

**Report to:** Audit Committee

**Date:** 25<sup>th</sup> June 2007

**Report of:** Head of Internal Audit &SDT

**Report No:**

**Contact Officer:** John Midlane

**Tele**  
**No:331620**

**Report Title:** Internal Audit Annual Report 2006/07

**Confidential /  
Non Confidential:**

**(Non-Confidential)** This report does **not** contain information which warrants its consideration in the absence of the press or members of the public

**Purpose:**

To inform Audit Committee of the work of the Internal Audit Section for 2006/07 and of the opinion on the Council's internal control environment.

**Recommendations:**

Audit Committee is asked to consider the work of the Internal Audit Section for 2006/07 and endorse the opinion on the authority's control environment.

**Background Doc(s):**

Internal Audit Plan 2206/07

## **1. BACKGROUND:**

Under The Accounts and Audit Regulations 2003 (as amended) an authority must “maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with proper practice”.

Guidance accompanying the legislation states that proper practice for internal audit is contained in the CIPFA Code of Practice for Internal Audit in Local Government in the UK. This code has been updated in 2006 and a report to Audit Committee in March 2007 showed that in Bolton we had 96% compliance with the new requirements.

One of the requirements of the above code is that the Head of Internal Audit provide a written report every year to support the Statement on Internal Control (SIC).

## **2. INTERNAL AUDIT IN BOLTON:**

The Internal Audit Section is part of the Corporate Resources Department and is managed by the Head of Internal Audit and Service Development who reports to the Deputy Director of Corporate Resources.

The role and function of the section are covered in the Terms of Reference; these were approved by Audit Committee at its meeting in March 2007 and are attached at Appendix A.

The work of Internal Audit covers the whole control environment of the council and is based on a risk assessment of all activity. The issues highlighted in the corporate risk assessment process supplemented by a more detailed assessment of risk, which evaluates each audit area on the basis of three different factors;

- Materiality,
- Inherent Risk,
- Internal Control Risk.

Close liaison with customers and the Council's Risk Register ensures that key strategic areas identified in the Corporate Business Planning Process (CBPP) are also covered.

Internal Audit has developed a strong working partnership with the authority's external auditors and reliance is being placed on the work of Internal Audit in reviewing key financial systems. Under this arrangement the work of Internal Audit is itself subject to scrutiny by the Council's external auditor, thereby providing Members with an independent review of the service.

### **3. KEY EVENTS IN 2006/07:**

One of the key events to impact on the internal audit service in 2006/07 has been the publication by CIPFA of the new Code of Practice for Internal Audit in Local Government in the UK 2006. This replaces the old 2003 code and is regarded as best practice within the profession. The Internal Audit Section in Bolton had just achieved 100% compliance with the old code when the new one was published. Audit Committee received a report at its meeting of 15<sup>th</sup> March 2007 which showed that we met 96% of the requirements of the new code and proposed actions to meet the rest. Comparison across Greater Manchester authorities shows that this level of compliance puts Bolton in the upper quartile for compliance.

2006/07 also saw the introduction of the Financial Management in Schools (FMSiS) initiative across all secondary schools. This is a programme introduced by the government which promotes high standards of financial management in schools and requires each school to produce a certificate of compliance each year. These annual certificates need to be audited. The initiative is being phased in over three years and 2006/07 saw its introduction in all secondary schools. Internal audit has worked closely with schools to help them understand the requirements as well as signing off the individual certificates.

### **4. REVIEW OF 2006/07 AUDIT YEAR:**

#### **Audit Resources:**

The staffing establishment of the Internal Audit Section is 13 full time equivalents. The service has responded to the change in the way services are provided by the authority including new partnerships and management re-alignment as part of the council's change programme. During 2006/07 90% of the Audit Plan was delivered which meets the target set for the year and is the accepted standard within the Comprehensive Performance Assessment (CPA).

The establishment of 13 staff equates to 3289 person days per year after taking account of weekends and bank holidays and this formed the basis of the planned coverage for 2006/07. Table 1 below shows the actual activity against the original planned:

Planned Days			Actual Days			Variation		
	Days	%		Days	%		Days	%
Standard Days	3289	100		2992	100		-297	-9
Less:								
Leave	390	12		340	11		-50	-13
Sickness	65	2		82	3		17	26
Training	91	3		87	3		-4	3
Management	471	14		391	13		-80	-17
Total Non Audit Days	1017	31		900	30		-117	-11
Operational Days	2272	69		2092	70		-180	-8

Total days available are lower than planned due to periods during the year when posts were vacant. This is also reflected in reduced time for leave and management. Sickness has been affected by one case of long term sick during the year; with a small team this has a significant impact on the overall figure. Despite the number of available operational days being down by 8% over 90% of the plan has been achieved.

#### Comparison of Actual and Planned Coverage 2006/07:

Table 2 below shows the actual work undertaken in 2006/07 compared to the plan:

	2006/07 Plan		2006/07 Actual		Variation	
	Days	%	Days	%	Days	%
Corporate Resources, Central Systems & Computer	499	22	533	25	34	7
Service Audits/Establishment visits	994	42	830	40	-164	-16
Contracts Audit	110	5	104	5	-6	-5
Performance Management	100	5	96	5	-4	-4
Contingency & Follow up	243	11	237	11	-6	-2
Counter Fraud	50	2	50	2	0	0
External Work	276	13	242	12	-34	-12
<b>Total Operational Time</b>	<b>2272</b>	<b>100</b>	<b>2092</b>	<b>100</b>	<b>-180</b>	<b>-8</b>

Actual days on corporate systems is up due to the heavy reliance that is placed upon these corporate systems and the need to ensure that they are operating effectively. Service audits have been affected by the gaps in resources during the year, these audits have been reprioritised into the current year.

#### Comments on Audit Coverage:

#### Performance:

The time allocation for this was spent on a review of 43 of the 71 Local Area Agreement performance indicators. Of these 25 are also Local Public Service Agreement 2 (LPSA2) indicators for which a Performance Reward Grant could be claimed. A report was issued for each indicator to the responsible officer detailing areas for improvement and recommendations where appropriate.

### **Children's Services Department:**

The Government introduced the Financial Management Standard in Schools (FMSiS) in 2006 and all secondary schools were expected to meet this Standard by 31st March 2007. The Local Authority is responsible for confirming a schools' adherence to the standard. The routine audit of the school was also carried out at the same time as the FMSiS external assessment. Of the 16 high schools in Bolton 13 were externally assessed and audited with all 13 achieving the Standard. In addition 5 primary schools were audited and follow up audits of 1 high school and 6 primary schools were also carried out.

Evidence from schools audits is that robust internal controls are in place and are being followed.

In addition to schools audits were carried out in the following areas of the department in 2006/07

Subsistence, conference & training  
Residential Homes  
Pupil Referral Units  
Inter Authority Adjustments  
Shared Care

Recommendations were made in the above audit reports however the levels of governance and internal controls were found to be satisfactory. A follow up visit was also carried out of the Firwood Summer Scheme. The Scheme has now changed in the way it is being run and has been renamed as Play 4 All. Assurance was obtained that the numerous high priority recommendations had either been implemented or were no longer applicable.

### **Adult Services**

Based upon the risk based approach described above the following systems and establishment audits were undertaken in 2006/07:

Subsistence, conference & training  
Fairer Charging  
Learning disability  
Extra Care Housing  
Direct Payments  
Community Care Centres  
Elderly Persons Homes

Museums  
Entertainments and Room lettings  
Licensing  
Pest Control  
Trading Standards  
Houses in Multiple Occupancy  
Tourist Information Centre  
Excel Leisure Centre

Various recommendations were identified and agreed with relevant managers to improve operational controls but no material weaknesses were found as a result of these completed audits.

### **Environmental Services:**

An audit of Parking Services was completed. Controls were found to be generally good. However, recommendations were made to

- improve control over charges made by the contractors
- compare the effectiveness of on and off-street patrols
- identify the reasons for the high number of cancelled tickets
- address the high value of outstanding fines for persistent offenders, in conjunction with the police
- improve controls in place over the use of the SIDEM computer system

An audit of the provision and management of the vehicle fleet was in progress at year end.

### **Corporate Resources Department, Central Systems, and Computer Audit**

Internal Audit continued its annual coverage of the following main financial systems:

Cash receipting  
Loans and investments  
Accounts payable  
Accounts receivable  
Payroll  
Finance Department Salaries  
Housing benefits

Audits of General Ledger, Council Tax and NNDR were started during 2006/07 with the majority of work to be completed 2007/08

In addition to the audit of the main payroll system, audit work was carried out on Corporate Resources Department salaries. An audit of Car Loans, insurance and superannuation was also carried out.

The corporate risk management process was reviewed again during 2006/07. It was found progress is being made in embedding the processes across the council.

Additionally work on the National Fraud Initiative (NFI) was commenced. This involves all local authorities and some other public bodies sending requested data to the Audit Commission (AC). This exercise is for the prevention and detection of crime. The data is analysed by AC to see if it matches data from other Local Authorities data and on line reports are

issued. The on line reports were only issued in late January 2007 and work is ongoing during 2007/08 with a requirement for work to be finalised by 15<sup>th</sup> January 2008.

Under joint working arrangements, an audit of the Ingres database was carried out by Salford Computer Audit Services. Ingres is the database on which the Academy tax and benefits system runs. The audit found that appropriate management controls were in place, but recommended that documentation of procedures should be improved. The report also recommended the implementation of a contingency plan, testing of back-ups and stronger control over high-level user access.

An audit of Windows network management was completed.

Other computer audits completed in the year focused on security. Audits of information security, penetration testing and firewall management were completed. These audits have led to recommendations for the development of a corporate information security policy, and the implementation of security standards.

An audit of e-mail filtering was started and is still in progress.

### **Housing:**

Processes managed by Bolton at Home are audited under an audit plan agreed with Bolton at Home. Progress on audits and a summary of findings and recommendations are reported on a quarterly basis to the Bolton at Home Finance and Audit Sub Group. The audits carried out in Bolton at Home also provide assurance to the Council as the strategic client for housing services.

Reports were issued to Bolton at Home on the following areas:

- Purchase Cards
- Performance Management
- Customer Involvement
- Declaration of Interests, Gifts and Hospitality
- Transport
- Accounts Receivable

Audits of payroll, lettings, partnering for the Capital Programme, and Income Management were in progress at year end.

The controls reviewed within Bolton at Home were generally found to be satisfactory, and recommendations were made to strengthen controls where appropriate.

Other housing services audited were the Homes for You allocations service, the dispersal contract for asylum seekers, and lease management.

### **Development and Regeneration:**

In addition to the housing services falling within Development and Regeneration, an audit of planning applications was completed. Recommendations were made relating to the operation of the IT system. These should, amongst other things, help to provide improved case information. It was also recommended that the number of appeals should be monitored, as this may have an effect on Planning Delivery Grant after 2008.

At the request of management, an audit of the arrangements for setting up the Business Improvement District was also carried out. This found that there had been strong procedures in the consultation process and the conduct of the ballot. No significant discrepancies were found in the record of business balloted. Contracts had been awarded in line with the Council's Standing Orders, and there was no evidence of conflict of interest in the award of contracts.

### **Legal and Democratic Services:**

An audit of grants to voluntary groups was completed. The audit found that satisfactory controls were in place.

An audit of the Registrar was undertaken. Procedures were found to be satisfactory, but it was recommended that advice should be obtained on a number of security matters.

### **Contracts Audit:**

An audit of the energy contracts was carried out. Recommendations were made relating to compliance with EU competition regulations and Council Standing Orders, the need to review the requirement for consultancy services, procedures for monitoring the performance of consultants, the monitoring and control of brokerage income, the maintenance of an audit trail for amounts charged to the Council, and the potential to receive more useful analysis of consumption and cost information direct from the energy suppliers.

An audit of the contract for work on the A58 Beaumont Road (Wigan Road to Armadale Road section) was carried out. This was a target cost contract, where client and contractor work together to make efficiency gains, and share the savings that result. Management considered that there may be useful learning from this project for future contracts. The audit found that whilst the project had claimed significant savings, the basis for the negotiation of the original target cost was not fully documented. This meant that it was not possible to identify the extent to which the savings were the result of real efficiency gains. Recommendations were made relating to the documentation of negotiations of target costs in future contracts of this nature. It was also recommended that arrangements for monitoring contractor's costs under open book arrangements should be put in place in future partnering contracts.

Audits of contracts under the engineering framework agreement and of capital projects managed by Corporate Property were started and were still in progress at year end.

### **Contingency/Fraud:**

All audit work aims to reduce the likelihood of fraud and the risk assessment which produces the annual work plan includes fraud as a key factor. During the year the Council's Anti- Fraud Strategy has been refreshed and re approved and this work has been lead by internal audit.

Internal Audit has been involved in two investigations under the Council's Whistle blowing Policy.

In October an ex member of staff from a primary school was given an eight month custodial sentence following an investigation by Internal Audit and Greater Manchester Police.



**5. CONCLUSIONS AND AUDIT OPINION:**

Internal Audit has experienced some gaps in resources due to time between posts becoming vacant and subsequently being filled, this has led to a reduction in operational days of 8% on the original plan. Despite this over 90% of the plan has been achieved.

On the basis of the work carried out by Internal Audit during 2006/07 and the records made available I am of the opinion that overall the internal control environment of the authority is adequate and effective.

**6. RECOMMENDATIONS:**

Audit Committee is asked to consider the work of the Internal Audit section for 2006/07 and endorse the opinion on the authority's control environment.