport Division
 - Governance

- (e) Adult Social Services
 - Procurement
 - Inter Authority Payments
 - Performance Indicators
 - Governance
 - Risk Management

- (f) Regeneration Housing and Planning
 - Governance
 - Grants
 - Performance Indicators

- (g) Corporate Systems
 - Corporate Governance
 - Annual Governance Statement
 - National Fraud Initiative
 - Performance Indicators
 - Contract Awards
 - Conflict Declarations
 - Gifts and Hospitality
 - Constitution
 - Corporate Contracts

2. **SCHOOLS**

- (a) Thematic Reviews - Financial Systems
- (b) Full Reviews – Primary Schools

3. **ICT**

- (a) Departmental Servers
- (b) Information Assurance and ICT Governance
- (c) Payments
- (d) Webmail
- (e) HR Self Service
- (f) Removable Media

4. **ANTI-FRAUD**

- (a) National Fraud Initiative
- (b) Counter Fraud Awareness exercise
- (c) IDEA Testing - All Systems
- (d) Corporate Credit Cards
- (e) Members Expenses

5. **INVESTIGATIONS**

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

6. **OTHER**

- (a) Final Accounts

FOLLOW UP OF AUDIT RECOMMENDATIONS – STATUS

Audit name	Dates		Opinion	Recommendations			Status
	Original report issue date	Follow-up date		High	Med	Low	
Merseyside Pension Fund Administration	21/09/11	05/01/12	3 *	1	1	0	All implemented
Debt Recovery	15/07/11	09/01/12	3 *	0	1	0	Implemented
DASS Procurement	27/08/10	26/09/11	2 *	5	0	0	Implemented
Taxi licenses	09/09/11	24/01/12	3 *	1	1	0	<p>A reconciliation has not yet taken place on:</p> <p>(i) licenses issued to the income received (ii) income received to the monthly budget tabulations.</p> <p>The Senior Account Assistant is continuing to investigate any appropriate measures that could be implemented to comply with the recommendation (report ref 5.3).</p> <p>The relevant Chief Officer has been notified.</p>
Wallasey Central Complex Administration Including Court Fees	18/07/11	08/02/12	2 *	4	5	0	<p>Progress has been made in the following area:</p> <p>The safe cash book now records all income that is held in the safe and a new safe cash book is in operation. The new safe book is held in a separate place and access is limited to three officers. However:</p> <p>(i) regular independent checks of safe contents, is still to be undertaken, and evidenced with dates and signatures (report ref 5.5)</p>

							<p>(ii) an inventory of all assets has not been compiled and independently reviewed on at least an annual basis. Discrepancies have not yet been identified and recorded/ investigated nor has a copy of the inventory been saved on the Council network.</p> <p>The manager has advised that he is still awaiting a response from WITS regarding this issue (report ref 5.7).</p> <p>The relevant Chief Officer has been notified.</p>
Access Controls - CIVICA	26/08/11	21/02/12	3*	-	2	-	<p>1 recommendation implemented, the following not yet:</p> <p>Civica should be configured to conform to the Corporate Password Policy. Where this is not possible, compensating controls should be implemented to ensure the security of the information held within the application.</p> <p>The client is awaiting input on this from the third party software supplier. This will continue to be monitored by IA.</p> <p>The relevant Chief Officer has been made aware of this situation.</p>
Active Directory System	07/09/11	21/02/12	2*	2	2	-	<p>1. There should be a full review of all the accounts identified, and accounts which are invalid or no longer necessary should be disabled, and errors corrected.</p> <p>Expiry dates should be added for third party accounts.</p> <p>2. Promptly disable all user accounts for leavers</p> <p>3. The project to synchronise Active Directory with the HR system should be completed, as planned. It should be ensured that the proposed Active Directory structure mirrors the actual organisational structure of the Council as closely as possible.</p>

							<p>4. A procedure for authorising for changes or additions to the Active Directory groups should be documented and approved.</p> <p>We are advised that a project team is currently looking at this system. This will continue to be monitored and reported by IA.</p> <p>The relevant Chief Officer has been notified.</p>
Payment Card Industry – DSS	13/08/11	17/02/12	1*	1	-	-	<p>CSC Software should be upgraded to prevent audio recordings being made of card details disclosed over the phone.</p> <p>This is in progress, a contract has been agreed. IA will continue to monitor implementation of this recommendation.</p> <p>The relevant Chief Officer has been notified.</p>

Audits Identifying High Priority Recommendations

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. Actual recommendations are identified where the audit opinion provided is 1*:

Audit	Total Recs Agreed (H)	Recs Not Agreed	Audit Opinion Provided	High Priority Recommendations
St Werburgh's Catholic Primary School	6 (3)	-	***	Not applicable – 3* rating
Holy Spirit Primary School	13 (13)	-	*	<ol style="list-style-type: none"> 1. The Financial Procedures Manual should be updated to include all the relevant areas pertaining to the school's financial systems. Once updated, it should be presented to the full Governing Body for approval, and the approval should be minuted. <ol style="list-style-type: none"> 1a. All relevant staff should be made aware of the procedures through their distribution and the procedures should be followed at all times. 2. All purchase orders should be raised prior to the receipt of the invoice. 3. The non-order system should be used for utilities only, as per the financial procedures. 4. All deliveries should be independently checked and evidenced with a date and signature on the delivery note or equivalent record. 5. The Charge Policy should include the charges for all income

			<p>received in the school for meals for pupils and staff, school milk, and for letting/hiring charges.</p> <p>5a. The full Governing Body should agree the basis of charges regarding utilities costs, and where these costs are to be paid from. The Governing Body should also agree on whether the income from lettings/hiring's is to be paid into the school budget or the Voluntary Fund account</p> <p>5b. Once agreed the Charging Policy should then be approved by the governing body and evidenced in the minutes.</p> <p>6. The income record should be regularly reviewed by the manager, and evidenced with a signature and date.</p> <p>6a. Income records should be completed accurately and any cancelled records should be kept for auditing purposes.</p> <p>6b. All income should be banked in full before deductions.</p> <p>6c. All tabulations should be reconciled and evidenced with a date and signature.</p> <p>6d. An independent check of the income received to the income banked should take place regularly and be evidenced with a signature and date.</p> <p>7. A procedure should be in place to confirm receipt of income. If receipts are to be issued upon request then an official Wirral receipt book should be used.</p> <p>8. All applications for hiring/letting should be completed in full with amount due, dates paid, VAT details. These should be authorised by an appropriate delegated staff in accordance with financial procedures.</p> <p>8a. The conditions for hiring/lettings should be made available to all staff operating the system, and to all individuals and organisations hiring/letting the school premises.</p>
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			<p>8b. A hiring/letting diary should be maintained for reconciliation, monitoring and reviewing purposes</p> <p>9. All Governors should complete a Business and Pecuniary Interest form. The forms should be completed annually, and a nil return completed if appropriate.</p> <p>9a. A Register of Gifts and Hospitality should be prepared and made available to all staff. The register should be used to record all offers received and refused and should be subject to periodic review by the Headteacher.</p> <p>10. The full school inventory should be completed as soon as possible.</p> <p>10a. A regular independent check should be made of assets held and evidenced with a signature and date.</p> <p>11. The specific concerns previously raised in the administration of the Voluntary Fund account should be immediately addressed and rectified. Actions and outcomes should be noted in the Governing Body minutes.</p> <p>11a. Once audited, the accounts from the period August 2010 should be presented to the Governing Body.</p> <p>11b. Audited accounts should be presented to the Governing Body annually and evidenced in the minutes.</p> <p>12. Timesheets should be authorised in line with the authorised signatory list.</p> <p>12a. Governors should agree the authority signatory for authorising the Headteachers timesheets</p> <p>12b. Monthly independent checks should be undertaken on the payroll system and evidenced with dates and signatures.</p>
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				<p>12c. All casual staff should complete a declaration form for each employment period on the Employment Record Sheet, as detailed in the schools procedures on Payments to Casual Workers.</p> <p>13. The following items should be presented to the Governing Body on a regular basis for full approval, and these should be reflected in the minutes:</p> <ul style="list-style-type: none"> • Income credit income: credit policy, prompt issue of invoices, amendment/cancellation, collection policy, recovery policy, and write off policy. • Purchasing: policy on returned goods, partial payments, settlements of disputes, taking of cash discounts, • The Information Technology Strategy: the Internet Connection Policy & Code of Conduct for Internet Usage. • Data Recovery Procedures: are out of date and do not include details of roles and responsibilities. • The school's building Security Policy. • Security of Assets: Procedures covering the disposal and write off of assets, reporting of theft and losses and lost property. • Annual Review of Insurance arrangements. • Personnel and Payroll procedures: defining roles and responsibilities for recruitment, retention, and emergency payments.
St Peters School	6 (2)	-	***	Not applicable 3* rating
Well Lane Primary School	10 (7)	-	*	<p>1. <u>Financial Procedures Manual</u> -the following items should be presented to the Governing Body on a regular basis for full approval and clearly reflected in the minutes:</p> <p>Ethics Policy; Information Technology Strategy; Internet Connection Policy & Code of Conduct for Internet Usage; Security Policy; Security of Assets; Procedures covering the disposal and write off of</p>

			<p>assets, reporting of theft and losses and lost property; Bank account procedures; Capital expenditure procedures; Authorised Signatory List; Income procedures.</p> <p>2. <u>Insurance</u> - the school's insurance arrangements, including the insurance managed by the LA, should be reviewed and approved annually by the Governing Body. The Financial Procedures Manual should be updated to reflect the following three items. These items should be approved by the Governing Body and evidenced in the minutes.</p> <p>3. <u>Financial regulations</u> - the levels set for obtaining verbal and written quotes should be clearly defined in the Financial Procedures Manual. The level set for obtaining tenders, £10,000 in the Scheme for Financing Schools (Ref. 2.10.1d), should be reflected in the Financial Procedures Manual.</p> <p>4. <u>Scheme of Delegation and Authorised Signatory List</u> - to ensure an effective separation of duties, the Scheme of Delegation and the Authorised Signatory List should be reviewed and amended to ensure all staff on the Authorised Signatory List are allocated a delegated limit in their own right.</p> <p>5. <u>Personnel and Payroll</u> –</p> <p>a. The Financial Procedures Manual should be updated to include policies covering recruitment and resignations.</p> <p>b. All governors should complete a Business and Pecuniary Interest Form. The forms should be completed annually.</p> <p>c. All financial and payroll documents should be stored securely with access limited to authorised staff.</p> <p>d. A copy of the bank mandate should be requested from the bank and held at the school. Relevant staff should be made aware of the staff detailed on the mandate.</p> <p>e. Training should be provided to ensure that petty cash can be</p>
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				<p>balanced and reconciled by school staff. Procedures should clarify the expenditure permitted from the petty cash.</p> <p>f. The audited accounts for year ending March 2011 should be presented to the Governing Body and approved. Approval should be minuted. On an ongoing basis, the audited accounts should be presented to the Governing Body annually and evidenced in the minutes.</p> <p>g. The budget for 2011/12 should be approved retrospectively by the Governing Body and evidenced in the minutes.</p>
Castleway Primary School	4 (2)	-	**	Not applicable - 2* rating
Cultural Services Establishments	13 (13)	-	*	<p>1. An Income procedures manual should be produced which explains the procedures governing the operation and management of income control at all establishments.</p> <p>2. The procedures should incorporate the following areas.</p> <ul style="list-style-type: none"> • Collection of cash income and including cheque receipts • Recording of income • Commission policy and procedures • Donations policy and procedure • Separation of duty details. Roles and responsibilities • Monitoring and reviewing process. • Debt management • Charging policy and procedures • Letting's/hiring's policy and procedures • Official receipts • Banking procedures • Security of income

				<ul style="list-style-type: none"> • Retention of records timetable • Insurance Cover details <p>2. Income Procedures should be documented and made available to all staff involved in the income system across all establishments. The documented procedures should incorporate appropriate controls, which all staff should adhere to in all cases.</p>
Gifts and Hospitality - DASS	1 (1)	-	*	A Gifts and Hospitality register for the department must be established and maintained immediately and the Councils policies and procedures on gifts and hospitality must be adhered to across the department.
Pensby High School for Girls	6 (3)	-	**	Not applicable 2*