

**Audit Committee – 12 June 2012**

**No or Limited Assurance Internal Audit Reports**

**Summary of report:**

This report presents summaries of audit reports which have been provided with a 'no' or 'limited' assurance opinion that have been finalised between 1 October 2011 and 22 March 2012.

This report was originally submitted to Audit Committee on 17 April 2012 when it was resolved that the newly constituted Audit Committee for the Municipal Year 2012/13 be recommended to consider all seven limited assurance reports with priority being given to the following reports for consideration at a special meeting of the committee: -

- Partnership Frameworks;
- Coroner; and
- Charging Policies & Application (Fairer Charging & Extra Care).

**Background papers:**

Internal audit reports/files/working papers.

**Recommendation:**

1. To note the contents of this report
2. Members are invited to either accept the recommendation of the 17 April 2012 Audit Committee or select any of the audit reports contained within this report for a subsequent meeting of the Audit Committee where the relevant executive director and appropriate managers will attend to answer members' queries and provide them with necessary assurances that action is being taken to address concerns identified.



**Vicky Buckley**  
**(Head of Finance)**  
**29 May 2012**

**Resource and legal considerations**

The cost of providing internal audit is charged to services based on audit activity. The audits detailed within this report were included within the annual risk assessed audit programme which is approved before the start of the respective financial year.

## **Citizen impact**

Report scrutiny assists in demonstrating that the council and its officers are protected and provides an assurance to stakeholders about the security of the council's operations.

## **Performance and risk management issues**

Many Audit Committee activities are an important and integral part of the council's performance/risk management and corporate governance frameworks. In reviewing specific reports which have been awarded no or limited assurance, the committee is able to seek assurance from accountable manages that operational and control issues are being addressed.

## **Equality Implications**

None arising from this report.

## **Consultation**

The annual audit work programme was discussed with relevant senior managers before the start of the year.

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## No and Limited Assurance Internal Audit Reports

This report presents summaries of audit reports provided with a 'no' or 'limited' assurance opinion that have been finalised between 1 October 2011 and 22 March 2012.

### Audit Opinion Classification

Where appropriate, each audit report issued is given an overall audit opinion based on the following criteria:

Overall Audit Opinion	
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.
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. All reports receiving this opinion are routinely reported to Audit Committee.
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. All reports receiving this opinion are routinely reported to Audit Committee.

Audit report findings are ranked according to the following priority status:

Criteria for Ranking Audit Report Findings	
High	Significant financial / asset loss or wastage; clear fraudulent opportunity; key control not applied or extensive / persistent non application of a secondary control; failure to meet primary service / corporate aims; public disclosure implication / high reputational damage; legal mandatory; or a significant breach of financial and contract rules.
Medium	Some financial / asset loss or wastage; occasional but regular non application of a secondary control; failure to meet secondary service / corporate aims; public disclosure implication: limited reputational damage; non mandatory regulation and not high risk; a minor instance of non compliance with financial and contract rules; or staff otherwise insufficiently safeguarded while undertaking their duties.
Low	Minor control improvement; no financial / asset loss or wastage; no direct link to achieving service / corporate aims; and public disclosure implication: no reputational damage.

Of the 39 audit reports finalised between 1 October 2011 and 22 March 2012, 7 (17.9%) were issued with a limited assurance opinion. No audit reports were issued with a 'no' assurance opinion.

The table below details the audits issued with a limited assurance opinion, direction of travel of assurance opinion since the last audit, the directorate and the number of the actions contained within the report by priority status.

Auditable Area	Directorate	Assurance	Direction of Travel	Actions		
				High	Medium	Low
Partnership Frameworks	All	Limited	↔	12	8	0
Children's Fund (Exit Arrangements)	Children's Services	Limited	New audit	4	2	0
Commissioning	Children's Services	Limited	New audit	11	3	3
Rough Hay Primary School	Children's Services	Limited	FMSIS	14	9	1
Coroner	Neighbourhood Services	Limited	↔	17	5	1
Skip Permit Income	Neighbourhood Services	Limited	New audit	9	8	0
Charging Policies & Application (Fairer Charging & Extra Care)	Social Care & Inclusion	Limited	↓	11	3	1

This report was originally submitted to Audit Committee on 17 April 2012 when it was resolved that the newly constituted Audit Committee for the Municipal Year 2012/13 be recommended to consider all seven limited assurance reports with priority being given to the following reports for consideration at a special meeting of the committee: -

- Partnership Frameworks;
- Coroner; and
- Charging Policies & Application (Fairer Charging & Extra Care).

Members are invited to either accept the recommendation of the 17 April 2012 Audit Committee or select any of the audit reports contained within this report for a subsequent meeting of the committee where the relevant executive director and appropriate managers will attend to answer members' queries and provide them with necessary assurances that action is being taken to address concerns identified.

To assist members in their selection and following a request from Audit Committee of 17 April 2012, the financial risk in respect of these audit reports is detailed in the table overleaf.

Auditable Area	Financial Risk
Partnership Frameworks	A financial value cannot be attached to partnership frameworks, here the risk is that partnerships may not be appropriately managed and hence potentially fail to deliver the desired aims and objectives.
Children's Fund (Exit Arrangements)	Between 2007/08 and 2010/11, the children's fund budget totalled £3.4 million. This grant has since ended.  The only residual risk lies in the directorate potentially failing to manage exit arrangements of like grant funding regimes in the future.
Commissioning (Children's Services)	The 2012/13 budget for children's services commissioning is £9.4 million.
Rough Hay Primary School	The 2012/13 budget for Rough Hay Primary School is £1.4 million
Coroner	The 2012/13 budget for the coroner service is £291k.
Skip Permit Income	The 2012/13 budget for skip permit income is £16k.
Charging Policies & Application (Fairer Charging & Extra Care)	Actual spend in respect of fairer charging and extra care in 2011/12 was £2.2 million. This system has since been replaced with a new benefits based charging system.  The 2012/13 budget for benefits based charging is £4.5 million Benefits based charging is due to be audited this financial year (2012/13).

A summary of the reports is detailed at **Appendix 1**.

All audit reports issued with a limited or no assurance opinion are subject to early follow up.

**Partnership Framework**  
**(All Directorates)**

**1. Introduction**

An audit review of the partnership framework was undertaken as part of the annual audit plan. The partnership framework was developed during 2008/09 and the partnership toolkit took effect from 1 January 2009. The management and development of partnerships has been devolved to service areas. The council maintains a partnership register which includes details of 53 partnerships.

**2. Objectives**

The objectives of the audit were to assess the adequacy of controls governing financial and management arrangements, to assess the implementation of previously agreed audit report actions and to seek assurance that:

- an effective strategic partnership framework has been established, appropriately approved, regularly reviewed and is available to all staff;
- a core officers group responsible for partnership working has been established focusing on gaining cross directorate support and action on partnership formulation and development; and ensuring that new and ongoing statutory obligations are met;
- prior to the approval of a partnership, a partner organisation must prove that they have an adequate system of internal control; the legality of the partnership is assessed to ensure issues such as assignment of rights and duties, use of corporate branding, ownership of assets purchased or acquired by the partnership is effectively covered and a designated accountable body is appointed;
- partnerships are managed in accordance with an approved partnership framework and guidelines and an agreed partnership agreement/protocol, appropriately signed by all partners, is in place for each partnership;
- a risk assessment has been carried out and is effectively managed for each partnership covering aspects such as partner's potential to default on responsibilities and financial viability;
- effective monitoring and reporting arrangements are in place including monitoring of partnership performance and budgetary control; and
- for partnerships in receipt of grant funding, financial returns are submitted on a timely basis and in accordance with the partnership agreement.

**3. Conclusions**

Some good practices were noted during the audit, including; the need to improve the partnership protocol and toolkit reported to and acknowledged by CMT. Most areas, however, required improvement, notably, ensuring that the partnership protocol and toolkit is subject to review and refresh and that actions agreed in the previous audit, where still relevant, are implemented as a priority.

## **Children's Fund (Exit Arrangements)** **(Children's Services)**

### **1. Introduction**

An audit review of children's fund exit arrangements was undertaken as part of the 2011/12 annual audit plan.

Children's Fund was funded by area based grant which ended on 31 March 2011. A number of external service providers were allocated a proportion of children's fund grant to deliver key programmes and services on behalf of the council.

### **2. Objectives**

The objectives of the audit were to assess the adequacy of controls governing financial and management arrangements, to assess the implementation of previously agreed audit report actions and to seek assurance that:

- funding close down has been effectively managed in accordance with grant requirements and sufficient audit trail exists to support this;
- cessation of the grant has been effectively communicated to key stakeholders; and
- a succession strategy has been produced, approved and is being monitored to ensure that it is effectively executed.

### **3. Conclusions**

Significant control weaknesses were identified in relation to the administration of the children's fund exit arrangements. Most controls require strengthening to ensure a standard and consistent process is followed for the closure of future children's services grant funding.

## **Commissioning** **(Children's Services)**

### **1. Introduction**

An audit review of commissioning in children's services was undertaken as part of the annual audit plan. The council has set up a commissioning unit for children's services to manage commissioning work in the future. The council is part of the regional framework for external residential placements and is developing further framework contract arrangements for children's commissioning.

### **2. Objectives**

The objectives of the audit were to assess the adequacy of controls governing financial and management arrangements, to assess the implementation of previously agreed audit report actions and to seek assurance that:

- an approved framework for commissioning exists including the 'analyse', 'plan', 'do' and 'review' cycle; and all commissioning activity undertaken is in accordance with the framework;
- there is evidence that a robust analysis takes place prior to commissioning, which includes a strategic needs assessment, resource and risk analysis; prioritisation of services; and a market analysis;
- a strategy for commissioning services is designed; and specifications are produced in line with the strategy;
- commissioning is undertaken in accordance with the council's rules and procurement legislation; and robust tendering and contract management is in place; and
- provider performance is monitored, customer feedback obtained and monitoring and review of the effectiveness of commissioned services takes place and any areas identified as requiring improvement are addressed.

### **3. Conclusions**

Some good practices were noted during the audit, including establishment of a commissioning framework; strategies setting out the services to be provided; service prioritisation; workforce development; use of a regional framework agreement; and every looked after child having a review which checks the appropriateness of their care plan and placement.

A number of areas for improvement have, however, been identified, including the requirement to publicise the commissioning framework; completion of a regular needs analysis to ensure the service is fully aware of the current needs of children; production of a business plan for the commissioning unit; seeking clarification on compliance with the council's procurement rules and legislation; and production of a contract register.

## **Rough Hay Primary School** **(Children's Services)**

### **1. Introduction**

An audit review of Rough Hay Primary School was undertaken as part of the cyclical 2011/12 audit plan.

### **2. Objectives**

The objectives of the audit were to assess the controls operating within the school against the standards outlined by the Audit Commission and Ofsted in their publication 'Keeping Your Balance – standards for financial management in schools'; to test the accuracy of records maintained; and assess the implementation of previously agreed audit actions. 'Keeping Your Balance' is being used by the audit section as a good practice framework for schools pending release of further guidance on the replacement of financial management standard in schools (FMSIS).

### **3. Conclusions**

Internal audit is able to give limited assurance opinion on the system of internal control operating within Rough Hay Primary School.

Some good practices were noted during the audit, including:

- financial planning and budget monitoring arrangements;
- management of income controls; and
- arrangements in place for the accurate completion of the school census.

A number of areas for improvement have, however, been identified, including:

- purchasing arrangements and appropriate authorisation of orders raised by the school;
- ensuring that arrangements for paying individuals from the LMS bank account are reviewed;
- reconciling the petty cash and accounting for VAT on the imprest;
- management of voluntary and extended activities fund; and
- ensuring the safe removal of data from obsolete computer equipment.

## **Coroner** **(Neighbourhood Services)**

### **1. Introduction**

An audit review of the Coroner's service was undertaken as part of the 2011/12 annual audit plan.

Walsall, Dudley and Sandwell Councils operate a shared arrangement for a whole time Coroner for the Black Country Coroner's district.

The Coroner's service is supported by Coroner's officers appointed by West Midlands Police and through mortuary and post mortem services arranged by the respective authorities. Dudley Council undertakes the role of lead authority in relation to the payment of the Coroner's salaries, allowances and expenses. Sandwell Council is the lead authority for the Black Country Coroner's service nominated to the Ministry of Justice and host authority in relation to the provision of shared office accommodation for the Coroner and his officers.

### **2. Objectives**

The objectives of the audit were to evaluate the adequacy of the system of internal control and its application in practice within the area under review and seek to provide assurance that:

- an appropriate agreement is in place detailing the council's shared responsibilities for the Coroner with Dudley and Sandwell council's; and for the council's use of mortuary facilities at Walsall Hospital NHS Trust;
- appropriate corporate governance arrangements are in place;

- procedure notes are in place detailing officer responsibilities in respect of the overall day to day arrangements for administering the Coroner's service;
- payments made in respect of the Coroner's salary, allowances, expenses, and pension contributions are as set out in the shared agreement;
- the council's agreements for cost sharing and recovery in respect of the Coroner's building, utilities, IT equipment and personal health & safety are as set out in a shared agreement;
- appropriate controls are in place to ensure that only eligible expenditure in respect of the Coroner's services to Walsall are paid;
- costs in respect of mortuary facilities to Walsall Hospitals NHS Trust are as set out in the service agreement;
- effective management information and reporting arrangements are in place;
- an annual financial review is undertaken and data is shared for the prompt and accurate completion of the annual CIPFA return;
- adequacy budgetary control arrangements are in place; and
- prior open audit findings have been closed and addressed.

### **3. Conclusions**

A number of good practices were noted during the audit, including the existence of a service level 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, however, been identified, including ensuring:

- a Black Country District Service Level Agreement is documented and agreed;
- policies & procedures are comprehensively written and are reviewed annually;
- there is clear guidance on the total recharges and the proportion of fees & charges to be paid to Sandwell MBC and Dudley MBC.
- robust controls are established for expenditure processing; and
- appropriate management information is received on a regular basis.

### **Skip Permit Income** **(Neighbourhood Services)**

#### **1. Introduction**

An audit review of skip permit income was undertaken as part of the 2011/12 annual audit plan. In order for a builder's skip to be placed on the public highway a permit must first be obtained from the local authority in accordance with the Highways Act 1980. Walsall council operates a policy where only the company that is supplying the skip can apply for the permit.

## 2. Objectives

The objectives of the audit were to assess the adequacy of controls governing financial and management arrangements, to assess the implementation of previously agreed audit report actions and to seek assurance that:

- appropriate and accurate permit records are maintained;
- permits are issued in accordance with regulations;
- appropriate procedures are in place;
- fees are charged correctly and properly accounted for; and
- customer engagement is effective .

## 3. Conclusions

Internal audit is able to give a limited assurance opinion on the system of internal control operating for skip permit income.

Some good practices were noted during the audit, including;

- availability of skip permit procedures; and
- staff are approachable in the event of query or guidance requests from the public.

A number of areas for improvement have, however, been identified, including;

- regular review and update of registered company details;
- introducing performance targets for the issue and processing of permits;
- ensuring that permits are issued in a timely manner and within the specified period;
- ensuring that permit applications are available and retained on file in all instances;
- tightening controls in place for recovering costs from skip operators and invoicing on a routinely / monthly basis;
- carrying out routine skip inspections to ensure that they are placed on highways in accordance with terms and conditions; and
- reviewing and approving the scale of charges.

The prompt implementation of actions contained within this audit report will further assist in enhancing procedures undertaken.

## **Charging Policies and Application (Fairer Charging & Extra Care)** **(Social Care & Inclusion)**

### 1. Introduction

An audit review of charging policies and application (fairer charging and extra care) was undertaken as part of the annual audit plan. The policies provide guidance for charging for fairer charging and extra care. Services assessed under the fairer charging guidance include day care, home care, community supported learning and direct payments. Extra care schemes provide funding for

housing for elderly or disabled residents who require more specialised amenities and greater support. The current fairer charging arrangements are being reviewed with a shift towards a benefits based charging system.

## **2. Objectives**

The objectives of the audit were to assess the adequacy of controls governing financial and management arrangements, to assess the implementation of previously agreed audit report actions and to seek assurance that:

- policies and procedures are in accordance with guidance;
- the assessment process is robustly applied, managed and recorded;
- income is received on a prompt and timely basis;
- exemptions are adequately controlled;
- reviews and appeals procedures are robust;
- arrears are monitored;
- complaints are adequately managed;
- procedures for backdated charges are robust;
- review and monitoring procedures are in place; and
- management information is provided on a timely basis.

## **3. Conclusions**

Some good practices were noted during the audit, including; fairer charging and extra care policies being available on the intranet; assessment forms being signed by the client / advocate of the client and the welfare rights officer; clients being provided with a breakdown of how their charge is calculated within their contribution letter; and complaints being dealt with through the corporate complaints process.

A number of areas for improvement have, however, been identified, including the strengthening of controls in relation to the assessment process; exploring the possibility of interfacing between Oracle and the custom card system to prevent the need for manual intervention; improving exemption arrangements, strengthening procedures for recovering arrears and recovering back dated payments.

At the time of the audit fairer charging arrangements were being reviewed and it is understood that a benefits based charging system has now been implemented.