

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

14 JUNE 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 2.7.
- 1.3. The Internal Audit Plan for 2012/13 was approved by this Committee at its meeting in March 2012.
- 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.

2.0 BACKGROUND AND AUDIT OUTPUT

- 2.1. This report summarises the audit work completed during the period 1st March 2012 to 31st May 2012. The specific nature of the work that has been undertaken or is currently ongoing is identified in Appendix I. 42 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 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. This is particularly important at the present time as the requirement for Internal Audit involvement in a number of important corporate initiatives has increased dramatically.

2.3. Due to significant shortfalls in staffing resource experienced during 2011/12 and the resulting problems that this caused regarding delivery of the audit plan this situation will continue to be monitored and reported to Members, the Chief Executive and the Section 151 Officer for appropriate remedial actions to be taken.

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. These all identify appropriate timescales for the implementation of recommendations agreed to mitigate or remove weaknesses.

2.7. Items of Note

(a) 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 progressing well. A number of proactive audits designed to detect any fraudulent activity across a number of systems have been completed in the following areas:

Payroll – Ghost Employees
Credit Cards
Corporate Travel

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 delivery of a new Money Laundering presentation to over three hundred front line staff. Feedback has so far been excellent with over 84% of recipients indicating that the sessions had exceeded expectations, raising awareness of this potential risk and how to report any concerns.

The team is currently providing professional input to six investigations that are currently ongoing across the Authority.

Work has also been completed 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 indicate that a significant amount of work has been undertaken since the previous exercise and the Council now has many areas of good practice in operation that complies with current best professional practice. However, a number of areas are identified where further work is required and a number of assignments have been included in the Counter Fraud audit plan to assist officers in improving arrangements in these areas. In some cases, it is acknowledged that work has already begun and the outcome of this will be reported to this Committee in due course:

- Further publicising the Whistleblowing Policy;
- Developing a more holistic approach to fraud investigation across the authority;
- Quantifying losses to fraud and corruption on a council-wide basis;
- Ensuring investigating officers have the necessary authority to obtain information;
- Provision of a corporate code of ethics for all investigating officers;
- Creating a central point for receipt and recording of all investigation reports to help identify council-wide weaknesses;
- Removing any ambiguity and contradictions from key policies;
- Applying a consistent approach to sanctions, prosecution and police referrals across the council.

(b) Court of Protection

An audit is currently being undertaken of the Court of Protection system to evaluate the effectiveness of the controls in operation. This is the system whereby the Director of Adult Social Services has responsibility for the management of the finances of an adult who lacks the capacity to manage their own affairs and has no other person to assist. A meeting was held with the Director of Adult Social Services to alert him of the emerging findings ahead of the production of the report on account of their being significant issues identified. It is anticipated that the opinion on the control environment will be a 1 * rating with potentially 18 high priority recommendations, based upon the findings at this moment in time. Issues currently identified include the following:

- A lack of any documented procedures or consistent way of working, so that there is no assurance that the requirements of the Office of the Public Guardian (the government body who oversees such cases) are being met;
- A lack of adequate control over the clients' bank accounts held and the payments made;
- Potential care implications of closing the case to social workers once COP status is assigned.

The Directors response has been very positive, and there are indications that some urgent actions have already been taken to address identified weaknesses.

The report is due to be finalised later this month and will include more detailed information relating to the audit and the findings; an action plan will be included identifying all of the recommendations and the timescale for implementation. Members of this Committee will continue to be kept informed of the progress being made by the department to address these issues.

(c) Procurement of Commissioned Care

Work has recently been undertaken to review systems in operation over the procurement of commissioned care by DASS. The review focussed upon the compilation and update of lists of care providers, the responsibilities within the decision-making process in allocating care packages, and ongoing liaison and monitoring of the quality of care provided. The exercise also involved us testing a sample of payments, contracts, and monitoring frameworks. The audit report identified a number of areas of significant weakness in control and included five high priority recommendations to address these issues; these have been agreed with management and are identified at Appendix 2. Internal Audit will be undertaking follow up work in July of this year to evaluate progress made and any issues identified will be reported to Chief Officers and Members at the next meeting of this Committee.

(d) Children In Need

An audit is currently being completed of the system in operation within CYPD for utilising the petty cash system to provide cash payments to children (parents/guardian) in exceptional circumstances. This service is provided in law under s17 of the Children Act 1989.

The findings of the review indicated that there are fundamental weaknesses within the existing system in operation and a 1* opinion on the effectiveness of the control environment has been provided in a report to the Chief Officer that also identifies seven high priority recommendations covering all aspects of basic financial procedures. An action plan and implementation timetable in respect of these has been agreed and follow up work has been scheduled to evaluate progress made. Chief Officers and Members of this Committee will be notified in due course of the findings of this work. The actual recommendations are identified at Appendix 2 to this report.

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'.

REPORT AUTHOR: Mark P Niblock
Deputy Chief Internal Auditor
telephone: 0151 666 3432
email: markniblock@wirral.gov.uk

APPENDICES

- Appendix 1: Internal Audit Work Conducted/Ongoing – March to May 2012
Appendix 2: Follow Up of Audit Recommendations Status
Appendix 3: Audits Identifying High Priority Recommendations

REFERENCE MATERIAL

Internal Audit Plan 2012/13
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.

INTERNAL AUDIT PLAN 2011/12 and 2012/13

WORK CONDUCTED/ONGOING – MARCH TO MAY 2012

1. SYSTEMS

- (a) Finance
 - Housing Benefits Write Offs
 - Housing Benefits PO Payouts
 - NNDR Write Offs
 - Banking Contract
 - Risk Management
 - Pensions – Contributions

- (b) Law, HR and Asset Management
 - Corporate Governance
 - Payroll
 - Registrars
 - Risk Management
 - Compromise Agreements
 - Members Allowances/Expenses

- (c) Children & Young People
 - Governance
 - Children in Need Assessments
 - Financial Assessments
 - Metro Catering
 - Risk Management
 - Schools Bursar Support

- (d) Technical Services
 - Cultural Services Establishments
 - Payments (COLAS)
 - Risk Management
 - Governance

- (e) Adult Social Services
 - Procurement of Commissioned Care
 - Financial Protection
 - Governance
 - Swift Replacement
 - Risk Management

- (f) Regeneration Housing
 - Grants
 - Governance
 - Risk Management
 - Vehicle Fleet Management
 - European Social Fund

- (g) Corporate Systems
 - Annual Governance Statement
 - National Fraud Initiative
 - Performance Indicators
 - Contracts Completion
 - Conflict Declarations
 - Gifts and Hospitality
 - Constitution
 - Corporate Contracts
 - Risk Management
 - Controlled Stationary

2. **SCHOOLS**

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

3. **ICT**

- (a) Social Networking
- (b) Webmail
- (c) HR Self Service
- (d) Removable Media
- (e) Mobile Phones

4. **ANTI-FRAUD**

- (a) National Fraud Initiative
- (b) Counter Fraud Awareness exercise
- (c) Corporate Credit Cards
- (d) Members Expenses
- (e) Overseas Travel
- (f) Car Hire

5. **INVESTIGATIONS**

The service is currently providing support and input to seven active cases.

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	
Cashiers - Establishment Bankings	09/11	02/12	3*	1	1	2	All implemented
Payroll Control & Compliance	11/11	4/12	3*	0	1	1	All implemented
Removable Media	05/11	11/11 04/12	1*	5	4	0	<p>4 High priority recommendations are outstanding however we are aware that this issue was discussed at the Information Strategy Group (ISG) on 19th April 2102, where it was agreed that an action plan to implement the outstanding recommendations would be circulated to ISG for agreement, whilst acknowledging that:</p> <ul style="list-style-type: none"> • Access to USB ports will be restricted, via the McAfee solution, and enabled on a case by case basis when authorised following a business case. • Communication to staff is key. A global email will be circulated identifying key stages and dates and what is required of staff. <p>The outstanding Recs are:</p> <ol style="list-style-type: none"> 1. A Corporate Risk Assessment should be performed, by an appropriate senior corporate group, to identify business areas in which the use of removable media is appropriate or should not be allowed. Identified risks should be recorded in the developing ICT Risk Register.

							<p>2. Consideration should be given to:</p> <p>a) Disabling the use of USB ports for unauthorised devices</p> <p>b) Developing a procedure for enabling USB ports where a legitimate business case exists.</p> <p>As a total prohibition may have a negative impact on service delivery, for example where there is a legitimate requirement to upload digital photographs in Technical Services, it is recommended that effort is targeted in high risk areas as identified in 1.</p> <p>It is acknowledged that significant costs may be incurred in "locking down" all desktop / laptop configurations. The risks, costs and benefits should be considered by ISG.</p> <p>3. The iProcurement catalogue should be updated to include only media which conform to Authority standards for encryption.</p> <p>4. Guidance should be given on the secure use of USB Flash Drives, such as how to enable and configure security options. Guidance should also state how devices are to be labelled, if at all, to reduce their attractiveness to unauthorised users.</p>
Mobile Phone Usage	09/11	04/12	1*	5	2	0	<p>All recommendations remain outstanding however we understand that action is currently being undertaken by officers to address these issues by:</p> <ul style="list-style-type: none"> • Determining a new policy (which is with HR to progress), • Identifying officers who currently have a mobile phone, and recording this on an asset register. • Introducing a reduced ability to order different types of phones in a more controlled environment via iProcurement.

						<ul style="list-style-type: none"> • Allowing private phone calls to be made, subject to an automated recharge in relation to the cost of the calls. <p>Outstanding recommendations:</p> <ol style="list-style-type: none"> 1. The Mobile Phone Policy should be subject to a joint review by the Department of Law, HR and Asset Management and the Department of Finance with all further findings and recommendations made in this report considered for appropriate inclusion. It is recommended that the policy is owned by Human Resources as a corporate policy. 2. Internal Audit maintains that centralising the processes for managing the Authority's mobile phone system would provide greater control than the current decentralised arrangements. However, if this can not be implemented due to factors such as resource implications, it is then recommended that Human Resources: <ol style="list-style-type: none"> i. Utilise the HR system as a repository for maintaining records of all employees that have been issued a mobile phone, including defining a process to ensure that these records are updated accordingly; ii. Consider if pre-determined roles that require mobile phone technology can be identified, in collaboration with Council Chief Officers, and included within appropriate HR systems; iii. Develop a business case template for employees requesting a mobile phone; and iv. Establish a process for the transfer of mobile phones between employees or suspending/removing devices from the supplier's contract. 3. To ensure the Council is not continuing to pay for unused/unauthorised mobile phones, the Finance Department should provide Chief Officers with a list of all
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							<p>unknown mobile numbers in order for them to be identified. Action should then be taken to suspend/cancel appropriate mobile phone lines as appropriate.</p> <p>4. A procurement group should be established, consisting of representation from IT Services and Corporate Procurement, to review the use of high end mobile phones in the Council. The procurement group should establish:</p> <p>i. The specification and selection of suitable handsets that are based on cost, technology infrastructure and user needs that should be included in the future contract tender documentation;</p> <p>ii. The compliance requirements in respect to Government Connect Code of Compliance (CoCo) for any mobile phone deemed appropriate for use by the Council; and</p> <p>iii Whether any approved mobile phones and dongles can be classified as catalogue items on the i-Procurement system instead of going through the non-catalogue route process to provide greater control.</p> <p>5. IT Services, in consultation with the Payments Manager, should identify the required information that should be collected at the point of order for all mobile phones to ensure electronic billing can be utilised efficiently and effectively and expenditure can be coded to the correct cost centre. Additionally, it should be ensured that all mobile phone orders are included as part of the electronic billing process.</p>
Orretts Meadow Primary School - Payroll and Personnel systems.	11/11	04/12	3*	2	1	2	All implemented

Registrars	07/11	04/12	1*	10	0	0	<p>5 recs were partially implemented, 3 not implemented:</p> <ol style="list-style-type: none"> 1. i. A regular independent check should take place of the payroll summary sheet to the wedding diary and be evidenced with a signature and date. <li style="padding-left: 2em;">ii. The system for recording details of all ceremonies should be reviewed to show all information clearly. 2. A review of the collection, recording and banking of all income should take place to include a separation of duties and evidence to confirm. These procedures should be documented and included in the procedures manual. 3. An independent check should take place of the record of certificates issued or spoilt by the Registrars who work independently. This should be evidenced with a date and signature.
St Annes Primary School Creditors	11/11	04/12	3*	1	1	0	All implemented
European Social Fund	11/11	04/12	3*	0	2	0	All implemented
St Georges Primary School: Dragon Club	08/11	04/12	1*	10	10	14	7 currently outstanding although remain within the implementation timetable agreed.

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
Controlled Stationery	5(1)	-	2*	Procedures for the administration of controlled stationery should be formally documented and be available for reference. The procedures should incorporate assigned responsibilities and ordering policies etc.
Hillside Primary School	7(2)	-	3*	<ol style="list-style-type: none"> 1. The school's procurement procedures should be adhered to all times specifically around the authorisation of payments. 2. 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 is allocated a delegated limit in their own right.
Vehicle Fleet Management	7(1)	-	3	Procedures for the acquisition of vehicles, maintenance of vehicles and the calculation of recharges and submission of journals should be documented, approved and made available to all appropriate officers. These procedures should be kept up to date to reflect any changes that are made.
Risk Management Framework	2(2)	-	2*	<ol style="list-style-type: none"> 1. The Executive Team and all senior management should be fully communicated with to ensure full support for the Risk Management approach.

				2. The Risk Management Module should be included within the project management system.
DASS Procurement Of Commissioned Care	5(5)	-	2*	<ol style="list-style-type: none"> 1. Risk assessment methodology should be devised for visits to Care Homes and Care Providers. 2. Sub analysis codes should be reviewed. 3. A Clear evidence trail as to why a specific provider has been selected should be maintained at all times. 4. Formalised links with other Councils regarding satisfaction of care provided to the client should be developed. 5. Clearly evidenced links with the Care Quality Commission should be maintained at all times.
Financial Assessments – Personal Finance Unit	4(1)	-	2*	<p>To improve data quality and ensure that a consistent approach is applied to the calculation of financial assessments, management checks should be undertaken and used to:</p> <ul style="list-style-type: none"> • Quantify the results from the checks; consider the reasons for errors and the impact, • Monitor performance over time, • Identify and implement appropriate training and other corrective action.
Children in Need Payments	9(7)	-	1*	<ol style="list-style-type: none"> 1. Comprehensive review of procedures and ensure all locality offices comply with these. 2. A receipt should be obtained and held on file for the total value of the payment issued. If a receipt has not been obtained the reason

				<p>should be documented appropriately.</p> <p>2.i. All PB11A forms should be authorised and dated before a payment is issued.</p> <p>2.ii Head of Branch (HOB) documents should be completed appropriately including the name of the approving officer.</p> <p>2iii The procedures should be updated to include the level above which a HOB should be obtained. All localities should adhere to the correct procedure for HOB approval.</p> <p>2iv Access, alteration and approval of the HOB document should be limited to authorised staff.</p> <p>3. The parent/carer should sign and date the PB11A form to confirm a payment has been received.</p> <p>4. Emergency cash payments should be monitored and action taken as appropriate Evidence of monitoring should be held on file to confirm. Consideration should be given to allocating a separate code for emergency cash payments</p> <p>5. Cash should be held in a safe which is locked unless access is required. Access should be limited to authorised staff. Consideration should be given to reducing the number of staff authorised to issue payments.</p> <p>6. The Planning and Resources Branch should liaise with the Accountancy Section to discuss updating the annual petty cash return document to ensure that it includes the requirement to record the bank balance. Furthermore, the £272.72 interest identified as the variance for one locality should be clarified as to what action should be taken.</p> <p>7. The discrepancy highlighted on the petty cash return for one locality should be investigated and resolved. Internal audit should be informed of the outcome.</p>
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Calday Grange Grammar School	8(6)	-	1*	<ul style="list-style-type: none"> • Review, update and approval of authorised signatories • Review and approval of limits of delegated authority • Review, update and approval of Financial Procedures Manual to reflect current activities • Clear separation of duties in the lettings system • Raising of orders prior to the service or supply of goods. • Review and increased clarity of school's financial regulations, covering levels for verbal and written quotations
Brackenwood Junior School	15(14)	-	1*	<ul style="list-style-type: none"> • Updating of Financial Procedures Manual to include all areas • Opportunity to make a Declaration of interest at all Committee meetings • Separation of duties re payroll, debtors and creditors • Data Protection registration document update • Prepare inventory • Petty cash balancing and reconciliation • Payroll documents checking and authorisation • Level for obtaining verbal quotes should be set and approved • Review of authorised signatory list and delegated limits • Use of non order system for items other than utilities • Charge policy production and approval • Receipting • Meals income recording, reconciliation and review • Key holding • Licence agreement for letting of school premises.