Audit Committee – 25 June 2007

Internal Audit Activity for the Year Ending 31 March 2007

Summary of report

This report presents internal audit's activity for the year ended 31 March 2007, outlining ongoing and completed work and providing performance information.

Recommendations

1. **To note that in 2006/7 internal audit had delivered on all of its performance targets; maintaining a high level of overall performance for the year.**
2. **To select for detailed scrutiny, a sample of completed audit reports from the list at Appendix 4.**

Carole Evans – Executive Director (CFO)

11 June 2007

Governance issues

The Audit Committee's activities include ensuring that an effective internal control environment is maintained and regular and ongoing scrutiny of internal audit work. This report supports the committee in exercising that role.

The Accounts & Audit Regulations 2003, as amended by the 2006 regulations, require councils to maintain an adequate and effective system of internal audit of accounting records and system of internal control in accordance with proper practices in relation to internal control. Under s151 of the Local Government Act 1972, the Council has designated the executive director (corporate services) as the chief finance officer, who is responsible for making arrangements for the proper administration of the Council's financial affairs.

Resource and legal considerations

The cost of providing internal audit is fully charged to services based on audit activity**.**

Citizen impact

Internal audit work is intended to ensure that effective systems of internal control are in place. This protects the Council and its officers and provides an assurance to stakeholders regarding the security of our operations.

Performance management and risk management Issues

Many Audit Committee activities are an important and integral part of the Council's performance management and corporate governance frameworks. The internal audit strategic plan is risk assessed to ensure areas most at risk are examined as a priority. **Appendix 5** shows quality targets and performance indicators (PIs); summarised below.

Quality Targets/PIs (e.g. Response Time)	% Target	% Achieved 2006/07	% Achieved 2005/06
Audits completed within planned time	**95**	**96**	95
Spending within budget	**100**	**100**	100
Productivity rate	**65**	**73.1**	74.2
Audit plan achievement	**90**	**96.0**	96.2
Report issued within 10 working days of exit meeting	**80**	**84**	92
Recommendations agreed	**95**	**98**	98
Returned customer questionnaires to show satisfaction	**95**	**100**	100
Overall perception of service quality from Council wide corporate services' survey	**95**	**96**	-

At the year end, the service had delivered in all of its performance targets, maintaining a high level of overall performance for the year.

On completion of an audit review, a recommendation action plan is agreed with the relevant directorate manager who is then responsible for ensuring its implementation. A level of 73% and 74% respectively was achieved in each of the last 2 years against a target of 95%. A level of 79% was achieved at year end.

Implementation of audit recommendations is a directorate manager's responsibility, and it is important that agreed recommendations are promptly actioned by accountable managers as this helps to secure and strengthen the internal control environment. In order to assist with performance improvement in this area, an audit follow up process is in place which is briefly described as follows:

- Internal audit advise all managers subject to audit review that failure to implement agreed audit recommendations may result in their being called to the Audit Committee to provide explanation.

- Within a short period of completing the review, formal confirmation is sought from the manager that agreed recommendations contained within the audit report action plan have been implemented. This will require, without exception, formal responses to be received from a manager to confirm actions taken.

- A schedule of audit jobs and recommendations agreed and confirmed as implemented is presented quarterly to executive directors.

- The schedule now appears on directorate leadership team agendas and executive directors seek formal confirmation from their managers that audit recommendations have been actioned by the agreed dates, and that they have formally responded to audit correspondence.

- For SIC purposes executive and assistant directors signed and returned their schedule to internal audit confirming that managers had taken appropriate action to implement agreed recommendations.

Formal confirmation of implemented recommendations is sought at the next audit visit

Consultation

The proposed annual work plan was discussed with relevant senior directorate managers during April and May 2006. Following completion of each piece of audit work, and before issuing the final version, the manager's agreement to implement recommendation(s) listed in the audit report action plan is obtained.

Background papers

Internal audit reports/quarterly monitoring reports.

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INTERNAL AUDIT - REPORT FOR THE YEAR ENDING 31 MARCH 2007

Audit Plan, Performance and Resourcing

Internal audit coverage is determined using a risk assessment and high risk areas are audited as a priority. **Appendix 1** shows planned activity for 2006/7; summarised below:

2005/6		FULL YEAR WORK PLAN DETAILS	2006/7	
DAYS	**%**		**Days**	**%**
1,605	68	Systems/probity inc computer, contract , council strategic)	1,367	61
771	32	Irregularity/consultancy requiring urgent attention	889	39
2,376	**100**	**TOTAL**	**2,256**	**100**

Appendix 2 compares actual v planned activity for the year and is summarised below.

DESCRIPTION	Estimated days for year	Actual days for year	%
Available weekdays	2,996	3,061	
Less: allowances:			
Leave, bank holidays	(-) 445	(-) 443	
Administration	(-) 149	(-) 147	
Contingency/other lost time (inc sickness)	(-) 86	(-) 189	
Vacancies	-	(-) 35	
Training & development	(-) 60	(-) 34	
SUB TOTAL	**2,256**	**2,213**	
Time allocation:			
Systems/probity	1,367	1,295	58
Irregularity/consultancy	889	932	42
TOTAL	**2,256**	**2,227**	**100**

The Appendix shows that although 2,256 net productive days were estimated to be available, actual days were 43 less, at 2,213 days. This was due to unbudgeted sickness/medical appointments (29 days), compassionate/special leave (14 days), induction training for new auditor (14 days); contingency / admin (34 days), vacancies (35 days), paternity leave (10 days), assistant auditor reduced hours (7 days) but was offset by additional work undertaken by our partner (72 days), savings of 26 days on training and 2 days on leave/bank holidays.

At 1 April 2006, the service's establishment comprised 12 posts (11.5 FTEs). The structure and team responsibilities are shown at **Appendix 3.** An assistant auditor resigned wef 1 October 2006, and a new appointment made wef 20 November 2006.

Audit Work Allocation and Charging Basis

In March 2006 proposed work programmes and charges for 2006/7 were sent to executive directors and other senior managers. During April and May 2006 meetings took place with most of those officers to discuss and receive feedback on the proposals.

Each auditor has a personal annual work plan and is responsible for planning, monitoring and achieving their workload. All are aware of the service's quality indicators

and the need to not exceed planned times without prior approval from their manager. Where actual time exceeds planned time due to issues arising in the service being audited, additional costs are charged to the relevant service.

Performance

Overall Level

Based on the summary of actual time spent on assignments shown on **Appendix 2**, the productive/non-productive apportionment for 2006/2007 was as follows:

2005/06			2006/07	
%	Description	Days	Total Days	%
	Total available days		3,061	
	Less: vacancies		(-) 35	
100.0			3,026	100.0
	Non productive:			
13.0	Bank holidays/annual leave	443		14.6
2.0	Sickness/medical appointments	29		1.0
5.5	Administration	147		4.9
3.9	Contingency	136		4.5
0.2	Compassionate/special leave	14		0.5
0.2	Training – post entry	6		0.2
0.5	Training – other	28		0.9
-	Paternity Leave	10		0.3
0.2	Strike Action	-		-
0.3	Jury Service	-		-
			(-) 813	
74.2	Productive days		2,213	73.1
100.0				100.0

One of the service's performance targets was to achieve 65% productive time. It was pleasing to note that this achievement level remained above target.

A key performance target was to achieve 90% of the jobs within the audit plan. This has been overachieved in recent years despite higher than estimated time being spent on fraud, irregularity and consultancy work, placing pressure on the service. Although time spent on these areas was again high, budget provision was available for the year to enable planned work, which would not otherwise have been concluded, to be undertaken by our audit partner HW Consulting. 96.0% was achieved as follows:

Year	No of Jobs	No Completed	% Completed
2003/04	219	205	93.6
2004/05	165	157	95.1
2005/06	160	154	96.2
2006/07	175	168	96.0

Irregularity/Consultancy Work

This partly relates to potentially fraudulent activity reported under financial and contract rule 5 in respect of irregularities and confidential reporting in accordance with the

Council's whistleblowing policy and the *'Anti Fraud and Anti Corruption Policy and Strategy'.* The service also undertakes consultancy / advisory work, including corporate projects and initiatives, at the request of senior managers. The service has tackled a higher than anticipated number of irregularity/fraud inquiries during the period and although the 2006/7 plan had 889 days for irregularity / consultancy work, 932 days have been charged (43 extra).

This trend is likely to continue and due to the work having to be undertaken by in house officers, this excess work would clearly impact upon achieving our approved workplan. To overcome this problem some of the planned audit work was awarded to our external partner in accordance with the approved contract. Budgetary provision was available to pay for this work.

Probity/Systems Work

Nearly all assignments were completed within planned timescales during the period.

Computer Audit

This was undertaken by our audit partner and the programme comprised eight projects; IT/information security policy, general ledger application, web payments, IT transformation, cash receipting, Paris, UNIX / Oracle database security and physical and environmental security.

One of the projects received a good rating, five received an adequate rating and two were given a poor overall rating. Action plans were agreed with relevant managers to improve control arrangements.

Contract Audit

25 final accounts with a value of nearly £6.4m were cleared during the year. Advice on procedural improvements was provided on these accounts, along with other advice and assistance, to senior managers on financial and contract rules and the development of safe contracting processes.

While most contract reviews received a good or adequate overall rating, problems were noted with certain contracts in a failure to comply with financial and contract rules. Directorate managers have agreed to implement recommendations to ensure future recurrence is avoided.

Contingency (including sickness/absence)

This overhead is continuously monitored to ensure charges are minimised.

Overall Budget Position

The service has stayed within its approved budget spend for the year. Where possible, audit officers have spent less time on certain projects to enable the resultant savings to be used in covering audit assignments which would otherwise not have been undertaken. As referred to earlier, resources were also available within budget to enable work to be undertaken by our partner.

Progress Reports to Services

Directorates are charged monthly based on a share of the annual planned time for routine, regularity and system audits. Actual costs for irregularity/unplanned work are also charged. **Appendix 4** shows work completed and/or near completion. Of the 1,895 recommendations made 1,857 (98%) were agreed for implementation. Relevant managers are responsible for ensuring these are promptly implemented.

Performance Management

Internal audit has for a number of years participated in the CIPFA national benchmarking club. As part of this exercise the service continues to compare itself with upper quartile authorities to set even more challenging targets for improvement while also improving processes and achievement. Local performance indicators (PIs) at **Appendix 5** show that the service achieved in its indicators applicable for the year.

The PI relating to agreed recommendations confirmed as implemented at the next audit visit has improved during the year from 74% to 79% as shown on Appendix 4. This indicator has been the subject of discussion at the Audit Committee, Members being concerned and taking a particular interest, to improve performance in this area. Arising from positive actions taken by the internal audit service, directorate managers and directorate leadership teams, an improvement has been achieved.

Some of the audit reviews shown in Appendix 4 were last undertaken several years ago and before the introduction of the revised follow up arrangements. This has clearly impacted upon achievement levels. Additionally certain managers were overly optimistic in their recommendation achievement timeframe. In a number of cases managers had failed to take appropriate steps even though they had confirmed to audit that action had been taken. These are also shown, among others, on Appendix 4.

Until 1 July 2006 should a manager not respond to internal audit correspondence regarding actions taken, there was an assumption that all recommendations had been implemented. This was proving not to be the case. Arising from Audit Committee comments, managers now have to respond, without exception, to internal audit requests for confirmation of recommendations implemented. To help this process, directorate leadership teams receive quarterly schedules of reports / recommendation status and require their managers to confirm to them the accuracy of responses provided to internal audit in relation to recommendations implemented.

For Statement of Internal Control (SIC) purposes all executive / assistant directors signed off the end of year schedule stating that they were satisfied that appropriate action had been taken by their managers to implement the agreed recommendations.

Other Initiatives

The service continues to work towards achieving the requirements of the Race Relations (Amendment) Act 2000 and the Commission for Racial Equality Standard for Local Government. The service is part of the finance, law and performance equalities board and is currently working towards achieving level 3 of the Commission for Racial Equality Standard for Local Government. The service has a current *Investors in People* recognition.
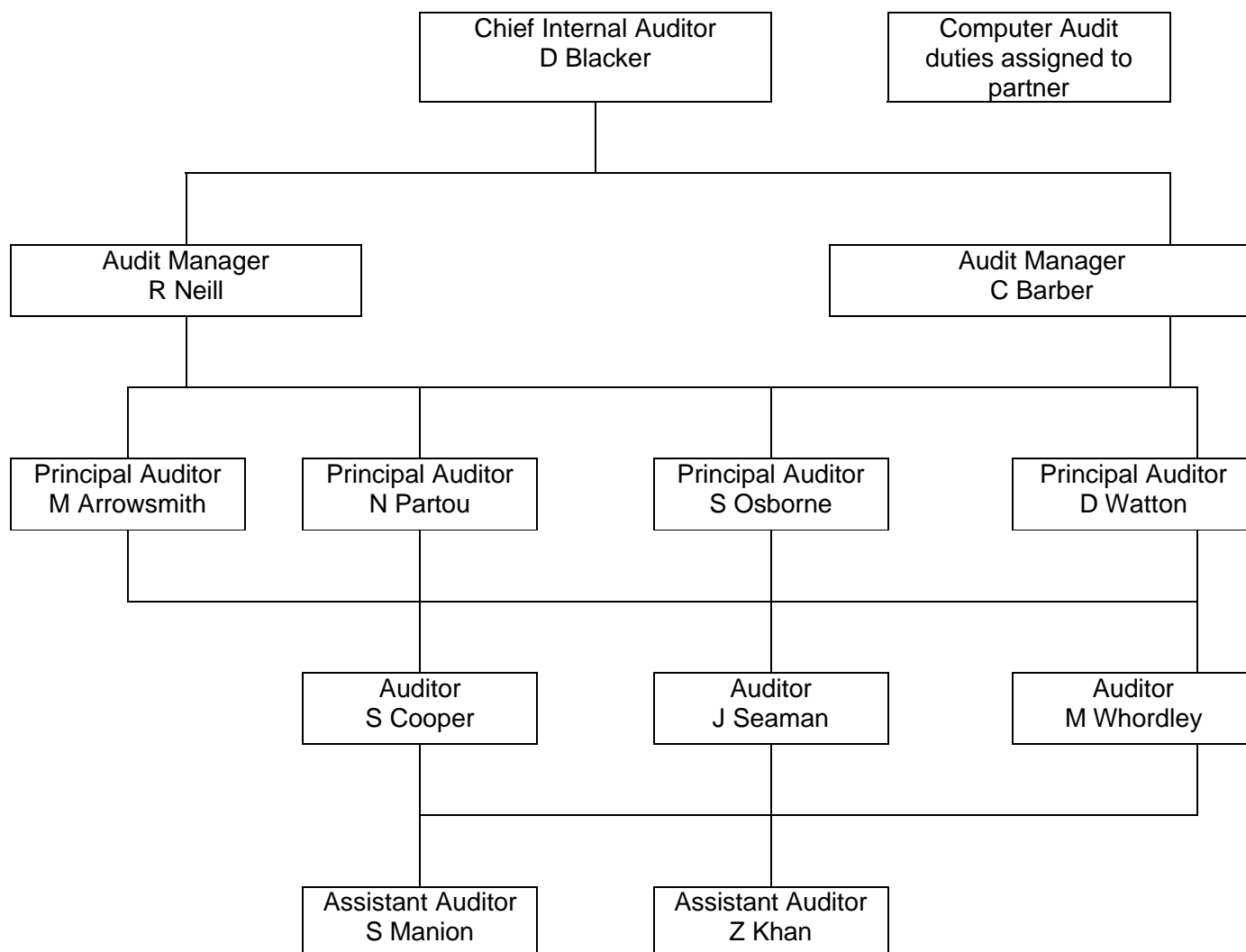
INTERNAL AUDIT– AUDIT FULL YEAR PLANNED TIME 2006/07

	Team 1	Team 2	Comp Audit	CIA	Grand Total
Available days	1,170	1,456	110	260	2,996
Allowances					
Annual Leave	128	154	-	30	312
Bank Holidays	54	67	-	12	133
Sickness	-	-	-	-	-
Sub Total (a)	182	221	-	42	445
Administration	20	20	-	109	149
Contingency	53	32	-	1	86
Training – Post Entry	5	-	-	-	5
- Other	22	28	-	5	55
Sub total (b)	100	80	-	115	295
PLAN DAYS AVAILABLE	**888**	**1,155**	**110**	**103**	**2,256**
Allocation :					
FR6/Unplanned	402	425	-	62	889
Systems	379	291	-	-	670
Regularity	91	277	-	20	388
Computer	-	-	110	-	110
Contracts	-	130	-	-	130
Council Strategic	16	32	-	21	69
TOTAL	**888**	**1,155**	**110**	**103**	**2,256**

INTERNAL AUDIT– AUDIT ACTUAL TIME – YEAR ENDING 31 MARCH 2007   **APPENDIX 2**

	Team 1 (2)	Team 2 (3)	Cons (4)	CIA (5)	Total (6)	ORIGINAL Full Year (7)	DIFFERENCE Col (7) - Col (6) (9)
Available days (a)	1,170	1,449	182	260	3,061	2,996	65
Less:							
Annual Leave	124	151	-	30	305	312	7
Bank Holidays	58	68	-	12	138	133	(-) 5 loss
Elections	-	1	-	2	3	-	(-) 3 loss
Compassionate Leave	4	6	-	-	10	-	(-) 10 loss
Paternity Leave	10	-	-	-	10	-	(-) 10 loss
Vacancies	-	35		-	35	-	(-) 35 loss
Special Leave	1	3		-	4	-	(-) 4 loss
Sickness/Medical Appointments	16	13	-	-	29	-	(-) 29 loss
Administration	15	42	-	90	147	149	2
Contingency	83	50	-	-	133	86	(-) 47 loss
Training - Post Entry	6	-		-	6	5	(-) 1 loss
- Other	8	14	-	6	28	55	27
Sub Total (b)	325	383	-	140	848	740	(-) 108 loss
Plan days available (a) - (b) Comprising:	**845**	**1,066**	**182**	**120**	**2,213**	**2,256**	**43 less** days available
Unplanned	382	456	-	94	932	889	(-) 43
Systems/Regularity/VFM	457	531	82	44	1,114	1,127	13
Computer	-	-	70	1	71	110	39
Contract	2	75	30	3	110	130	20
GRAND TOTAL	**841**	**1,062**	**182**	**142**	**2,227**	**2,256**	**29 less** days available

INTERNAL AUDIT
1)   Establishment and   2) Team Responsibilities - 31 March 2007

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┌─────────────────────┐          ┌─────────────────────┐
│ Chief Internal      │          │ Computer Audit      │
│ Auditor             │          │ duties assigned to  │
│ D Blacker           │          │ partner             │
└─────────────────────┘          └─────────────────────┘
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Audit Manager R Neill			Audit Manager C Barber
Principal Auditor M Arrowsmith	Principal Auditor N Partou	Principal Auditor S Osborne	Principal Auditor D Watton
	Auditor S Cooper	Auditor J Seaman	Auditor M Whordley
	Assistant Auditor S Manion	Assistant Auditor Z Khan	

2)   Committee/Service Area Responsibilities

Team 1:
Finance
Performance
Legal Services (inc democratic)
Human Resources
Children & Families
Communications
Adult Services
Housing Services
ISS
Business Support

Team 2:
Economic Regeneration
Physical Regeneration
Environmental Regeneration
Walsall Borough Strategic Partnership
New Deal
Built Environment
Safer Walsall Borough Partnership
Neighbourhood Partnership & Programmes
Leisure Culture & Lifelong Learning
Education Client/Schools
Youth & Community
Procurement
Contract
Computer

INTERNAL AUDIT

QUALITY TARGETS/PERFORMANCE INDICATORS – YEAR ENDED 31 MARCH 2007

Quality Targets/PI's (e.g. Response Time)	% Target	% Achieved 2006/2007	% Achieved 2005/2006	% Achieved 2004/2005	% Achieved 2003/2004	% Achieved 2002/2003
Audits completed within planned time	95	96	95	95	98	90
Spending within budget	100	100	100	100	100	100
Productivity rate	65	73.1	74.2	70.1	70.4	66.5
Audit plan achievement	90	96.0	96.2	95.1	93.6	68
Report issued within 10 working days of exit meeting	80	84	92	94	90	80
Recommendations agreed	95	98	98	98	97	97
Returned customer questionnaires to show satisfaction	95	100	100	100	98	98
Overall perception of service quality from Council wide corporate services' survey	95	96	-	-	-	99

Note

1. The service now participates in the CIPFA national benchmarking club which enables comparison specifically with all similar type authorities (unitaries metropolitan districts).

For Information

Recommendations confirmed as actually implemented at next audit visit	95	79	74	73	73	76

This target is a directorate manager's responsibility but is included for information. Action is being taken by internal audit to improve achievement level.