

Audit Committee – 13 October 2008

Internal Audit Activity for the Six Months Ending 30 September 2008

Summary of report

This report presents internal audit's activity for the six months ending 30 September 2008, outlining ongoing and completed work and providing performance information.

Recommendations

- 1. To note that as at quarter 2 of 2008/9 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.**



James Walsh – Assistant Director of Finance (CFO)

7 October 2008

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 assistant director - finance 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 2008/09	% Achieved 2007/08
Audits completed within planned time	95	100	95
Spending within budget	100	100	100
Productivity rate	65	Est 65	69.2
Audit plan achievement	95	Est 95	96.9
Report issued within 10 working days of exit meeting	80	100	97
Recommendations agreed	95	100	99
Returned customer questionnaires to show satisfaction	95	100	100
Overall perception of service quality from Council wide corporate services' survey	95	-	-

As at 30 September 2008, 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, an action plan is agreed with the relevant directorate manager who is then responsible for ensuring its implementation. A level of 79% and 78% respectively has been achieved in each of the last 2 years against a previous 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*.

The current year's level is presently recorded at 75% as detailed within Appendix 4.

Implementation of agreed actions is a directorate manager's responsibility, and it is important 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 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 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 had taken appropriate action to implement agreed actions.

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

Consultation

The proposed annual work plan was discussed with relevant senior directorate managers during February and March 2008. 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 2008

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 2008/9; summarised below:

2007/8		FULL YEAR WORK PLAN DETAILS	2008/9	
DAYS	%		Days	%
1,401	60	Systems/probity (incl computer, contract , council strategic)	1,633	66
951	40	Irregularity/consultancy requiring urgent attention	847	34
2,352	100	TOTAL	2,480	100

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

DESCRIPTION	Estimated days for year	Proportion of days to 30.09.08	Actual days for year	%
Available weekdays	3,242	1,611	1,611	
Less: allowances:				
Leave, bank holidays	(-) 427	(-) 210	(-) 210	
Administration	(-) 149	(-) 75	(-) 53	
Contingency/other lost time (inc sickness)	(-) 90	(-) 46	(-) 93	
Vacancies	-	-	(-) 263	
Training & development	(-) 96	(-) 48	(-) 27	
SUB TOTAL	2,480	1,232	965	
Time allocation:				
Systems/probity	1,633	808	575	60
Irregularity/consultancy	847	424	390	40
TOTAL	2,480	1,232	965	100

The Appendix shows that although 1,232 net productive days were estimated to be available, actual days were 267 less, at 965 days. This was due to unbudgeted sickness/medical appointments (9 days), compassionate/special leave (8 days), higher contingency / admin (1 day), vacancies (263 days), industrial action (7 days) but was offset by a reduced training requirement to date (21 days).

The service's establishment currently comprises 14 posts. The structure and team responsibilities are shown at **Appendix 3**. One principal auditor resigned wef 10 September 2008. The service also carries 2 vacant full time and 1 part time auditor positions (2.5). The vacant posts have been advertised and interviews will commence shortly. A new auditor post has also been created which will be advertised in the near future.

Audit Work Allocation and Charging Basis

In January 2008 proposed work programmes and charges for 2008/9 were sent to executive directors and other senior managers. During February and March 2008

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.

WMLGA

The third year of this contract continues.

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 lower than anticipated number of irregularity/fraud inquiries during the period and although the 2008/9 plan had 847 days (424 pro rata for the 6 months) for irregularity / consultancy work, to the 30 September 2008, 390 days have been charged (34 less).

Probity/Systems Work

All assignments were completed within planned timescales during the period.

Computer Audit

This work is being undertaken by our audit partner and the programme comprises six projects; IT strategy, software licensing, network services, network strategy, back up strategy & procedures and SX3 (benefits). Most projects have commenced and draft reports are about to be issued.

Contract Audit

9 final accounts with a value of just over £5.9m 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.

Contingency (including sickness/absence)

This overhead is continuously monitored to ensure charges are minimised.

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 charged monthly based on time actually spent on projects. **Appendix 4** shows work completed and/or near completion. Of the 110 suggested actions made 110 (100%)

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 actions confirmed as implemented has disappointingly remained just below 80% over the last 2 years. A level of 75% has been achieved for the current year to date although few reports have been finalised. Arising from the Committee's concerns in this area, further steps have been taken with a view to improving performance to the recently agreed levels of 100% for 3* actions and 95% for 1* and 2* actions.

For Annual Governance Statement (AGS) purposes all executive / assistant directors will be required to sign off the end of year schedule stating that they are satisfied that appropriate steps have been taken by their managers to implement the agreed actions.

Training & Development

An auditor has commenced her CIPFA 2nd year and an Assistant Auditor is due to commence IIA shortly.

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 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 2008/09

	<u>Team 1</u>	<u>Team 2</u>	<u>Comp Audit</u>	<u>CIA</u>	<u>Grand Total</u>
Available days	<u>1,305</u>	<u>1,566</u>	<u>110</u>	<u>261</u>	<u>3,242</u>
Allowances					
Annual Leave	133	156	-	30	319
Bank Holidays	45	54	-	9	108
Sub Total (a)	<u>178</u>	<u>210</u>	<u>-</u>	<u>39</u>	<u>427</u>
Administration	20	20	-	109	149
Contingency	53	36	-	1	90
Training – Post Entry	24	12	-	-	36
- Other	25	30	-	5	60
Sub total (b)	<u>122</u>	<u>98</u>	<u>-</u>	<u>115</u>	<u>335</u>
PLAN DAYS AVAILABLE	<u>1,005</u>	<u>1,258</u>	<u>110</u>	<u>107</u>	<u>2,480</u>
Allocation :					
FR6/Unplanned	384	400	-	63	847
Systems	544	439	-	14	997
Regularity	56	265	-	20	341
Computer	-	-	110	-	110
Contracts	-	120	-	-	120
Council Strategic	21	34	-	10	65
TOTAL	<u>1,005</u>	<u>1,258</u>	<u>110</u>	<u>107</u>	<u>2,480</u>

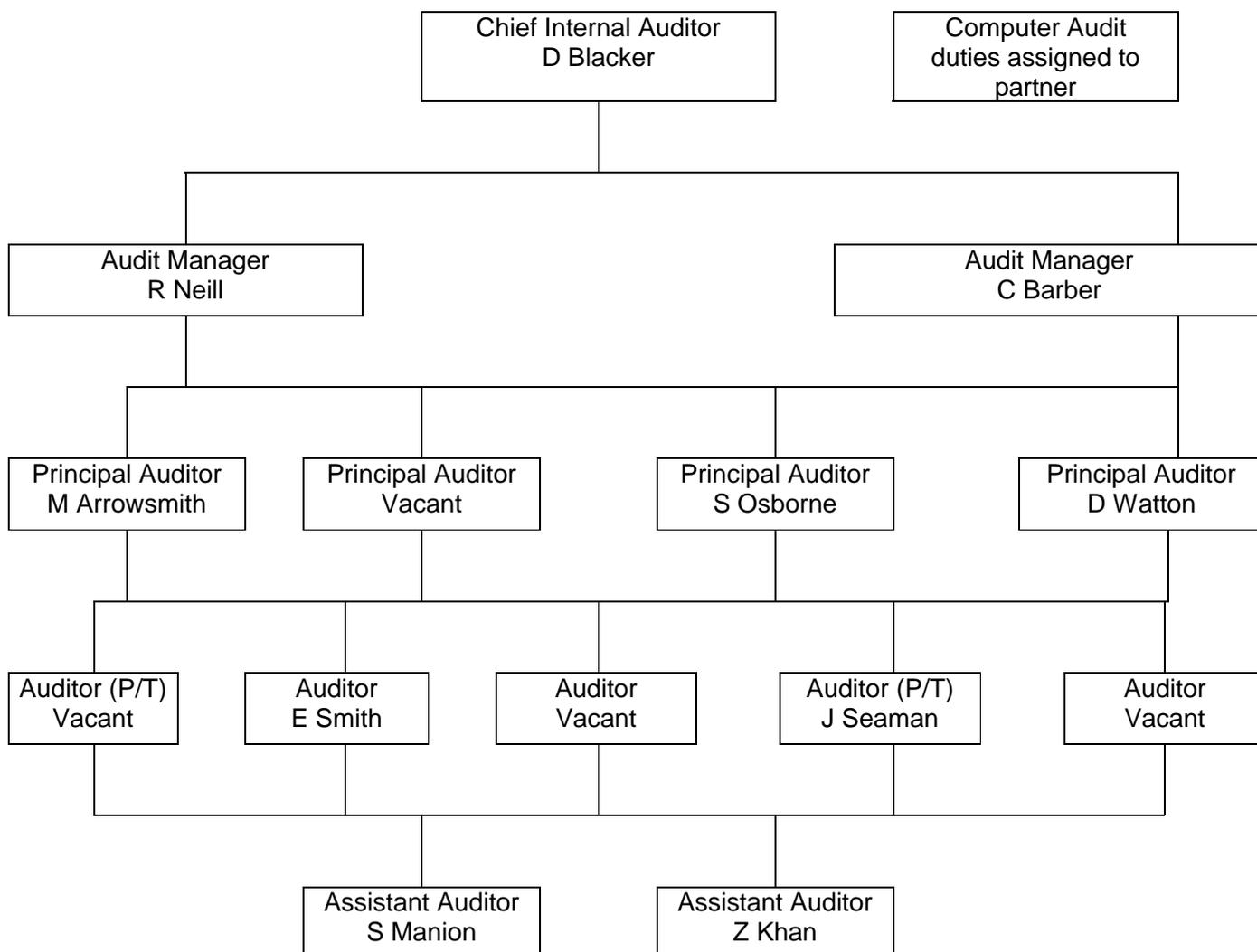
APPENDIX 2

INTERNAL AUDIT- AUDIT ACTUAL TIME – SIX MONTHS ENDING 30 SEPTEMBER 2008

						ORIGINAL YEAR		DIFFERENCE
	Team 1	Team 2	CIA	Cons	Total	Full Year	Pro Rata	Col (8) - Col (6)
	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Available days (a)	655	786	131	39	1,611	3,242	1,611	-
Less:								
Annual Leave	73	68	16	-	157	319	157	-
Bank Holidays	25	23	5	-	53	108	53	-
Elections	-	-	1	-	1	1	1	-
Compassionate Leave	-	4	-	-	4	-	-	(-) 4 loss
Industrial Action	-	7	-	-	7	-	-	(-) 7 loss
Special Leave	1	3	-	-	4	-	-	(-) 4 loss
Vacancies	79	184	-	-	263	-	-	(-) 263 loss
Sickness/Medical Appointments	5	4	-	-	9	-	-	(-) 9 loss
Administration	4	12	37	-	53	149	75	22
Contingency	41	27	-	-	68	89	45	(-) 23 loss
Training - Post Entry	18	-	-	-	18	36	18	-
- Other	2	6	1	-	9	60	30	21
Sub Total (b)	248	338	60	-	646	762	379	(-) 267 loss
Plan days available (a) - (b)	407	448	71	39	965	2,480	1,232	267 less days available
Comprising:								
Unplanned	188	158	44	-	390	847	424	34
Systems/Regularity/VFM	212	226	35	-	473	1,403	693	220
Computer	1	6	1	39	47	110	55	8
Contract	2	53	-	-	55	120	60	5
GRAND TOTAL	403	443	80	39	965	2,480	1,232	267 less days available

INTERNAL AUDIT

1) Establishment and 2) Team Responsibilities - 30 September 2008



2) Committee/Service Area Responsibilities

Team 1:

- Finance
- Revenues & Benefits
- Performance
- Legal Services (inc democratic)
- Strategic Transformation
- Specialist Services
- Communications
- Adult Services
- Housing Services
- ICT
- Walsall Partnership

Team 2:

- Planning & Building Control
- Delivery & Development
- Strategic Regeneration
- Property Services
- New Deal
- Built Environment
- Safer Walsall Borough Partnership
- Neighbourhood Partnership & Programmes
- Leisure Culture & Lifelong Learning
- Education Client/Schools
- Universal Services
- Procurement
- Contract
- Computer

Ongoing	Draft	Final	Date of Final Report	Recommendations					Date of Last Audit	Conclusions
				Current		Previous				
				Made	Agreed	Agreed	Act'd	Not Due		
<u>Adult Services</u>		Allens Centre Learning Disabilities Team *	27.06.08	30	30	-	-	-	-	Internal audit is able to give a limited assurance opinion on the system of internal control operating within Allens Centre Disabilities Team. A number of good practices were noted during the audit, including those in relation to general procedures and performance management. Some areas for improvement have been identified, including qualification for service provision, procurement, security, and inventory.
		Broadway North Learning Disabilities Team *	11.08.08	28	28	-	-	-	-	Internal audit is able to give a limited assurance opinion on the system of internal control operating within Broadway North Learning Disabilities Team. A number of good practices were noted during the audit, including: contributions / board & lodge payments from clients, procurement and budget monitoring. Some areas for improvement have been identified, including processes regarding qualification for service provision, clients' property & savings, staff records, security, inventory and petty cash. The prompt implementation of actions contained within this audit report will further assist in enhancing procedures undertaken.
<u>Built Environment</u>		Coroner *	24.07.08	20	20	-	-	-	-	Internal audit is able to give a limited assurance opinion on the system of internal control operated by the Council in relation to the Coroner's service. Some good practices were noted during the audit, including; the Head of Public Protection's lead in the drafting of the Black Country District Service Level Agreement for Coroner's Services to introduce greater transparency into the levels of support provided by the engaged local authorities; the existence of a service agreement for the Walsall Hospitals NHS Trust provision of mortuary facilities to Walsall Council; accurate and up to date budgetary reports and the timely completion of the annual CIPFA year end return. A number of areas for improvement have been identified, including; the need to review for completeness and accuracy the Black Country District Service Level Agreement for Coroner's Services with a view to finalisation and agreement by all relevant parties; procedure notes are required detailing officers' responsibilities in respect of the administration of the Coroner's Service; and there is a need to tighten controls regarding expenditure process

Ongoing	Draft	Final	Date of Final Report	Recommendations					Date of Last Audit	Conclusions
				Current		Previous				
				Made	Agreed	Agreed	Act'd	Not Due		
PFI Streetlighting Bereavement Services <u>Strategic Regeneration</u> Markets <u>Strategic Transformation</u> Health & Safety		Accounts Payable (Creditors) *	15.07.08	18	18	38	27	0	2007/08	Internal audit is able to give a significant assurance opinion on the system of internal control operating within accounts payable. A number of good practices were noted during the audit, including those in relation to system security, receipt of goods, urgent payments, Bacs controls, cheque procedures, reconciliation to the general ledger, the allocation of financial codes, document disposal and data protection. Some areas for improvement were also identified, including processing of credit notes, ensuring requisitions and corresponding orders are raised prior to the receipt of goods/works/services, ensuring invoices are promptly paid, putting in place amended procedure notes to reflect the creation of the consolidated creditors team and ensuring the production and review of appropriate exception reports. The prompt implementation of recommendations contained within this audit report will further assist in enhancing procedures undertaken. There have been significant operational changes since the last audit due to the transformation of the accounts payable function and creation of the 'Consolidated'
		Personnel Services *	09.07.08	11	11	-	-	-	-	Internal audit is able to give a significant assurance opinion on the system of internal control operating within Personnel Services. A number of good practices were noted during the audit, including; the existence of a robust and comprehensive personnel guidance manual, a formal risk assessment undertaken of the HRD transformation process; staff consultation conducted on the revised HRD organisational structure; a formal review process for HRD policies and feedback arrangements and also the inclusion of trade unions at the outset when developing HRD policies. The review has also highlighted some areas for improvement including, the need to establish and have in place a formal business/continuity plan; the need to document the day to day office duties of Personnel Officers in procedure notes and formalise a file structure; and ensure that adequate supporting evidence is available to justify all requisite steps, in the development of personnel policy / guidance.
<u>Planning & Building Control</u> Planning <u>Walsall Partnership</u> LAA <u>Neighbourhood Partnerships & Programmes</u> Local Neighbourhood Partnerships <u>Safer Walsall Borough Partnership</u>										
				11						

Ongoing	Draft	Final	Date of Final Report	Recommendations					Date of Last Audit	Conclusions
				Current		Previous				
				Made	Agreed	Agreed	Act'd	Not Due		
	Busil Jones JMI New Invention Infants Advanced Contracts (Midlands) * Brownhills Asphalte Tarmacadam / Global Glass * Aston Rose * Prudential Highways Maintenance Works - Birse Civil Engineering Ltd * Maintenance of Highways Structures 2003/08 * Lindens JMI - Special Needs Facilities * Blakenall Village Improvements Piper Construction Midlands * Pier Street, Brownhills Greenfields JMI									
Totals				110	110	44	33	0		
Total Percentage					100%		75%			

* 2007/2008 audits carried forward into 2008/2009
 Report selected by committee

02.10.08

Compatibility Report for Quarterly Reports Dec 07.xls
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Minor loss of fidelity

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APPENDIX 5

INTERNAL AUDIT

QUALITY TARGETS/PERFORMANCE INDICATORS – SIX MONTHS ENDING 30 SEPTEMBER 2008

Quality Targets/PI's (e.g. Response Time)	% Target	% Achieved 2008/09	% Achieved 2007/08	% Achieved 2006/2007	% Achieved 2005/2006	% Achieved 2004/2005
Audits completed within planned time	95	100	95	96	95	95
Spending within budget	100	100	100	100	100	100
Productivity rate	65	Est 65	69.2	73.1	74.2	70.1
Audit plan achievement	95	Est 95	96.9	96.0	96.2	95.1
Report issued within 10 working days of exit meeting	80	100	97	84	92	94
Actions agreed	95	100	99	98	98	98
Returned customer questionnaires to show satisfaction	95	100	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	75	78	79	74	73
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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 achievement level.