

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
28th June 2010**Internal Audit Monitoring Report**
Quarter ended 31st March 2010

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME	Internal Organisational Theme
CORPORATE PLAN AIM:	A well-run and responsive Council
CABINET MEMBER:	Councillor Nathan Desmond
RESPONSIBLE OFFICER:	Section 151 Officer
CONTACT OFFICER:	David Buckland Extension No. 2100 david.buckland@wyreforestdc.gov.uk
APPENDIX 1	Internal Audit Report for the Quarter ended 31 st March 2010

1. PURPOSE OF REPORT

- 1.1 To inform members of the Internal Audit Monitoring Report for the Quarter ended 31st March 2010, attached as Appendix 1.

2. RECOMMENDATIONS

The Audit Committee is asked to NOTE:

- 2.1 **The Internal Audit Monitoring Report for the Quarter ended 31st March 2010 as detailed in the Appendix to the report.**

3. BACKGROUND

- 3.1 The management of the authority are obliged to safeguard public funds and use them in a way which provides value for money and thereby best value. An effective internal audit service is vital in helping management to meet these important duties as it is an independent appraisal function for the review of the entire internal control system.
- 3.2 The Audit Committee approved the operational Annual Audit plan 2009 – 2010 in March 2009 as part of the 3 year 2009~2012 Strategic Audit Plan. This plan takes into account changes in priorities or risk in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 3.3 The Internal Audit Strategic Plan 2009 – 2012 approved in March 2009 provides the overall direction for the Internal Audit service working in partnership with the External Auditors to minimise the overall audit cost to the authority.

- 3.4 Performance of the Internal audit service is monitored against plan each quarter during the year by way of this quarterly audit report to the Audit Committee, to the Corporate Management Team and to the External Auditors.
- 3.5 The Report attached as an Appendix contains 4 sections which are:
- Section 1 **Final** internal audit reports issued in the quarter
 - Section 2 **Follow up** Reviews undertaken in the quarter
 - Section 3 **Draft** internal audit reports issued in the quarter
 - Section 4 **Performance Statistics**
 - Section 5 Final Audit Reports issued in the period 1st April 2009 to 31st December 2009 ~ Key Systems
- 3.6 The audit reports referred to in the Appendix are those where testing has been undertaken on an element of the internal control environment. It should be noted that the findings are on an **exception basis** i.e. reported if an internal control was found not to be operating satisfactorily, so giving rise to a control weakness and therefore an area for improvement. The findings of audit reviews in the report do not list those internal controls which were found to be operating satisfactorily. This approach has been adopted to enable the output of the review to focus on those areas considered by internal audit to require management's attention.
- 3.7 The Internal audit review process is published on the Council's Intranet. This details the process whereby **Draft** internal audit reports arising from audits are forwarded to Chief Officers and nominated lead managers for agreement to recommendations and timescales for implementation prior to the preparation of **Final** internal audit reports.
- 3.8 The approved Terms of Reference for Internal Audit require that the Section 151 Officer prepares an annual opinion on the Council's internal control environment. This is a personal opinion, which takes into account the findings of the audit reviews that have been undertaken relating to the financial year in question. These findings are taken together and considered in order to give an overall view of the Council's Internal Control environment, which is reported to the June meeting of the Audit Committee.
- 3.9 The terminology within the reports presented to members is in line with that used by many other Internal Audit sections of public authorities, private and public companies and external auditors.
- 3.10 Every organisation operates in the real world and errors/omissions/system weaknesses (manual or computerised) are inevitable. Management have to manage these known risks through the use of internal controls.
- 3.11 It may be that an operational decision has been taken by management to accept the risk of the non operation of an internal control. Where the area is being reviewed by internal audit in such an instance the weakness and any associated recommendation would be reported. Management would record within the service's risk register the processes in place to mitigate the risk.
- 3.12 The Corporate Management Team have confirmed that action would be taken immediately should an internal audit review report a significant weakness which could lead to a potential serious issue.

4. KEY ISSUES

- 4.1 Internal audit make recommendations to management on potential improvements to the internal control environment of the system under review. It is management's responsibility to take the necessary action to implement recommendations as agreed in the final internal audit report.
- 4.2 The Quarterly audit report contains details of internal audit reports issued in the quarter together with follow up reviews. The format of internal audit reports has been adopted to enable management and members to focus on those areas that internal audit wishes to draw to its attention. The success or otherwise of a service is reported via other dimensions of the Council's performance management framework including for example the monitoring of the Performance Indicators, Performance Review Clinics and the progress of the Council against its agreed implementation plan arising from its Comprehensive Performance Assessment review.
- 4.3 The internal audit section operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. Procedures are monitored to ensure that the internal audit section procedures remain compliant.
- 4.4 The approved Terms of Reference for Internal Audit require that the Section 151 Officer prepares an annual opinion on the Council's internal control environment. This is a personal opinion, which takes into account the findings of the audit reviews that have been undertaken relating to the financial year in question. These findings are taken together and considered in order to give an overall view of the Council's Internal Control environment.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications arising from this report. There may however be financial implications if the audit recommendations made within audit reports are not implemented on a timely basis.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 The Accounts and Audit Regulations 2003 and the Accounts and Audit (Amendment)(England) Regulations 2006 section 6(1) require that:

"A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control."

7. RISK MANAGEMENT

- 7.1 In order to manage risks internal controls are used to mitigate and manage the identified risks to an acceptable level. Any weakness in the operation of internal controls therefore impacts directly on the management of risk.
- 7.2 Risk management issues could arise when weaknesses in internal controls are identified during the audit review process and management delay or defer implementation of the recommendations made.

7.3 The Internal Audit service is one element of the Council's assurance/internal control framework.

8. EQUALITY IMPACT NEEDS ASSESSMENT

8.1 An Equality Impact Assessment screening has been undertaken and it is considered that there are no discernable impacts on the six equality strands.

9. CONCLUSION

9.1 The work undertaken by internal audit in the quarter ended 31st December 2009 is reported within Appendix 1. This information is presented to members in accordance with the Terms of Reference for the Internal Audit Section.

9.2 The work undertaken by the Internal Audit Section has complied with the requirements of the CIPFA Code of Practice for Internal Audit in Local government.

10. CONSULTEES

10.1 Corporate Management Team

11. BACKGROUND PAPERS

11.1 16th March 2009 ~ Audit Committee ~ Strategic Audit Plan 2009~2012
16th March 2009 ~ Audit Committee ~ Internal Audit Terms of Reference ~ Update

INTERNAL AUDIT SECTION

AUDIT MONITORING REPORT

**QUARTER ENDED
31ST MARCH 2010**

INTERNAL AUDIT SECTION
QUARTERLY AUDIT REPORT
QUARTER ENDED 31ST MARCH 2010

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David Buckland
Section 151 Officer

12th May 2010

SECTION 1 FINAL AUDIT REPORTS ISSUED IN THE QUARTER ENDED 31ST MARCH 2010		
	ASSURANCE	PAGE
CHIEF EXECUTIVE		
Subsidiary System		
Training Expenses 2009/10	S	8
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Subsidiary Systems		
Postal & Franking Machine Expenditure 2009/10	F	-
LEGAL & CORPORATE SERVICES		
Key Systems		
Members Allowances 2009/10	S	9
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PLANNING & REGULATORY SERVICES		
Subsidiary Systems		
Postal & Franking Machine Expenditure 2009/10	F	-
RESOURCES		
Key Systems		
Accounting Journals 2009/10	F	-
Bank Reconciliation 2009/10	F	-
Budgetary Control & Monitoring 2009/10	S	10
Subsidiary Systems		
Postal & Franking Machine Expenditure 2009/10 ~ Support Services/Benefits	F	-

KEY		
Assurance Level	Description of Assurance Level	What is reported in the Quarterly Audit Report
U = Unsound	<p>Significant breakdown in the overall framework of controls with a number of significant recommendations ~ provides little or no assurance.</p> <p>A significant internal control is one which is key to the overall framework of controls.</p>	Summary page of Audit Report and significant findings and associated recommendations.
L = Limited	<p>Significant lapses/breakdown in individual controls ~ at least on significant weakness ~ provides partial assurance.</p>	Summary page of Audit Report and significant findings and associated recommendations.
S = Some	<p>Sufficient framework of controls but some weaknesses identified ~ provides adequate assurance.</p>	Summary page of Audit Report together with any significant findings and associated recommendations where appropriate.
F = Full	<p>Robust framework of controls, any recommendations are advisory ~ provides substantial assurance.</p>	The title of the review undertaken is reported.

AUDIT REPORT TITLE: Training Expenses 2009/2010	DRAFT REPORT DATE ISSUED: 26th January 2010	SERVICE: Chief Executives Office
BUDGET: £83,500 – 2009/10	FINAL REPORT ISSUED: 12th February 2010	RESPONSE RECEIVED: 2nd February 2010
REF: A330		

Assurance Levels	Definition	Recommendation Rankings	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

N.B. Assurance level for this system is highlighted.

Overview

The review concentrated on ensuring that employees’ training is funded in accordance with Council policy, is properly approved, paid and recorded and that budgets are regularly monitored.

The Audit ensured that there are documented procedures available to all employees undertaking training. A sample of 18 completed Nomination for Training Request forms (Pink) were examined in detail to ensure that the correct approval was obtained from Section Directors, funding was in accordance with Council policy and procedures. All expenses were justified and supported by appropriate evidence i.e. valid receipts. The records maintained by the Human Resources Section were reviewed to ensure appropriate and accurate records are maintained with regular monitoring of the centrally controlled training budget and that all training expenses are recorded accurately in the Council’s Financial Accounts.

Conclusion:

The review concluded that:-

The system in place for recording and monitoring centrally funded employees’ training is well managed. There is an appropriate policy in place and the procedures for requesting training and the recording and monitoring of expenditure are in accordance with the policy. There are three areas within the procedures where an opportunity for improvement has been identified. These areas cover ensuring that an Undertaking to Repay Costs form is signed in all appropriate instances, monitoring of returning text books to the Council and clarifying the documentation to be completed for claiming expenses depending on training undertaken. In addition there are also opportunities to enhance procedures regarding evidencing budgetary monitoring reviews.

The overall conclusion therefore, is that **SOME** assurance can be given that the internal controls in place in respect of the funding of employees’ training are operating as intended. However the implementation of the following recommendations will further strengthen the system in place and raise the level of assurance.

AUDIT REPORT TITLE: Members Allowances 2009/10 BUDGET: £348,180 Estimate 09/10 REF: A310 Other Member Allowances	DRAFT REPORT DATE ISSUED: 16 th October 2009 FINAL REPORT ISSUED: 16 th February 2010	SERVICE: Legal & Corporate Services Resources Directorate (No.3) RESPONSE RECEIVED: 9 th December 2009/22 nd December 2009/15 th February 2010 (LCS) 10 th December 2009/2 nd February 2010 (RD)
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Assurance Levels	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.
Some	Sufficient framework of controls but some weaknesses identified – provides adequate assurance.
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.

Recommendation Rankings	Definition
Advisory	Low risk – recommendation for consideration
Other	Medium risk - action required but not urgent
Significant	High risk – urgent action needed

NB. Assurance level for this system is highlighted.

Overview
The Audit was undertaken to ensure that payments to Members were only made in accordance with documented procedures and appropriate regulations. This was achieved by examination of the Council's Constitution, the Members Allowance Scheme and records maintained by the Committee Section to support Committee Attendance and payroll records as evidence of payment. A sample of Members allowances and mileage claims were selected for detailed testing to ensure compliance with the current scheme dated May 2009, to verify that the claims submitted were in line with the scheme, payments were made in respect of approved duties, at the approved rates and recorded in a public register.

Conclusion
The audit found that Members are being paid in accordance with the Members Allowance Scheme. All payments are recorded in a register available to view by the public and total payments for the year are available on the Council's website. Members are paid monthly as part of the Council's payroll function and these payments are correctly recorded in the Council's main ledger. However there are some areas relating to the review of Members Allowance Scheme, segregation of duties, efficiency of processes and adequacy of documentation where risk could be reduced as part of continuous improvement. The overall conclusion therefore, is that **SOME** assurance can currently be given on the internal controls in place for the key system of administration and payment of Members Allowances. Implementation of the following recommendations will ensure that the controls are further strengthened to enable full assurance to be given.

AUDIT REPORT TITLE: Budgetary Control & Monitoring 2009/10	DRAFT REPORT DATE ISSUED: 15th February 2010	SERVICE: Resources Directorate
BUDGET: VARIOUS	FINAL REPORT ISSUED: 31st March 2010	RESPONSE RECEIVED: 22nd March 2010
REF:		

Assurance Levels	Definition	Recommendation Rankings	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
Some	Sufficient framework of controls but some weaknesses identified – provides adequate assurance.	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

Overview
The Audit was undertaken to ensure that the budget process within the Council is clearly defined and based upon justifiable assumptions. That the monitoring process is delegated to budget holders, is undertaken on a regular basis i.e. Monthly, and that any variances are investigated and where necessary reported to Members. That all risks have been identified and entered into the Corporate risk register and are being monitored.

The audit concentrated on the budget process from the financial point of view as regards the issuing of budget control reports and the involvement of members in the budget setting and monitoring process. The audit did not include any detailed examination of budget control and monitoring reports from the point of view of the Cost Centre Managers but as part of the testing ensured that reports are generated from the Financial Management System (Agresso) and distributed to those employees responsible for monitoring budgets. It was established that reports are generated on a timely basis ie Monthly and distributed to Cost Centre Managers for verification of income and expenditure to date ensuring targets within budget for known commitments. The audit found that the budget monitoring reports issued each month are in line with and reflect the preset budget for 2009/2010. The actual figures to date could be traced to the main ledger from the reports

Although the Council is not currently undertaking full commitment accounting, the upgrade to the Agresso Financial Management system undertaken in November 2009 as managed by the Accountancy Section, Resources Directorate, will provide the Council with the necessary tools to introduce this. Purchase Order Processing (POP) is planned from April 2010 to enable the introduction of Commitment Accounting from the point of ordering of goods/services.

Members were involved in the budget setting process scrutinising the proposals for the Financial Strategy/Budget Reports via the Budget Review Panels and Corporate Services Scrutiny Committees. During 2009/10 financial year Members have received three quarterly monitoring reports which explicitly detail the progress of the Council in achieving the Cabinet Budget Proposals 2009/2012. Members are fully informed of any financial implications in respect of the Budget. This is evidenced where as part of the Budget Monitoring Second Quarter 2009/2010 report to Cabinet, in November Members were advised of emerging issues which will affect the Service and Financial Planning leading into the Financial Strategy/Budget 2010/2013. To support the budget process, additional information has been provided to Members this year in terms of further appendices monitoring Cabinet Proposals and Non Policy Budget Savings.

Conclusion:
The review concluded that there were areas within the key controls for budgetary control and monitoring with opportunities for improvement in the areas of updating of Financial Regulations, Budget Risks and Guidance for Budget Holders where although not exposing the Council to increased risk need to be taken into account. Therefore, the conclusion is that **SOME** assurance can be given in that the internal control processes in place are operating as intended. The implementation of the advice given and the following recommendations has given and will continue to give opportunities for improvement, to further strengthen the system in place and raise the level of assurance.

Quarter Report to the 31st March 2010
Summaries of Follow up Reviews undertaken in the Quarter

SECTION 2

KEY	
Assurance Levels	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.

TITLE	SYSTEM TYPE <small>K=Key S=Subsidiary</small>	ASSURANCE LEVEL OF FINAL REPORT	IMPLEMENTATION STAGE PER CHIEF OFFICER AND/OR RESPONSIBLE MANAGER AT TIME OF FOLLOW UP REVIEW				Page No.
			No of Recommendations	No of Recommendations Implemented	No of Significant Recommendations	No of Recommendations Implemented	
Community & Partnership Services							
Provision of CCTV*	K	S	1	-	-	-	-
Legal & Corporate Services							
CAIRO Computer Application 09/10	K	S	9	6	-	-	-
Corporate Governance 08/09	K	S	4	4	-	-	-
Land Charges 09/10	K	S	1	1	-	-	-
Resources							
Benefits Reconciliation 08/09	K	S	6	6	-	-	-
Concessionary Travel Scheme 09/10	K	S	2	2	-	-	-
Performance Management (NI 179) 2008/09	K	S	1	1	-	-	-
Scale of Charges ~ Bulky Waste	S	L	4	4	1	1	-

*Note: Provision of CCTV ~ Three Month Follow Up review undertaken in April 2010 but reported to this Meeting early at the request of the Audit Committee for clarification regarding the details of the CCTV maintenance contract.

Action to Date:

The Procurement Officer is currently tendering for all CCTV Systems in respect of the Maintenance Contracts. Tender Documents will be issued in May/June 2010. The Contract will be a joint venture with Bromsgrove DC to cover a period of 18 months commencing 1st August 2010. The contract will be put out to retender after the 18 months to bring Redditch BC on board following the expiry of their current maintenance arrangements.

SECTION 3**DRAFT AUDIT REPORTS ISSUED IN THE QUARTER ENDED 31st MARCH 2010**

TITLE	DATE OF ISSUE	CURRENT STATUS OF REPORT
COMMUNITY & PARTNERSHIP SERVICES <u>Key Systems</u> Bewdley Museum 2009/10	16.03.10	Final Report Issued 30.04.10
PLANNING & REGULATORY SERVICES <u>Key Systems</u> General Licensing & Registration 2009/10	08.03.10	Final Report Issued 16.04.10
RESOURCES DIRECTORATE <u>Key Systems</u> NNDR Gross Debit Reconciliation 2009/10	31.03.10	Final Report Issued 20.05.10
<u>Subsidiary Systems</u> Postal & Franking Machine Expenditure 2009/10 (Green Street)	16.03.10	Final Report Issued 30.04.10

INTERNAL AUDIT SECTIONPERFORMANCE AGAINST ANNUAL PLAN FOR THE FINANCIAL YEAR 2009/10Quarter ended 31ST March 2010Year to 31st March 2010

	<u>Quarter Actual</u>	<u>Quarter Plan</u>	<u>Quarter Actual as a % of Plan</u>		<u>Year Actual</u>	<u>Annual Plan</u>	<u>Year to Date Actual as a % of Plan</u>
	<u>Days</u>	<u>Days</u>	<u>%</u>		<u>Days</u>	<u>Days</u>	<u>%</u>
System and Probity	130.25	112.50	115.78%	System and Probity	495.50	450	110.11%
Computer Audit	2.75	10.00	27.50%	Computer Audit	21.50	40	53.75%
Computer Audit Contract	0.00	0.00	0.00%	Computer Audit Contract	50.00	50	100.00%
Contract Audit	0.00	10.00	0.00%	Contract Audit	12.00	40	30.00%
Consultancy and Advice	9.50	10.00	95.00%	Consultancy and Advice	63.25	40	158.13%
Irregularity	3.25	10.00	32.50%	Irregularity	13.00	40	32.50%
Specific Service Duties	3.75	3.75	100.00%	Specific Service Duties	15.00	15	100.00%
Sub Total	149.50	156.25	95.68%	Sub Total	670.25	675	99.30%

TARGET 90.00%**Audit Resource Statistics**

For the year ended 31st March 2010, **99.3%** of the annual audit plan has been completed compared against the set target of 90%.

SECTION 5 FINAL AUDIT REPORTS ISSUED IN THE PERIOD 1ST APRIL 2009 TO 31ST DECEMBER 2009 - KEY SYSTEMS	
	ASSURANCE
QUARTER ENDED 30TH JUNE 2009	
Corporate	
Fixed Assets 2008/9 - Physical inspection of assets and title deeds	N/A – Inspection Only
Community & Partnership Services	
Monitoring of DC Leisure Contract 2008/09	S
Legal & Corporate Services	
Management of Town & Civic Halls 2008/09	S
Planning & Regulatory Services	
Car Parks 2008/09	S
Civil Enforcement 2008/09	S
Improvement Grants (Non Care & Repair) 2008/09	S
Resources Directorate	
Cash Income to Bank	S
Council Tax Compliance & Independent Reconciliation 2008/09	S
NNDR Compliance & Independent Reconciliation 2008/09	S
Payroll Compliance & Establishment 2008/09	F
PAYE Review 2008/09	F
Treasury Management Compliance 2008/09	F
VAT Review 2008/09	F
QUARTER ENDED 30TH SEPTEMBER 2009	
Legal & Corporate Services	
Corporate Governance 08/09	S
Terrier & GGP Records 08/09	F
Resources	
Benefits Reconciliations 08/09	S
Performance Management NI 179 08/09	S

KEY		
Assurance Level	Description of Assurance Level	What is reported in the Quarterly Audit Report
U = Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations ~ provides little or no assurance. A significant internal control is one which is key to the overall framework of controls.	Summary page of Audit Report and significant findings and associated recommendations.
L = Limited	Significant lapses/breakdown in individual controls ~ at least on significant weakness ~ provides partial assurance.	Summary page of Audit Report and significant findings and associated recommendations.
S = Some	Sufficient framework of controls but some weaknesses identified ~ provides adequate assurance.	Summary page of Audit Report together with any significant findings and associated recommendations where appropriate.
F = Full	Robust framework of controls, any recommendations are advisory ~ provides substantial assurance.	The title of the review undertaken is reported.

SECTION 5
FINAL AUDIT REPORTS ISSUED IN THE PERIOD
1ST APRIL 2009 TO 31ST DECEMBER 2009 - KEY SYSTEMS

	ASSURANCE
QUARTER ENDED 31ST DECEMBER 2009	
Community & Partnership Services	
Provision of CCTV 2009/10	S
Legal & Corporate Services	
CAIRO Computer Application 2009/10	S
Land Charges 2009/10	S
Planning & Regulatory Services	
Building Control 2009/10	S
Resources	
Concessionary Travel 2009/10	S