

Audit Committee – 20 July 2015

Internal Audit Update Report

Summary of report

The purpose of this report is to update the Audit Committee on Internal Audit's progress for the year ending 31 March 2015.

Background papers

Internal Audit reports/monitoring information.

Recommendation

1. To note the contents of this report.

Resource and legal considerations

The Accounts and Audit Regulations 2015 came into effect on 1 April 2015 and require councils to undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance.

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 Audit Committee in exercising that role.

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 the council's operations.

Performance and risk management issues

Part of Internal Audit's role is to provide assurance on the council's performance and risk management arrangements. Internal Audit's programme of work is risk assessed to ensure areas most at risk are examined as a priority.

Equality implications

Internal Audit has full regard to equalities both within the internal audit service and in the services / activities under review.

Consultation

The annual work plan 2014/15 was consulted upon before its final endorsement by executive directors, senior managers, the S151 Officer and Audit Committee.

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James Walsh – Chief Finance Officer

7 July 2015

Internal Audit Update Report

1. Purpose of this report

1.1 This report summarises the work that Internal Audit has undertaken during the year ending 31 March 2015. It also highlights any key issues with respect to the overall system of internal control.

2. The Internal Audit process

2.1 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. In addition, the other objectives of the function are to:

- support the responsible financial officer to discharge duties as proper officer;
- support the delivery of corporate objectives and the continuous improvement agenda; and
- provide a corporate fraud / investigation service that safeguards the public purse.

2.2 Each year the Audit Committee endorses the Internal Audit plan for the financial year. The majority of the work that Internal Audit undertakes is designed to provide assurance to members and management on the operation of the internal control environment as part of the overall governance assurance process. Internal Audit work undertaken includes actions agreed with management that improve the adequacy and effectiveness of the controls already in practice.

3. Progress for the year ending 31 March 2015

3.1 Internal Audit's work comprises of planned and unplanned assurance, which is summarised in the following table.

Planned Assurance	An assurance service which provides an independent and objective opinion to the organisation of the control environment, by evaluating its effectiveness in achieving the organisations objectives. The service objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. This is achieved via internal audit's risk assessed audit plan.
Unplanned Assurance	Prevention, detection and investigation of fraud and corruption; and other irregularity. Advisory and consultancy related services which are carried out to improve services and to add value, including the

	impact of proposed policy initiatives, programmes and projects as well as emerging risks.
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- 3.2 A detailed summary of Internal Audit’s unplanned assurance work undertaken for the year ending 31 March 2015 is detailed in a separate report in private session this evening.
- 3.3 A summary of all planned and planned follow up work undertaken and finalised during the year ending 31 March 2015 is detailed at **Appendix 1**. This includes the assurance level given (definitions of which are included in **Appendix 2**). During the early part of the year much of the planned audit activity is in finalising work relating to the previous year’s plan (2013/14), this element of time is planned for and 2014/15 was no exception.

4. Compliance with professional standards

- 4.1 A compliance checklist has been produced by Internal Audit against the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1 April 2013 and Internal Audit’s progress against the standards has been regularly reported to Audit Committee (24 June 2013, 2 September 2013, 24 February 2014 and 1 September 2014).
- 4.2 Of the 206 point checklist which makes up the PSIAS, only 10 points now remain outstanding, all relating to one action which is the requirement for a 5 yearly external assessment of internal audit’s PSIAS compliance, to be undertaken by April 2018. The Chief Finance Officer reviewed Internal Audit’s current self assessment in June 2015 and confirmed that evidence was available to support the above statement.
- 4.3 On 1 September 2014, Audit Committee agreed the form of the external assessment, a peer review of Internal Audit’s self assessment to be undertaken by WM Ambulance Services. A memorandum of understanding has been agreed between the Council and WM Ambulance Services and work is progressing. The outcome of this work will be reported to Audit Committee in due course.

5. Performance

- 5.1 Internal Audit’s performance against measures for the year period ending 31 March 2015 is detailed below. The direction of travel is given from that previously reported at 2013/14 year end.

	Measure	Actual	‘RAG’	Direction of Travel
Audit time budgeted v actual	1,525 days	1,510 days	G	↔
Report issued within 8* weeks of audit start date	80%	64%	A	↑

	Measure	Actual	'RAG'	Direction of Travel
Audit report actions agreed	95%	99%	G	↔
Relationships / Customer Satisfaction	95%	100%	G	↑
Productivity rate	90%	85%	A	↓
Sickness – average working days lost per employee (internal audit) against target	7 days	4 days	G	↓
VFM savings achieved / irregularity costs identified and recovered.	£650k	£874k	G	↔

* Previously 6 weeks

- 5.2 Internal Audit's expenditure was within its approved budget for the period.
- 5.3 In summary, Internal Audit has made good progress against its measures during the period, with most currently on target or green 'RAG' rated with an improving performance on that reported at 2013/14 year end.
- 5.4 2 measures are 'RAG' rated amber namely 'reports issued within 8 weeks of start date' and 'productivity rate'. 'Reports issued within 8 weeks of start date' is an improving measure. The direction of travel on that reported on the 'productivity rate' (85%) is a negative one compared to the 89% reported at the 2013/14 year end, this is due to a member of staff taking long term sick leave. This is classed as exempt from the sickness statistic but does have an impact on productivity.
- 5.5 A new measure has been introduced for 2014/15, audit time budgeted against actual days spent. This measures the actual time the audit team spent on completing audits finalised during the period against the time allocated in the audit plan and is a measure of the efficiency of the team. In the year ending 31 March 2015, of reports finalised, the team should have completed the audits within 1,525 days but actually completed them within 1,510 days.

6. Conclusion

- 6.1 Audit Committee can be assured that no issues have been identified in the 2014/15 work completed which impacts materially on the overall system of internal control.

Summary of Planned Work Finalised as at 31 March 2015

Directorate	Auditable Area	Date of Report	Level of Assurance
Childrens Services	Bentley West Primary School	22.10.14	Significant
	Bloxwich Primary School	11.12.14	Significant
	Busill Jones Primary School	11.07.14	Significant
	Butts Primary School	12.02.15	Limited
	Castle Business & Enterprise College	04.07.14	Significant
	Child Poverty Reduction	21.07.14	Significant
	Childrens Services Strategy Improvement Plan	24.11.14	Significant
	Cooper & Jordan Primary School	23.09.14	Significant
	Hilton Road Residential Care Home	05.03.15	Significant
	Jane Lane School	16.09.14	Significant *
	Kings Hill Primary School	25.02.15	Significant
	Leighswood Primary School	04.09.14	Significant *
	Lichfield Road Residential Care Home	05.03.15	Significant
	Lindens Primary School	12.09.14	Limited
	Lodge Farm Primary School	13.11.14	Significant
	Lower Farm Primary School	23.09.14	Significant
	Mary Elliot Special School	31.07.14	Significant
	Meadow View Primary School	12.02.15	Significant
	Moorcroft Wood Primary School	25.02.15	Significant
	New Invention Junior School	23.09.14	Significant
	New Leaf Centre	09.05.14	Limited
	Oakwood School	23.09.14	Significant
	Old Church Primary School	04.09.14	Significant *
	Old Hall School	04.09.14	Significant

Directorate	Auditable Area	Date of Report	Level of Assurance
	Palfrey Junior School	04.09.14	Significant
	Pelsall Village Junior School	23.09.14	Significant
	Pheasey Park Farm Primary School	18.07.14	Significant
	Salisbury Primary School	04.03.15	Significant
	Spindle Tree Rise Residential Care Home	05.03.15	Significant
	St Johns Primary School	14.04.14	Significant
	St Michaels Primary School	04.09.14	Significant
	Stroud Avenue & Dale Street Family Centre	22.10.14	Limited
	Transition and Leaving	14.07.14	Significant *
Neighbourhood Services	Car Parking	12.02.15	Significant
	Community Development Grant Funding	15.07.14	Significant
	Fleet Services	13.10.14	Significant
	Forest Arts Centre	11.07.14	Full
	Highways Maintenance	21.10.14	Significant
	Healthwatch Transition	15.07.14	Significant
	Libraries Service	03.12.14	Significant
	New Art Gallery	14.07.14	Significant
	Resilience	31.10.14	Significant
	Waste Management Establishment	04.03.15	Significant *
	Waste Management – Landfill & Disposal Sites	13.11.14	Full
Regeneration	Carbon Reduction Commitment Energy Efficiency Scheme	20.11.14	Significant
	Climate Change Management	14.05.14	Significant
	Construction Industry Tax	06.08.14	Significant
	Land Charges	13.10.14	Significant
	Schools Property Maintenance	31.10.14	Limited
Resources	Accommodation Services & Homelessness	22.07.14	Limited
	Bank Account Reconciliations	25.11.14	Significant *

Directorate	Auditable Area	Date of Report	Level of Assurance
	Capital Accounting	18.09.14	Significant
	Cash & Bank (Banking Hall / Income Management System)	04.03.15	Significant
	Commissioning / Procurement	24.11.14	Limited
	Council Tax / National Non Domestic Rates (NNDR)	02.09.14	Significant *
	Disabled Facilities Grant	26.02.15	Significant
	Electoral Registration	25.04.14	Significant
	Group Funding to Prevent Homelessness	21.05.14	Limited
	Housing Benefits & Council Tax Reduction	23.10.14	Significant *
	Leasing	06.10.14	Full
	Nominal Ledger & Central Accounting	18.02.15	Significant
	Treasury Management	17.03.15	Significant
Social Care & Inclusion	Hollybank House	10.12.14	Significant
	Independent Living Centre	30.07.14	Significant
	Personal Budgets inc Direct Payments	27.02.15	Limited
	Reprovision Programme	24.10.14	Significant
	Telecare	30.07.14	Limited
All	Accounts Payable	19.05.14	Significant
	Accounts Receivable	12.05.14	Significant
	Budgetary Management	02.06.14	Significant
	Capital Programme	03.09.14	Significant
	Capital Receipts	05.06.14	Significant
	Climate Change Threats (Strategic Risk Register)	14.08.14	Significant
	Corporate Governance	30.05.14	Significant *
	Data Control (Strategic Risk Register)	20.06.14	Full
	Demographic Change(Strategic Risk Register)	22.08.14	Significant
	Emergency and Crisis Response Threats (Strategic Risk Register)	12.08.14	Significant
	Failure to Manage Organisation Change (Strategic Risk Register)	19.09.14	Significant

Directorate	Auditable Area	Date of Report	Level of Assurance
	Governance Failure (Strategic Risk Register)	11.09.14	Significant
	Grants	24.06.14	Significant
	Impact of Fraud and Compensation Culture (Strategic Risk Register)	18.07.14	Significant
	Information Governance	16.03.15	Significant
	Inspection Outcomes (Strategic Risk Register)	21.08.14	Full
	Inventories / Stocks – Community Alarms	17.04.14	No assurance
	Inventories / Stocks – ICT Data Centre	15.04.14	Limited
	Loss of Community Cohesion (Strategic Risk Register)	23.09.14	Significant
	Loss of Funding and Financial Instability (Strategic Risk Register)	20.06.14	Full
	Partnership Frameworks	18.02.15	Limited
	Partnership Working / Shared Services and Supply Chain Challenges (Strategic Risk Register)	02.10.14	Significant
	Payroll	12.09.14	Significant
	Public Health	07.08.14	Significant
	Regulation of Investigatory Powers Act 2000	20.11.14	Significant
	Risk Management	27.02.15	Significant *
	Short Term Decisions with Long Term Implications (Strategic Risk Register)	02.09.14	Significant
	Workforce Planning Challenges	16.10.14	Significant
	Computer	End User Computing	10.07.14
ICT Service Management		01.07.14	Significant *
IT Skill and Training		30.05.14	Significant
Remote Working		24.04.14	Significant
Virtualisation (Server and Desktop)		07.07.14	Significant

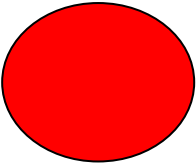
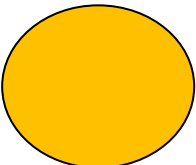
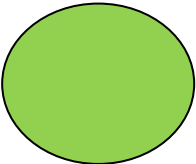
Summary of Planned Follow Up Work Finalised as at 31 March 2015

Directorate	Auditable Area	Date of Report	Level of Progress
Children's Services	Children with Disabilities	24.07.14	Significant
	Commissioning	18.11.14	Significant
	Foster Care & Adoption	22.10.14	Significant
	Greenfields Children's Centre	11.06.14	Limited
	Greenfields Children's Centre (Follow Up of Follow Up)	26.11.14	Significant
	Initial Response Service	08.10.14	Significant
	Looked After Children	06.05.14	Limited
	Pelsall Children's Centre	12.06.14	Limited
	Pelsall Children's Centre (Follow Up of Follow Up)	04.02.15	Significant
	Pheasey Children's Centre	16.09.14	Significant
	Pinfold Street Primary School	19.11.14	Significant
	Safeguarding – Family Support	14.08.14	Significant
	Shepwell Green Centre	07.08.14	Significant
	Regeneration	Building Services	07.10.14
Resources	Group Funding to Prevent Homelessness	15.01.15	Significant
	Stocks and Inventories – ICT Data Centre	21.10.14	Full
Social Care & Inclusion	Benefits Based Charging	21.11.14	Limited
	Charging Policies & Application	11.09.14	Full
	Commissioning	13.08.14	Full
	Community Mental Health Integrated Team	29.05.14	Significant
	Independent Sector – Residential & Nursing	29.05.15	Limited
	Independent Sector – Residential & Nursing (Follow Up of Follow Up)	21.01.15	Limited
	Mental Health S117	13.05.14	Significant *
	Stocks and Inventories – Community Alarm Service	25.02.15	Significant
All	Attendance Management	28.07.14	Significant

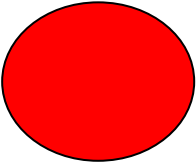
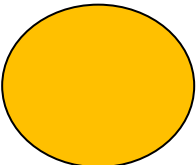
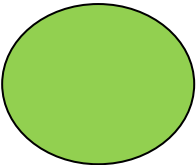
Directorate	Auditable Area	Date of Report	Level of Progress
	Black Country Partnership (Contract)	11.09.14	Significant
	Declarations	25.07.14	Significant
	English Landscapes (Contract)	02.09.14	Significant
	ISG Construction (Contract)	26.09.14	Significant
	N Power – Building Electricity (Contract)	13.08.14	Full
	N Power – Street Lighting Electricity (Contract)	13.08.14	Full
	Prospects Services (Contract)	13.08.14	Full
	Starting Point Recruitment	13.08.14	Full
	Voyage Ltd (Contract)	19.02.15	Significant
	Willmott Dixon (Contract)	26.09.14	Significant

* Borderline significant

Audit Opinion Classification

Overall Audit Opinion		
	No assurance	No assurance as weaknesses in control, or consistent non compliance with key controls, [could result / have resulted] in failure to achieve the organisation's objectives in the areas reviewed.
	Limited Assurance	Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation's objectives at risk in the areas reviewed.
	Full Assurance	Full assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed.
	Significant Assurance	Significant assurance that there is a generally sound system of control designed to meet the organisation's objectives. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk.

Audit Follow Up Opinion Classification

Overall Audit Opinion		
	No Progress	None of the high priority findings within the audit report have been closed / addressed.
	Limited Progress	Limited progress has been made in closing / addressing high priority findings within the audit report.
	Full Progress	All high priority findings within the audit report have been closed / addressed.
	Significant Progress	Significant progress has been made in closing / addressing high priority findings within the audit report.