

## **Audit Committee – 27 October 2009**

### **Internal Audit Activity for the Six Months Ending 30 September 2009**

#### **Summary of report**

This report presents internal audit's activity for the six months ending 30 September 2009, outlining ongoing and completed work and providing performance information.

#### **Recommendations**

1. To note that in 2009/10 internal audit had delivered on all but one 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.



**Rory Borealis – Executive Director**

**15 October 2009**

#### **Resource and legal considerations**

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

#### **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 undertaken. 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 assistant director - finance as the chief finance officer, who is responsible for making arrangements for the proper administration of the council's financial affairs.

#### **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 and citizens regarding the security of our operations.

## Performance 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 2009/10	% Achieved 2008/09
Audits completed within planned time	95	100	96
Spending within budget	100	100	100
Productivity rate	65	Est 65	74.8
Audit plan achievement	95	Est 95	95
Report issued within 10 working days of exit meeting	80	100	96
Audit report actions agreed	95	94	99
Returned customer questionnaires to show satisfaction	95	-	100
Overall perception of service quality from Council wide corporate services' survey	95	-	-

As at 30 September 2009, the service had delivered in all but 1 of its performance targets, maintaining a high level of overall performance for the year to date. It is anticipated that the audit report actions agreed target will be achieved by the year end.

### Implementation of agreed audit report actions

On completion of an audit review, an action plan is agreed with the relevant directorate manager who is then responsible for ensuring its implementation. Levels of 75% and 79% respectively have been achieved in each of the last 2 years against an original target of 95%.

The corporate management team (CMT) meeting on the 31 July 2008 agreed that, for the future, this target would be 100% for 3\* actions and 95% for 1\* and 2\* actions.

While the current level of achievement is showing a high return, as detailed at **Appendix 4**, few reviews have been completed to the half year. Many are ongoing or about to commence and a better position will be available for the December report.

The work to improve this target performance continues. Additionally, and as reported previously, the Chief Executive has made it very clear to his management team that he expects executive directors to take personal responsibility for ensuring improvement in this important area.

Following CMT's consideration of this matter earlier this year they have a much clearer understanding about the issues arising and their role in delivering the desired outcomes.

As previously reported, implementation of agreed actions is a directorate manager's responsibility, and it is essential that agreed actions are promptly dealt with 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 an audit review that failure to implement agreed actions may result in their executive and assistant directors 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 actions 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.
- High priority actions (3\*) are about to be subject to formal follow up by an audit officer to confirm implementation.
- A schedule of audit jobs and actions agreed and those formally confirmed as implemented by managers is presented quarterly to executive directors.
- The schedule now appears on directorate management team agendas and executive directors seek formal confirmation from their managers that agreed actions have been progressed by the agreed dates, and that their managers have formally responded to audit correspondence.
- For Annual Governance Statement (AGS) purposes executive and assistant directors are required, on a quarterly basis, to sign and return their schedule to internal audit confirming that managers have taken appropriate action to implement agreed actions.

Confirmation of implemented actions is also sought by auditors at the next audit visit

## **Equality implications**

Internal audit has full regard to equalities both within the internal audit service and in the services / activity under review. The service has achieved level 3 of the Equality Standard for Local Government.

## **Consultation**

The proposed annual work plan was discussed with relevant senior directorate managers during February 2009. Following completion of each piece of audit work, and before issuing the final version, the manager's agreement to implement action(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 SIX MONTHS ENDING 30 SEPTEMBER 2009**

### **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 2009/10; summarised below:

<b>2008/9</b>		<b>FULL YEAR WORK PLAN DETAILS</b>	<b>2009/10</b>	
<b>DAYS</b>	<b>%</b>		<b>Days</b>	<b>%</b>
1,633	66	Systems/probity (incl computer, contract , council strategic)	1,781	70
847	34	Irregularity/consultancy requiring urgent attention	772	30
<b>2,480</b>	<b>100</b>	<b>TOTAL</b>	<b>2,553</b>	<b>100</b>

**Appendix 2** compares actual against planned activity for the six months and is summarised below.

<b>DESCRIPTION</b>	<b>Estimated days for year</b>	<b>Proportion of days to 30.09.09</b>	<b>Actual days to 30.09.09</b>	<b>%</b>
Available weekdays	3,398	1,643	1,643	
<b>Less: allowances:</b>				
Leave, bank holidays	(-) 505	(-) 185	(-) 185	
Administration	(-) 149	(-) 75	(-) 90	
Contingency/other lost time (inc sickness)	(-) 88	(-) 45	(-) 175	
Vacancies	-	-	(-) 396	
Training & development	(-) 103	(-) 51	(-) 24	
<b>SUB TOTAL</b>	<b>2,553</b>	<b>1,287</b>	<b>773</b>	
<b>Time allocation:</b>				
Systems/probity	1,781	901	414	52
Irregularity/consultancy	772	386	379	48
<b>TOTAL</b>	<b>2,553</b>	<b>1,287</b>	<b>793</b>	<b>100</b>

The appendix shows that although 1,287 net productive days were estimated to be available, actual days were 514 less, at 773 days. This was due to unbudgeted sickness/medical appointments (68 days), higher contingency / admin (77 days), vacancies (396 days) but was offset by a reduced training requirement (27 days).

### **Staffing**

The service's establishment currently comprises 14 posts. The structure and team responsibilities are shown at **Appendix 3**.

An auditor was appointed wef 6 July 2009 and an assistant auditor is undertaking auditor duties on an honorarium basis. The service carries 2 vacant full time and 1 part time auditor positions (2.5). Assistance with potential candidates was sought from Starting Point and interviews held for principal auditor and assistant auditor positions. A temporary principal auditor has been appointed wef 1 October 2009 but appointment of an assistant auditor was not successful. Interviews for a temporary assistant auditor are anticipated to be held during November 2009.

### **Audit Work Allocation and Charging Basis**

In January 2009 proposed work programmes and charges for 2009/10 were sent to executive directors and other senior managers. During February 2009 meetings took place with most of those officers to discuss and receive feedback on the proposals. This resulted in a final workplan report to audit committee in March 2009.

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 were charged to the relevant service.

### **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 slightly lower than anticipated number of irregularity/fraud inquiries and consultancy requests during the year and although the 2009/10 plan had 772 days (386 pro rata for 6 months) for irregularity / consultancy work, 379 days have been charged (7 less).

### **Probity/Systems Work**

All assignments were completed within planned timescales during the period.

### **Computer Audit**

This work will be undertaken by our audit partner and the programme comprises eight projects; business continuity, project and programme management, information security management, protection against malicious software, payroll (Trent) including HRD portal, council tax (SX3), NNDR (SX3) and finance direct project.

### **Contract Audit**

2 final accounts with a value of just over £4.5m were cleared during the period. 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. In addition to reviewing financial and contract rules the service has also prepared a draft procurement code. This is under review by officers from within several directorates.

### **Contingency / Admin (including sickness/absence)**

This overhead is continuously monitored to ensure charges are minimised. The additional time charged includes staff instruction to newly appointed auditors (57 days), time spent on auditor recruitment (20 days) and sickness / medical appointments (68 days).

## **Progress Reports to Services**

Directorates were charged monthly based on a share of the annual planned time for routine, regularity and system audits. Actual costs for irregularity/unplanned were charged monthly based on time actually spent on projects. **Appendix 4** shows work completed and/or near completion. Of the 72 suggested actions made 68 (94%) were agreed for implementation. Relevant managers were responsible for ensuring these were 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 continued to compare itself with upper quartile authorities to set challenging targets for improvement while also improving processes and achievement. Local performance indicators (PIs) at **Appendix 5** show that the service is achieving in all but one of its indicators applicable for the year.

The PI relating to agreed actions confirmed as implemented achieved levels of 75% and 79% in each of the last 2 years. A high level achievement is shown for the half year although few reviews have been completed to date. Many are underway or about to start and a better picture will be available for the December report.

Following concerns expressed by Audit Committee and CMT, a clearer understanding is now in place which should improve performance in this area. Additionally an existing audit officer is about to undertake follow up work on the high priority (3\*) agreed audit report actions.

For Annual Governance Statement (AGS) purposes all executive / assistant directors are required to sign off each quarterly schedule stating that they are satisfied that appropriate steps are being / have been taken by their managers to implement the agreed audit report actions.

## **Training & Development**

An auditor has commenced her CIPFA 2<sup>nd</sup> year.

## **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 corporate services equalities board and has achieved 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 2009/10

	<b>Team 1</b>	<b>Team 2</b>	<b>Comp Audit</b>	<b>CIA</b>	<b>Grand Total</b>
<b>Available days</b>	<u>1,566</u>	<u>1,461</u>	<u>110</u>	<u>261</u>	<u>3,398</u>
<b>Allowances</b>					
Annual Leave	162	162	-	30	354
Bank Holidays	72	67	-	12	151
<b>Sub Total (a)</b>	<u>234</u>	<u>229</u>	<u>-</u>	<u>42</u>	<u>505</u>
Administration	20	20	-	109	149
Contingency	59	28	-	1	88
Training – Post Entry	20	20	-	-	40
- Other	30	28	-	5	63
<b>Sub total (b)</b>	<u>129</u>	<u>96</u>	<u>-</u>	<u>115</u>	<u>340</u>
<b>PLAN DAYS AVAILABLE</b>	<b><u>1,203</u></b>	<b><u>1,136</u></b>	<b><u>110</u></b>	<b><u>104</u></b>	<b><u>2,553</u></b>
<b>Allocation :</b>					
FR6/Unplanned	352	346	-	74	772
Systems	522	287	-	-	809
Regularity	86	351	-	20	457
Computer	-	-	110	-	110
Contracts	-	120	-	-	120
Council Strategic	243	32	-	10	285
<b>TOTAL</b>	<b><u>1,203</u></b>	<b><u>1,136</u></b>	<b><u>110</u></b>	<b><u>104</u></b>	<b><u>2,553</u></b>



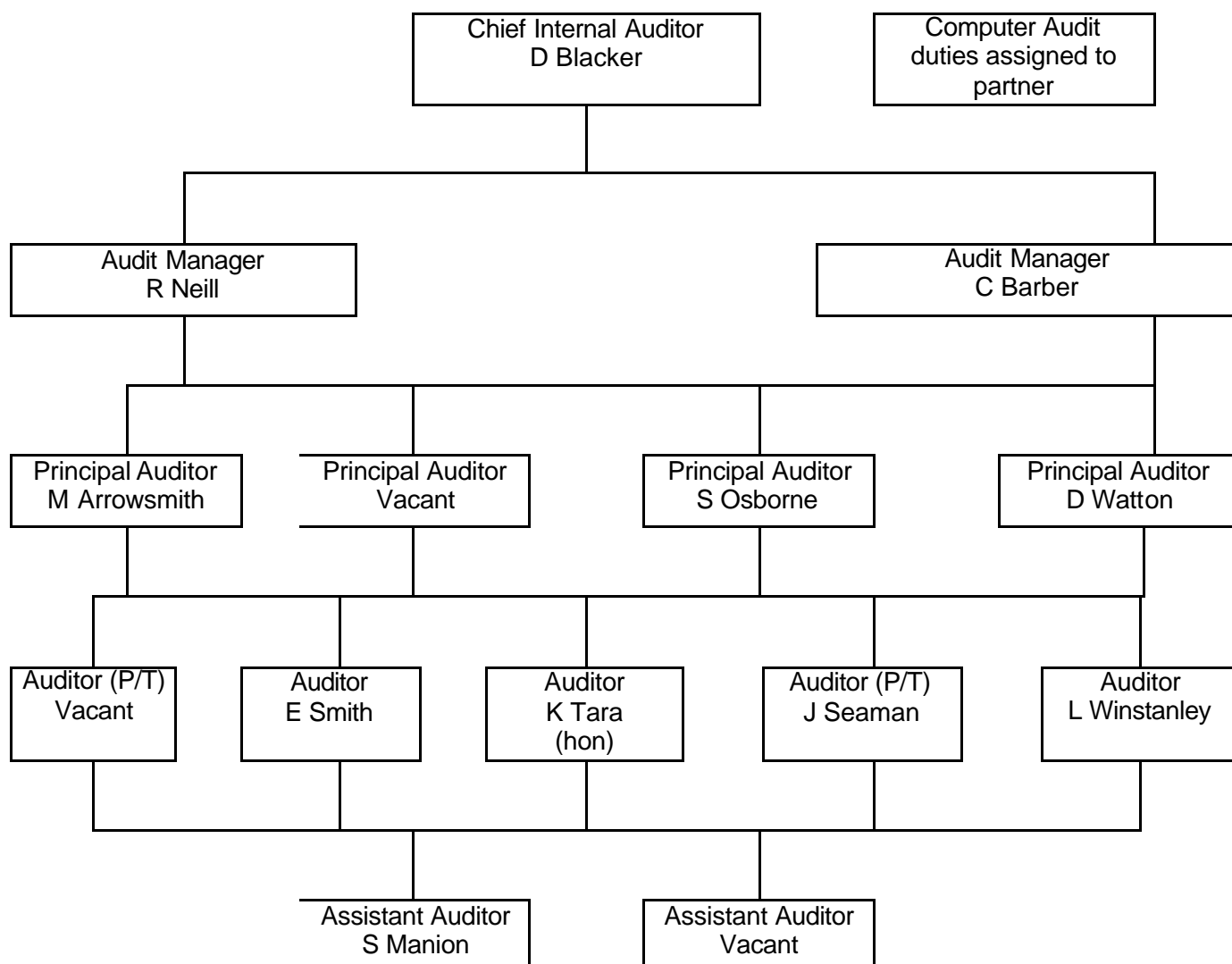
## INTERNAL AUDIT– AUDIT ACTUAL TIME – SIX MONTHS ENDING 30 SEPTEMBER 2009

## APPENDIX 2

					ORIGINAL YEAR		DIFFERENCE
	Team 1	Team 2	CIA	Total	Full Year	Pro Rata	Col (7) - Col (5)
	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>Available days (a)</b>	786	726	131	1,643	3,398	1,643	-
Less:							
Annual Leave	61	43	12	116	354	116	-
Bank Holidays	30	31	8	69	151	69	-
Elections	-	-	1	1	1	1	-
Vacancies	328	68	-	396	-	-	(-) 396 loss
Sickness/Medical Appointments	-	68	-	68	-	-	(-) 68 loss
Administration	13	27	50	90	149	75	(-) 15 loss
Contingency	32	74	-	106	87	44	(-) 62 loss
Training - Post Entry	20	-	-	20	40	20	-
- Other	-	3	1	4	63	31	27
<b>Sub Total (b)</b>	484	314	72	870	845	356	(-) 514 loss
<b>Plan days available (a) - (b)</b>	<b>302</b>	<b>412</b>	<b>59</b>	<b>773</b>	<b>2,553</b>	<b>1,287</b>	<b>514 less days available</b>
Comprising:							
Unplanned	145	194	40	379	772	386	7
Systems/Regularity/VFM	159	196	27	382	1,551	786	404
Computer	-	1	-	1	110	55	54
Contract	-	31	-	31	120	60	29
<b>GRAND TOTAL</b>	<b>304</b>	<b>422</b>	<b>67</b>	<b>793</b>	<b>2,553</b>	<b>1,287</b>	<b>494 less days available</b>

## **INTERNAL AUDIT**

### **1) Establishment and 2) Team Responsibilities - 30 September 2009**



### **2) Committee/Service Area Responsibilities**

#### **Team 1:**

Finance inc Revenues & Benefits  
Law & Constitutional Services  
Business Change  
HR & Development  
Strategic Housing  
Specialist Services  
Walsall Partnership  
Adult Services

#### **Team 2:**

New Deal  
Regeneration  
Building Schools for Future  
Universal Services  
Strategy & Governance  
Walsall Adult & Community College  
Neighbourhood Services  
Education Client / Schools  
Contract  
Computer

Ongoing	Draft	Final	Date of Final Report	Recommendations					Date of Last Audit	Conclusions
				Current Made	Current Agreed	Previous Agreed	Previous Act'd	Previous Not Due		
<b>Neighbourhood Services</b> Road Safety Unit           Street Cleaning / Grounds Establishment Trading Standards / Consumer Advice Fleet Services Environmental Health Division Pollution Control New Art Gallery <b>Schools</b> Christ Church JMI <b>Finance</b> Free School Meals Treasury Management		Traffic Management (*)	26.08.09	17	13	-	-	-	-	Internal audit is able to give a significant assurance opinion on the system of internal control operating within traffic management. Some good practices were noted during the audit, including; a good standard of joint working with other local authorities and external organisations, inspection and maintenance of traffic signal equipment, and health and safety. Some areas for improvement have been identified, including; ensuring that all administrative processes are documented in procedure notes and improving complaint response times. The prompt implementation of actions contained within this audit report will further assist in enhancing procedures undertaken. As this has been the first audit review of traffic management, there were no previously agreed actions to follow up.

Ongoing	Draft	Final	Date of Final Report	Recommendations					Date of Last Audit	Conclusions
				Current		Previous				
				Made	Agreed	Agreed	Act'd	Not Due		
<u>Universal Services</u> Playing for Success		Childrens Fund (*)	23.06.09	9	9	-	-	-	-	Internal audit is able to give a significant assurance opinion on the system of internal control operating within the children's fund.A number of good practices were noted during the audit, including the development of formal agreements between the council and lead agencies; the existence of a formal, documented and publicised governance structure; and the timely submission of grant returns. Invoices, supporting claims submitted to the Walsall Partnership (WP) in respect of children's fund tested, had been validated and authorised without exception. Funding had been received from the WP and coded to the appropriate nominal code. The responsibility to monitor the submission of claims and receipt of corresponding funding has been formally charged to the senior accountant. Areas for improvement have, however, been identified including the development of guidance notes to inform relevant staff of allowable expenditure; the reintroduction of appropriate, consistent service provider monitoring; and a review of terms of reference for governing bodies.The prompt implementation of actions contain
<u>Specialist Services</u> Stroud Avenue Family Centre Dale Street Family Centre Looked After Childrens Team										
<u>Adult Services</u> Occupational Therapy Home Care Service Community Alarm Service										

Ongoing	Draft	Final	Date of Final Report	Recommendations					Date of Last Audit	Conclusions
				Current Made	Agreed	Agreed	Previous Act'd	Not Due		
<b><u>Business Change</u></b>	Commissioning (*)	Scrutiny (*)	23.07.09	14	14	-	-	-	-	Internal audit is able to give a limited assurance opinion on the system of internal control operating within scrutiny. A number of good practices were noted during the audit, including; a clearly defined scrutiny structure, comprising formally constituted and politically proportionate scrutiny panels which in turn are underpinned by formal terms of reference; regular scrutiny panel meetings; a well regarded member support team; intervention by scrutiny into corporate processes such as budget setting; the establishment of a member development steering group to oversee member training; and the use of the Cabinet forward plan to inform scrutiny work programmes. A number of areas for improvement have been identified, including: establishment of a formally constituted overarching scrutiny body with responsibility for scrutinising corporate issues such as overall council progress against headline targets; review and reinforce the working relationship between portfolio and scrutiny members; introducing formal protocols to ensure that reactive issues arising during the year are conveyed to scrutiny members in a timely manner; and ensuring that consultation mechanisms are in place.
<b><u>Regeneration</u></b> Land Charges	Strategic Regeneration (*) Environmental Management (*)									
<b><u>Housing Services</u></b>		Regional Housing Pot (*)	08.07.09	17	17	0	0	0	-	Internal audit is able to give a limited assurance opinion on the system of internal control operating within the regional housing pot. Some good practices were noted during the audit, including, an up to date housing renewal assistance policy available on the council's website and an affordable warmth strategy 2007-2010 exists, setting out the council's commitment to provide affordable warmth. A number of areas for improvement have, however, been identified including ensuring that office procedures in respect of certain elements of the housing pot have been documented and issued to relevant staff; and that controls regarding grant expenditure are significantly tightened; particularly regarding the selection of contractors, use of agency agreements and maintenance of audit trail. The prompt implementation of actions contained within this audit report will further assist in enhancing procedures undertaken. As this has been the first audit review of regional housing pot there were no previously agreed actions to follow up.

Ongoing	Draft	Final	Date of Final Report	Recommendations					Date of Last Audit	Conclusions
				Current Made	Agreed	Agreed	Previous Act'd	Not Due		
<u>All</u>	Partnership Frameworks (*)	Inventories / Stocks - Bloxwich Leisure Centre (*)	20.08.09	5	5	3	3	-	2005/06	Internal audit is able to give significant assurance opinion on the system of internal control operating within Bloxwich Leisure Centre. Several good practices were noted during the audit, including concise procedure notes, sound physical security, regular stock level checks, staff training arrangements and ongoing review of stock sales' performance. Some areas for improvement have been identified, including the introduction of stock spot checks and evidencing the authority to dispose of items. Of the three agreed actions which remain applicable from the last audit report issued in August 2006, all had been fully implemented at the time of this audit.
	Customer Consultation & Engagement (*)	Project Management (*)	19.08.09	7	7	-	-	-	-	Internal audit is able to give a significant assurance opinion on the system of internal control operating within project management. A number of good practices were noted during the audit including development of a sound project management framework and a comprehensive set of project management procedures. A project support office has been set up which provides project managers with training and support and provides management information to the directorate performance management boards and CMT. The council has invested in an automated tool, Mantix, to facilitate project managers in following project lifecycles and maintaining project documentation. Grant funding has been appropriately identified, projects adhere to capital finance reporting requirements, and a register of all projects is maintained by the project office support officer. Some areas for improvement have also been identified, including the need to create and update mandatory project documentation such as project requirement documents, project initiation documents, project control forms, risk registers and the need to ensure that actions from meetings are fully addressed. As this

Ongoing	Draft	Final	Date of Final Report	Recommendations					Date of Last Audit	Conclusions
				Current		Previous				
				Made	Agreed	Agreed	Act'd	Not Due		
<u>Contract Audit</u>	Corporate Governance (*)	Capital Accounting	26.08.09	3	3	2	2	-	2008/09	Internal audit is able to give a significant assurance opinion on the system of internal control operating within capital accounting. Some good practices were noted during the audit, including; the availability of up to date procedure and guidance notes, the project plan for implementation of capital accounting changes associated with the International Financial Reporting Standard (IFRS) and general maintenance and control of the fixed asset register. Some areas for improvement have, however, been identified including ensuring that an authorised valuation certificate for asset revaluations is obtained and placed on file, that depreciation is correctly and consistently calculated on all added value expenditure; and that there is a clear audit trail reconciliation from Oracle to the fixed asset register. Additionally, the potential to procure a be-spoke software package for maintenance of the fixed asset register should be researched. Such a system could assist the council in securing a consistent approach to the management and recording of fixed assets including the provision of up to date management information.
	Minor Highways Improvement Contract 2003 - 2005									
	Edgar Stammers School - Alterations									
Totals				72	68	5	5	0		
Total Percentage					94%		100%			

\* 2008/2009 audits carried forward into 2009/2010

07.10.09

## APPENDIX 5

### INTERNAL AUDIT

#### QUALITY TARGETS/PERFORMANCE INDICATORS – SIX MONTHS ENDING 30 SEPTEMBER 2009

Quality Targets/PI's (e.g. Response Time)	% Target	% Achieved 2009/10	% Achieved 2008/09	% Achieved 2007/08	% Achieved 2006/2007	% Achieved 2005/2006
Audits completed within planned time	95	100	96	95	96	95
Spending within budget	100	100	100	100	100	100
Productivity rate	65	Est 65	74.8	69.2	73.1	74.2
Audit plan achievement	95	Est 95	95	96.9	96.0	96.2
Report issued within 10 working days of exit meeting	80	100	96	97	84	92
Actions agreed	95	94	99	99	98	98
Returned customer questionnaires to show satisfaction	95	-	100	100	100	100
Overall perception of quality of service from Council wide Internal Audit survey	95	-	-	-	96	-

#### Note

1. The service has for some time participated in the CIPFA national benchmarking club which enables comparison specifically with all similar type authorities (unitaries / metropolitan districts).

For Information

Actions confirmed as actually implemented at next audit visit	3* 100 2* 95	100	75	78	79	74
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This target is a directorate manager's responsibility but is included for information. Action is being taken by internal audit to improve the achievement level.