

FINAL ACCOUNTS AND AUDIT COMMITTEE
28 JUNE 2007

INTERNAL AUDIT ANNUAL REPORT 2006-07

Purpose of the Report

1. To present the Internal Audit Annual Report 2006-07 to the Final Accounts and Audit Committee, and to draw particular attention to the audit opinion on internal control within the report.

Background

2. The Code of Practice for Internal Audit in Local Government, issued by CIPFA, represents mandatory proper practice for the internal audit of public sector bodies. A key requirement of the Code is that Internal Audit should prepare an annual report to the County Council, in order to present a summary of the work it has undertaken during the course of the year, and to include an opinion on the County Council's internal control environment. This opinion will represent one of the sources of assurance to support the annual Statement on Internal Control.
3. The Final Accounts and Audit Committee has within its terms of reference the responsibility for receiving the Annual Report of Internal Audit on behalf of the County Council.
4. A wide range of audits was carried out during the year, across all departments, in accordance with a risk-based audit plan. The findings and conclusions from these audits are summarised in the Annual report.

Main Considerations for the Committee

5. To note the content of the Internal Audit Annual Report for 2006-07 (attached as Appendix 1), and in particular the overall audit opinion that internal control is in place and is operating satisfactorily in relation to the various systems and procedures reviewed. There are no significant internal control issues arising from our work, which need to be disclosed in the Statement on Internal Control for 2006-07.

Environmental Impact of the Proposal

6. No environmental impact arises from issues raised in this report.

Financial Implications

7. There are no additional costs arising from this proposal.

Reasons for the Proposal

8. To present the Internal Audit Annual Report 2006-07 to the Final Accounts and Audit Committee, and to draw particular attention to the audit opinion on internal control within the report.

Proposal

9. The Final Accounts and Audit Committee is asked to:
- (i) Note the content of the Internal Audit Annual Report for 2006-07
 - (ii) Note the overall audit opinion that internal control is in place and is operating satisfactorily in relation to the various systems and procedures reviewed. There are no significant internal control issues arising from our work, which need to be disclosed in the Statement on Internal Control for 2006-07.

Sandra Schofield
Chief Financial Officer

Report author: Steve Memmott, Chief Auditor

Unpublished documents relied upon in the preparation of this Report:

2006-2007 Internal Audit working files and reports

Appendix 1



**Internal Audit
Annual Report
2006-07**

Contents:	<i>Introduction</i>
	<i>Review of Internal Audit performance 2006-07</i>
	<i>Review of Audit Work 2006-07</i>
	<i>Audit Opinion on Internal Control</i>

Chief Auditor: Steve Memmott

Date of Report: June 2007

INTERNAL AUDIT

ANNUAL REPORT 2006-07

Introduction

1. The County Council is required to maintain an adequate and effective system of internal audit in accordance with proper practices. Internal Audit is an assurance function that provides an independent and objective opinion on the County Council's control environment. Its objective is to examine, evaluate and report upon the adequacy of internal controls as a contribution to the proper use of resources. In pursuing this objective, Internal Audit is concerned with:
 - Supporting the Chief Financial Officer in making arrangements for the proper administration of financial affairs (often referred to as 'Section 151' responsibilities)
 - Supporting the Department of Resources in ensuring the provision of, and promoting the need for, sound systems and procedures
 - Contributing to and supporting the corporate governance process, and the development of internal control across the County Council as a whole.
2. Reporting on the results of its work is an important part of the internal audit process. The purpose of this Annual Report is therefore to present an overview of the following:
 - Internal Audit's performance against key targets for 2006-07 (compared with 2005-06)
 - Internal Audit's work done, findings and significant issues arising for 2006-07, including opinions on the control environment within each department
 - An overall audit opinion on internal control, arising from this year's audit work, in order to inform the Statement on Internal Control for 2006-07.

Review of Internal Audit Performance 2006-07**Overall Performance Statistics**

3. In order to present an overview of Internal Audit's performance for the year, the following tables summarise certain key targets against which we measure our achievements for 2006-07 (with comparative figures for 2005-06 shown in brackets).

Table 1 – Audit Days and Costs 2006-07 (compared to 2005-06)				
Area	Target	Actual	Variation	Comments
Number of chargeable audit days	1,830 (1,820)	1,680 (1,575)	-8.2% (-13.5%)	Long-term sickness
Cost per audit day charged	196 (225)	210 (237)	+7.1% (+5.3%)	Effects of additional sickness
IA gross expenditure less external income	£359,000	£353,000	-1.7% (-9.5%)	Savings on transport costs
As % of WCC gross expenditure	0.064% (0.084%)	0.063% (0.076%)		

Table 2 – Audit Staff Time Analysis 2006-07 (compared to 2005-06)				
Area	Target	Actual	Variation	Comments
Chargeable time	80%	71% (76%)	-9% (-4%)	Long-term sickness (see table above)
Development / management/support	10%	15% (12%)	+5% (+2%)	Additional training
Total productive time	90%	86% (88%)	-4% (-2%)	
Non productive time	10%	14% (12%)	+4% (+2%)	

Factors Affecting Performance

4. The shortfall of chargeable days was attributable essentially to the loss of one team member for the entire year due to sickness, although the loss of productive days was offset to a limited extent by input from CIPFA trainees working temporarily in Internal Audit as part of their professional training programme. The level of sickness being higher than anticipated also increased our cost per audit day compared to the target, although this was still below the level of the previous year. In addition, the cost of Internal Audit as a proportion of the total County Council budget fell in comparison to 2005-06.
5. The shortfall of chargeable days has meant that we have been unable to carry out certain audits in the Audit Plan. We have aimed to ensure that the audits not done have been those of a relatively lower priority within our risk-based planning. These have included the following, which have been carried forward into our Audit Plan for 2007-08:
 - Home Care
 - Community Safety
 - Early Years
 - Special Needs
 - Schools' Funding and Financial Regime
 - Libraries.

Review of Audit Work 2006-07**Risk Management and Internal Control**

6. Sound and effective arrangements for managing risk are an important element of the overall internal control environment. We have continued our work in helping to strengthen the County Council's framework for risk management by means of the following:
 - Involvement with the Corporate Risk Management Group, which includes identifying and updating current strategic risks for the Corporate Leadership Team
 - Working with departmental risk representatives to ensure the risk register is regularly updated
 - Running risk workshops for service managers across the authority, both as part of the Manage2Lead programme for managers generally, and through a specific session organised for the management team of Adult and Community Services. The aim is to help integrate risk management into general management arrangements.
7. We have also continued our regular work as part of the County Council's Management Group on Internal Control, in order to identify and review the various sources of assurance on internal control during the course of the year. This work supports the Statement on Internal Control for 2006-07.

Reviews of Key Financial Systems

8. During the year we have reviewed the detailed processes and controls incorporated in the County Council's key financial systems, and maintained the documentation of those systems. The purpose of this work has been:
- To help strengthen internal control arrangements in preparation for the annual Use of Resources assessment
 - To provide detailed systems documentation on which the Audit Commission's auditors have again been able to place reliance, in order to meet the International Standards on Auditing, rather than having to carry out the additional audit work themselves.

Reactive Work

9. In addition to work included in the Audit Plan, we need to allow flexibility to accommodate unforeseen issues which inevitably arise and need to be dealt with during the course of the year. In this context we have carried out a number of investigations as a result of matters referred to us, some of which have involved working with the police. The subjects of these various investigations have included:
- Claiming of expenses in connection with County Council business
 - Fraudulent use of a school's bank account
 - Abuse of on-line facilities
 - Potential data loss, particularly in relation to lost or stolen laptops.
10. The final point above represents a potential risk resulting with the expansion in mobile and home working, and we are liaising with Corporate IT to establish appropriate procedures and technical solutions to minimise this.

Significant Issues Arising

11. Whilst the Appendix to this report provides summaries of the outcomes of individual audits for each department, the following issues arising from our audits are worthy of specific mention:
- **Vulnerable Children:** We carried out an audit of child protection arrangements, in which we were looking to determine whether controls and procedures in connection with social worker visits to children on the Child Protection Register were adequate. This included reviewing a sample of client records relating to 24 children currently on the Child Protection Register. We made a number of recommendations to strengthen the management arrangements for child protection, and these have been fully agreed by senior management.
 - **HR and Payroll Processes:** Our original audit covered a range of control processes in relation to starters and leavers, and variations to

pay, and we concluded that controls could be improved. Weaknesses in the filing methods were identified. We are currently conducting regular follow-up work to ensure progress is made in implementing our previous recommendations. Recent evidence confirms that checks on new starters continue to be carried out and recorded more rigorously. CRB checks are being requested for starters in all applicable posts, and any outstanding requests are being chased up.

- **DCS Recovery Programme:** We have provided regular input and support to the DCS Recovery Programme, and have reported regularly to the Way Ahead Group on a range of topics. We have made a series of recommendations for improvements across the following areas:
 - better internal monitoring procedures, to ensure the new eligibility criteria are correctly applied
 - identifying potential annual savings of up to £100,000 on Direct Payments, by revising the basis of payment rates
 - looking to achieve cost savings by ensuring that eligibility for transport is applied consistently across the County.
- **National Fraud Initiative:** This Audit Commission initiative is undertaken every two years. We provide data to the Commission, which is then cross-matched to other authorities' data to identify potential fraud, overpayments and operational improvements. We have provided a range of data including care home residential placements. Savings of £21,000 have already been identified and recovered.

Audit Opinion on Internal Control

The findings of individual audits are accumulated throughout the year, and serve to form an opinion on the internal control environment for each department. These in turn inform our overall opinion on internal control for the County Council as a whole.

Whilst we are unable to give an absolute assurance, the results of the audits completed during the year support an overall audit opinion that internal control is in place and is operating satisfactorily in relation to the various systems and procedures reviewed. There are no significant internal control issues arising from our work, which need to be disclosed in the Statement on Internal Control for 2006-07.