

## **TELFORD & WREKIN COUNCIL**

**AUDIT COMMITTEE 17th JUNE 2008**

**INTERNAL AUDIT ANNUAL REPORT 2007/08**

**REPORT OF THE CORPORATE DIRECTOR RESOURCES**

### **1 PURPOSE**

- 1.1 To present the Internal Audit Annual Report for 2007/08 to the Audit Committee.

### **2 RECOMMENDATIONS**

- 2.1 That Members of the Audit Committee note the contents of the annual report 2007/08.

### **3 SUMMARY**

- 3.1 The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (the Code), which has been deemed as proper internal control practice under the Accounts and Audit (Amendment) (England) Regulations 2006, states under Standard 10 – Reporting, that “the Head of Internal Audit must provide a written report to those charged with governance timed to support the Statement on Internal Control”. This is the seventh Annual Report on Internal Audit which summarises the key areas for 2007/08 and supports the Council's 2007/08 Annual Governance Statement.

### **4 PREVIOUS MINUTES**

- 4.1 Standards & Audit Committee 19th June 2007 (Annual Audit Report 2006/07)

### **5 INFORMATION – ANNUAL REPORT 2007/08**

#### **5.1 Assurance and Opinion on the Systems of Internal Control**

- 5.1.1 The Council's section 151 officer's statutory obligation under the Accounts and Audit (Amendment) (England) Regulations 2006 to provide assurance on the systems of internal control is provided by the work of internal audit. This assurance is part of the Council's assurance framework.
- 5.1.2 The system of internal control helps the Council to manage and control the risks which could affect the achievement of its objectives rather than eliminate them completely. Internal Audit and the other assurance processes therefore provide reasonable and not absolute assurance of the adequacy and effectiveness of the systems of internal control within the Annual Governance Statement (incorporating the Statement on Internal Control).
- 5.1.3 Based on the work undertaken during the year (main areas attached as **Appendix A**) and the implementation by management of the recommendations made in these areas it is pleasing to once again report that Internal Audit can provide reasonable

assurance that the systems of internal control within these areas of the Council were operating adequately and effectively when reviewed during the year.

- 5.1.4 An area of concern that Internal Audit have reported on in the past is catering in schools. Internal Audit has been supporting Catering management over the last 2 years to implement new computer systems and controls. However some controls require further work and Internal Audit continue to provide assistance to Catering management. It continues as an area for improvement in the action plan attached to the Annual Governance Statement.

## 5.2 Performance against External Review

- 5.2.1 KPMG became the Council's new External Auditors with effect from 1st April 2007. There is continuous liaison between Internal and External Audit to ensure that Internal Audit is undertaking appropriate work upon which the External Auditor can rely and keep down the external audit fee. Internal Audit has delivered all the work for 2007/08 upon which External Audit places reliance.
- 5.2.2 In order to place reliance on the work of Internal Audit the External Auditor assesses the performance of Internal Audit each year against the Code. KPMG have undertaken the 2007-08 review and their report says "***We have also assessed the internal audit function against relevant standards and confirmed overall compliance.***" It goes onto say "***Standards for internal auditors in local government are set out in the Code of Practice for Internal Audit in Local Government, issued by CIPFA. We have reviewed the internal audit function's self assessment against these requirements and confirmed that it complies with the Code except in the minor respects set out in the service's action plan.***" We can report that we have already implemented some of the actions and the remaining are programmed for during the year.
- 5.2.3 Internal Audit was re-assessed as part of the Audit Commission's update of the CPA Use of Resources assessment of the authority in September 2007. The overall Use of Resources score was 3 but Internal Audit were assessed under the internal control sub section and helped to maintain a top score of 4 in this sub section. The Use of Resources score contributed to the Council being classed again as a 4 star authority.

## 5.3 Local Performance

- 5.3.1 Final outturn information has now been provided for the Internal Audit local performance indicators. The results with explanations are shown below.

| PI Ref | Definition                                   | Outturn 06/07 | Target 07/08 | Outturn 07/08 | Comments/Explanation |
|--------|--|---------------|--------------|---------------|----------------------|
| LAUD1  | % of completed work for the external auditor | 100.00        | 100.00       | 100.00        | Achieved             |

|       |                                   |       |        |       |   |
|-------|-----------------------------------|-------|--------|-------|---|
| LAUD2 | Percentage planned work completed | 90.00 | 100.00 | 90.00 | Delayed start date of Assistant Auditor to support C&YP Finance Team, removal of additional resource from budget through the savings process and various pieces of unplanned investigations, complaints and corporate work beyond the contingency allocation. |
|-------|-----------------------------------|-------|--------|-------|---|

- 5.3.2 Internal Audit completed all the work for the External Auditor and therefore achieved the target of 100%. If this work had not been completed on time and to an acceptable standard it is possible that the External Auditor would have done the work at a considerably higher cost to the Council.
- 5.3.3 The unit has also completed 90% of the other planned work. This work was identified for examination based on a risk based methodology, including the output from the Council's risk management processes. This is the same level that the team achieved in 2006/07.
- 5.3.4 90% achievement is the benchmark for good audit teams and is used as best practice by the Audit Commission. The target for completing planned work was 100% but due to the reasons shown in 5.3.1 this was not achievable. However this has not affected our ability to provide an opinion to the organisation on the levels of internal control. For 2008/09 the target has been set at 92% which is more realistic given the team's performance over the past few years and the Council's continued requirements for unplanned work beyond the allocated contingency.
- 5.3.5 During the year to improve the team's efficiency, effectiveness and productivity we continually investigate new/alternative ways of service delivery (practices, use of technology, procedures and standard documentation) based on customer feedback, sharing best practice with other local authorities and service providers.
- 5.3.6 In addition to service efficiencies we have made our contribution over the last 3 years to the Council's efficiency targets. For 2007/08 we achieved just over £39,000 savings. The table below shows the split between cashable and non cashable savings:

**CASHABLE:**

| Description   | Amount (£) |
|---|------------|
| Cancellation of the broadband allowance to 3 employees involved on home working pilot | 1,080      |
| Negotiation of Equifax contract (financial references)                                | 560        |
| Upgrade and change to single user license IDEA (audit interrogation software)         | 80         |
| Total   | 1,720      |

**NON-CASHABLE:**

| Description   | Amount (£) |
|---|------------|
| Renegotiation of ICT audit contract April 2007                        | 4,850      |
| Undertaking additional audit work for FMSiS within existing resources | 32,210     |

|   |        |
|---|--------|
| Savings from change in use of ad-hoc external audit provider. | 230    |
| Total   | 37,290 |

5.3.7 Internal Audit is a member of the CIPFA benchmarking club (membership of 165 local authorities). Results over the years have shown that the unit compares well with other unitary authorities. Comparison of 2006/07 outturn to other unitary authorities shows:

- Cost per chargeable day – performing well against the average
- Chargeable days per auditor – performing well against the average
- Available days per auditor – performing well against the average
- Days per £m – performing well against the average
- Audit cost per £m turnover - average
- Cost per auditor – cost below average so supports value for money given other results

Comparison of 2007/08 estimates shows:

- Chargeable days per auditor – performing well against the average
- Available days per auditor – performing well against the average

Using this and qualitative data from the club additional areas for improvement have been identified and are included in the 2008/09 Business Plan.

5.3.8 The Audit & Risk Manager is the Unitary and District representative on the CIPFA Audit Panel. This helps the team to be at the forefront of public sector audit giving them advanced notice of developments in Internal Audit and governance and enabling them to contribute to and influence relevant guidance.

## **5.4 Customer Feedback**

5.4.1 Internal Audit receive customer feedback in several ways:-

- a) Informal feedback from auditees during the audit
- b) Seeking feedback from auditees at draft report discussion meetings
- c) Completion of a post audit questionnaire
- d) Annual Corporate Support Services survey

5.4.2 The analysis of post audit questionnaire feedback is shown in Appendix B. The results for non schools areas (Table 2) have improved compared to 2006/07 and there have not been any suggested areas for improvement.

5.4.3 Table 3 includes feedback from the new Schools Financial Management Standard External Assessment Audits. The results for 2007/08 are reduced compared to 2006/07 but we have extended the process to primary schools this year which has been a learning curve for customers and the audit team due to the different admin/support levels within these schools. There is on-going dialogue between Internal Audit, the schools, Finance and Governor Support to ensure the process is as smooth as possible. Where appropriate individual cases have been responded to and we will continue to ensure that feedback from customers is responded to appropriately

5.4.4 In February 2008 Directors, Heads of Service and Business Managers were invited to take part in the annual corporate support services satisfaction survey. The results were published in March 2008 and the specific information for Internal Audit is included in Appendix C. Internal Audit maintained a very high performance appearing in the top 4 for overall satisfaction, improved service and value for money service. The percentage of people satisfied with our service over the last 3 years is 2005/06 - 80%, 2006/07 – 87 % and 2007/08 – 85%.

5.4.5 We have reviewed the feedback from all these sources and based on this information will further improve the service.

## **5.5 Conclusion for 2007/08**

5.5.1 2007/08 has again been a successful year for Internal Audit – achieving all the work for the external auditor, 90% of other planned work, maintaining high customer satisfaction and contributing to maintaining our 4 star rating in CPA.

5.5.2 The statutory responsibilities of the Council's section 151 officer to provide an adequate internal audit service have been met and Internal Audit has provided reasonable assurance to the Council on the internal control systems for 2007/08. However, there are numerous major changes occurring within and outside the Council during 2008/9, for example :-

- a) A significant number of key projects and partnerships across the Council requiring increased and experienced internal audit resource;
- b) Additional requirements from the Audit Commission for data quality standards and regular monitoring of the accuracy of the data supporting key performance measures;
- c) Additional requirements of the External Auditor in respect to International Accounting Standards; and
- d) The continued roll out of the Financial Management Standards for Schools to all Primary and Special schools.

## **7 OTHER CONSIDERATIONS**

| <b>AREA</b>          | <b>COMMENTS</b>   |
|----------------------|---|
| Equal Opportunities  | All members of Audit team have attended equal opportunities/diversity training. If any such issues arose during an audit they would be notified to the appropriate manager.   |
| Environmental Impact | All members of the Audit Team are environmentally aware and if any issues were identified during audits they would be notified to the appropriate manager during or immediately following the audit.  |
| Legal Implications   | Audit Services classify recommendations as either Statutory, Financial regulation, Policy/Procedure or Best Practice. This means that where service areas are not operating within statutory requirements there is an obligation for management to implement the recommendations as soon as possible. All recommendations are followed up within 6 months. Audit Services can only, within their resource constraints provide reasonable assurance (rather than "absolute |

|                                 |  |
|---------------------------------|--|
|                                 | assurance”) to the authority upon the operation of controls.   |
| Links with Corporate Priorities | The audit plan is linked to corporate priorities through the risk management process. Where high risks are identified then Audit Services undertakes work on a more regular basis.   |
| Risks and Opportunities         | The role of internal audit includes a review of the controls in place to manage the risks within service areas. The reports produced assist the Council in improving systems and controls (reducing risks) and therefore the delivery of services and achievement of objectives.<br>Internal Audit staff under the supervision of the Head of Service annually review the Council's risk management process and have concluded that it is operating effectively. |
| Financial Implications          | Audit Services operated within budget for 2007/08 with a small underspend due to a delay in filling a vacant post. Where recommendations are made by Audit Services, if possible, cost implications are identified.  |
| Ward Implications               | Internal Audit is responsible for the internal audit of all the Council's activities and at all Council locations. They therefore operate within all Council Wards.  |

## **8 BACKGROUND PAPERS**

Annual Audit Plan 2007/08  
 Business Plan 2007/08 – 2009/10  
 CPA Use of Resources Scores 2007.  
 External Audit Assessment 2007/08  
 Corporate Support Services Survey 2008

Report by Jenny Marriott, Audit & Risk Manager 383101

## **WORK AREAS COVERED WHICH CONTRIBUTE TO THE ASSURANCE ON INTERNAL CONTROLS 2007/08**

### **Adult Consumer Care**

Adult & Consumer Care Finance Review  
Adult & Consumer Care - Strategic Housing Partnership  
Adoption Payments  
Adult Services - Client Record Keeping  
Appointeeships  
Business Continuity  
Direct Payments  
European Route of Industrial Heritage (Grant)  
Support to Adult & Consumer Care Management & Primary Care Trust  
Licensing  
Residency & Special Guardianship Payments  
Assistance to Adult & Consumer Care for Stage 3 Complaint  
Substance Misuse Review  
Supporting People  
Temporary Accommodation  
Trading Standards  
Uniform System

### **Children & Young People's Services**

Abraham Darby Secondary School  
Adams Grammar School  
Aqueduct Primary School  
Brookside Amalgamation  
Building Schools for Future  
Burton Borough School  
C&YP Advice & Consultancy  
Captain Webb Primary  
Catering - Systems Development  
Catering - Trends on FSM  
Catering Budgetary Control  
Children's Grants  
Corporate Parenting & 16+ Team Review  
Donnington Wood Junior School  
Dothill Infants School  
Dothill Junior School  
Financial Management Standard  
Hadley Learning Centre  
Hadley PFI  
Integrated Children's Information System  
John Randall Primary School  
Malinslee Primary School  
Meadows Primary School  
Milbrook Primary School  
Moorfield Primary School  
Mount Gilbert School  
Music Service  
Muxton Primary School  
NEETs Project  
Newdale Primary School  
Newport Junior School  
Oakengates Children's Centre  
PCI Card Payment Standards

Priorslee Primary School  
Queenswood Primary School  
Randlay Primary School  
Redhill Primary School  
School Census  
School Clusters - Advice & Consultancy  
School Funds  
Schools Sports Partnership  
Sir Alexander Fleming Primary School  
St Georges CE Primary School  
St Matthews Primary School  
St Peters (Bratton) Primary School  
Stafford Park Young People Centre  
Three Oaks Primary School  
Windmill Primary  
Wombridge Primary School  
Woodlands Primary School  
Youth Offending Service

## **Community Services**

Cheque Security - Reprographics  
Community Safety  
Community Services Advice  
Review of Flex System Controls  
Government Procurement Cards  
Ice Rink Controls  
Information Governance Programme Board  
Leisure Centres - Lessons Learnt Review  
Libraries Controlled Self Assessment  
Phoenix Leisure Centre  
Advice on controls Registrars Office  
Room Booking System  
Spout Farm & Town Park  
Stirchley Recreation Centre  
Wellington Civic & Leisure Centre  
Youth Services

## **Environment & Regeneration**

Asset & Property Management  
Engineering Consultancy Contract  
Concessionary Travel  
Donnington Rail Freight  
Environment & Regeneration Advice & Consultancy  
European Regional Development Fund  
Land Stability - Lloyds Phase 1 Review  
Leegomery Construction Design Management Compliance Checks  
Management Information System Project  
Local Development Framework Complaint Review  
Post Contract Reviews  
Transforming Telford Ltd - Non Contract (Council Monitoring)  
Traffic Management Contracts  
Transport Invoices Freedom Of Information  
Traveller Arrangements  
Waste Disposal  
Woodside Regeneration Complaint



## **Resources**

- Capital Contract Monitoring
- Cash Collection
- Constitution Review including financial regulations for schools & procedure notes
- Corporate Contracts
- Corporate Governance
- Council Tax & National Non-Domestic Rates
- Data Quality - Human Resources Performance Indicators
- Review of Election Controls
- Email & Internet Filtering - review of cases
- Environmental Controls - Information Communication Technology
- Ethics Training
- Financial Management System Project Board & Project assurance
- Finance for Non-Finance Managers Training
- Financial Credit Checks
- Forged Cheque - review of procedures
- Fraud/Compliance Tests
- Health & Safety reviews
- Human Resources
- ICT Infrastructure Project
- ICT Inventory
- ICT Purchasing
- ICT Security
- Income Management System
- Integrated Benefits System
- Main Accounting
- Member Induction
- Money Laundering
- National Fraud Initiative
- Procurement Advice
- Purchase Ledger
- Revs & Bens Invoice Scam
- Risk Management including workshops
- Sales Ledger
- Use Of Consultants/Project Managers
- Use Of Resources

## **Chief Executive/Members/Policy**

- Comprehensive Performance Assessment & IDEA Peer Review
- Local Area Agreement Grants
- Local Public Service Agreement Audit Checks
- Members Expenses
- Partnership Contract Arrangements
- Partnerships
- Performance Indicators
- Data Quality Workshops

## POST AUDIT QUESTIONNAIRE FEEDBACK 2007/08

Table One – Analysis for School Audits (not continued in 2007/08 see below)

| Question                             | 2004/05<br>From<br>Top score 5 | 2005/06<br>From<br>Top score 5 | 2006/07<br>From<br>Top score 5 |
|--------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Pre- Audit<br>Arrangements           | 4.0                            | 4.4                            | 4.2                            |
| Audit Visit                          | 4.6                            | 4.7                            | 4.5                            |
| Report                               | 4.4                            | 4.3                            | 4.3                            |
| Any improvements<br>required – Yes   | 33%                            | 40%                            | 43%                            |
| Is audit a positive<br>support – Yes | 100%                           | 100%                           | 100%                           |

Table Two – Other Audits

| Question                             | 2004/05<br>From<br>Top score 5 | 2005/06<br>From<br>Top score 5 | 2006/07<br>From<br>Top score 5 | 2007/08<br>From<br>Top score 5 |
|--------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Pre- Audit<br>Arrangements           | 4.7                            | 4.55                           | 4.4                            | 4.8                            |
| Audit Visit                          | 4.8                            | 4.6                            | 4.6                            | 5.0                            |
| Report                               | 4.8                            | 4.5                            | 4.3                            | 4.8                            |
| Any improvements<br>required – Yes   | 40%                            | 33%                            | 33%                            | 0%                             |
| Is audit a positive<br>support – Yes | 100%                           | 100%                           | 100%                           | 100%                           |

Table 3 - Results from schools Financial Management Standard (New for 2006-07 onwards)

| Question                           | 2006/07<br>From<br>Top score 5 | 2007/08<br>From<br>Top score 5 |
|------------------------------------|--------------------------------|--------------------------------|
| Pre- Audit<br>Arrangements         | 4.7                            | 4.2                            |
| Audit Visit                        | 5.0                            | 4.7                            |
| Report                             | 4.6                            | 4.5                            |
| Any improvements<br>required – Yes | 40%                            | 33.3%                          |

## APPENDIX C

### Internal Audit – Specific Corporate Support Services Survey Results 2008

| Internal Audit   | 2008                |                       |              |                          |                        |                                  |                                |                   |                       | 2006           |                   |                       | 2005           |                   |                       | 2005 to 2006                             | 2006 to 2008 |
|--|---------------------|-----------------------|--------------|--------------------------|------------------------|----------------------------------|--------------------------------|-------------------|-----------------------|----------------|-------------------|-----------------------|----------------|-------------------|-----------------------|--|--------------|
|  | All respondents     |                       |              |                          |                        |                                  | Those who expressed an opinion |                   |                       |                |                   |                       |                |                   |                       |  |              |
|  | Very satisfied<br>% | Fairly satisfied<br>% | Neither<br>% | Fairly dissatisfied<br>% | Very dissatisfied<br>% | Don't know / Not applicable<br>% | Satisfied<br>%                 | Dissatisfied<br>% | Net satisfaction<br>% | Satisfied<br>% | Dissatisfied<br>% | Net satisfaction<br>% | Satisfied<br>% | Dissatisfied<br>% | Net satisfaction<br>% | Direction of travel<br>2005 to 2008<br>% |              |
| That recommendations made are practical and help you improve your controls   | 25                  | 48                    | 8            | 2                        | 0                      | 17                               | 86                             | 2                 | 86                    | 88             | 1                 | 87                    | 80             | 4                 | 76                    | ↗ +11                                    | ↘ -1         |
| Usefulness and timeliness of advice on controls, financial regulations, council policies and procedures in response to ad hoc requests | 26                  | 49                    | 7            | 1                        | 0                      | 17                               | 90                             | 1                 | 89                    | 86             | 1                 | 85                    | 88             | 4                 | 84                    | ↗ +1                                     | ↗ +4         |
| That the audit process helped to add value to your service (for services audited within last 12 months)                                | 18                  | 40                    | 12           | 5                        | 0                      | 25                               | 77                             | 7                 | 71                    |                |                   |                       |                |                   |                       |  |              |
| Keeping officers informed of work in progress  | 25                  | 46                    | 8            | 3                        | 0                      | 18                               | 87                             | 4                 | 83                    | 84             | 4                 | 80                    | 75             | 2                 | 73                    | ↗ +7                                     | ↗ +3         |
| Approachable and friendly staff  | 50                  | 33                    | 4            | 0                        | 0                      | 13                               | 95                             | 0                 | 95                    | 92             | 0                 | 92                    |                |                   |                       |  | ↗ +3         |
| Professionalism of staff   | 55                  | 25                    | 6            | 1                        | 0                      | 13                               | 92                             | 1                 | 91                    | 94             | 0                 | 94                    | 92             | 2                 | 90                    | ↗ +4                                     | ↘ -3         |
| That you know who or how to contact Internal Audit   | 50                  | 22                    | 11           | 5                        | 0                      | 12                               | 82                             | 6                 | 76                    | 89             | 2                 | 87                    |                |                   |                       |  | ↘ -11        |