



FINANCE & IT

Internal Audit 2004-05

**Standards Committee
27th January 2005**

Progress Report

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Chief Auditor: Steve Memmott

Date of Report: January 2005

INTERNAL AUDIT PROGRESS REPORT

Introduction

1. In accordance with our agreed reporting procedures, the purpose of this progress report is to present members of the Committee with an overview of the overall position reached in delivering the agreed Internal Audit Plan for 2004-05.
2. In addition, this report provides the further information requested by the Committee at its meeting in October 2004, in respect of the two departments whose internal control environments were rated as 'satisfactory' for 2003-04.

Overall progress against the Audit Plan 2004-05

Performance Measurement

3. Our Audit Plan for the year is based on being able to achieve a certain number of productive audit days throughout the year, and thereby delivering a range of planned audits. Taken to the end of December 2004, our actual performance against the overall plan was as set out in the following table:

Area	Target	Actual
Number of audit days	1,432	1,339
Chargeable time	80%	75%
Development / management/support	10%	11%
Total productive time	90%	86%
Non productive time	10%	14%

4. The shortfall in the number of chargeable audit days, and therefore the percentage of chargeable time, is attributable to two main factors:
 - a higher than expected incidence of sickness absence
 - productive time lost through having to replace a member of staff who left during the Summer.

In order to recoup most of the shortfall and complete the work programme over the remainder of the audit year, a temporary member of staff has been engaged.

5. We have also continued to measure our performance on schools audits in terms of timeliness of reporting, and client feedback. Our actual performance against targets to the end of December is as set out in the following table:

Area	Target	Actual	Comments
Timely presentation: Reports issued within 4 weeks of audit	80%	100%	Based on 54 school audit reports issued up to 31 December
Client satisfaction: Audits rated 'Good' or 'Very Good'	80%	89%	Based on 35 client feedback forms received to 31 December

6. Our performance on timely reporting of schools audits continues to show a significant improvement on the overall picture for the previous year. The position at the end of December shows that all reports issued have met the target. Feedback from schools on quality of audits is also showing a further improvement on last year's good results. We are now extending our measurement of timeliness and client feedback to all audits, and expect to be able to present some initial results for the latter part of this year, when we present our Annual Report for 2004-05 later in the year.

Statement on Internal Control (SIC)

7. For 2003-04, we worked during the current year to help prepare an interim SIC, which met the requirements of the professional guidance issued by CIPFA, and which was approved by members and signed by the Chief Executive and Leader of the Council. However, for 2004-05 and future years our audit reporting process must include an opinion on the overall adequacy and effectiveness of the County Council's internal control environment, therefore we must carry out overall review work for this purpose as part of our current year's work.
8. With this in mind, the County Council has established a working group on internal control, whose key objective will be to review and obtain sufficient assurances on internal control throughout the rest of this year, in order to prepare the Statement on Internal Control for 2004-05. As Chief Auditor, I am a member of this working group, and I recently attended a CIPFA Workshop which outlined detailed guidance currently being compiled to help authorities prepare their SIC's for 2004-05. This is important because the transitional arrangements no longer apply, and all authorities will be expected to have gone through an assurance gathering process well before the end of the current year, to support their 2004-05 SIC.
9. Following the workshop I met with Ian Gibbons, who chairs the County Council's SIC Working Group, and we have earmarked potential responsibilities for the various group members over the coming months. The intention will be to have our 2004-05 SIC drafted by the early Summer.

Risk Management

10. The latest meeting of the Corporate Risk management Group, which I chair, was held in late October. Departmental risk representatives agreed to take action to ensure their departments provided information to extend the corporate risk register and identify ownership of risks and actions to manage those risks. We also agreed the latest summary of key strategic risks to be presented to the Corporate Management Board.

11. The corporate risk register is now available on the County Council's IT network, and departments have been given limited access both for reading and direct updating. Progress is therefore being made in terms of embedding risk management into overall management processes.

Progress in Improving the Internal Control Environment

12. In our last Annual Report for 2003-04, we gave a rating for the internal control environment in each department. In two cases (Adult and Community Services, and Children and Education) we rated the internal control environment as 'satisfactory'. In response, the Standards Committee took the view that the target for all departments should be to have an internal control environment rated at least 'good' in future. The Committee asked for further information to be brought back regarding the two 'satisfactory' departments. The remainder of this report now presents that further information.

Adult and Community Services

13. We gave a 'satisfactory' overall rating here, due principally to the findings of three major audits:
- Contract Management
 - Mental Health Pooled Budget
 - Direct Payments.
14. The specific concerns arising under each heading are itemised in the Appendix to this report, together with a series of proposals to bring about improvements in control. These proposals were developed and agreed in consultation with the Department.
15. Our current year's Audit Plan includes detailed follow-up audits in each of these three areas, when we will be able to judge the extent to which the proposed improvements have been achieved in practice. In the meantime, we have kept in contact with the Department, who have informed us of the manner in which they are approaching these tasks, and the steps they are taking to improve their practices and procedures. Taken together, the indications are that these steps represent a genuine attempt to bring about the necessary improvements. The results of our follow-up audits will be included in our Annual Report for 2004-05.

Children and Education

16. Our overall rating of 'satisfactory' arose from the findings of a range of audits across the Department, notably:
- Looked After Children, and issues related to the budget overspend
 - Early Years
 - Payroll and Personnel procedures
 - School-related topics (School meals and inventories).

17. Again, the specific concerns emerging from each of these audits are set out in the Appendix, along with the proposals to improve controls, all of which have been discussed and agreed with the Department. Findings and recommendations arising from the school-related topics were also included in our Internal Audit Schools Bulletin, issued in July 2004.
18. In addition, two special investigations were carried out at the Department's request, regarding suspected irregularities. Detailed reports were produced in respect of each for the Department to take appropriate action.
19. Once again, we have maintained regular contact with the Department, and we are therefore aware that the issues raised by the audits are being addressed with a view to securing the necessary improvements. In addition, we have still to carry out specific follow-up audits in relation to Looked After Children and Payroll/Personnel, which should confirm the extent of actual improvements achieved in these areas. The results of these, and of our follow-up work across the board, will be summarised in our Annual Report for 2004-05.

WILTSHIRE COUNTY COUNCIL - INTERNAL AUDIT 2004-05
SPECIFIC CONCERNS AND PROPOSALS FOR IMPROVEMENT

Department of Adult and Community Services

Main concerns	Action taken / Proposals to remedy
<p><u>Audit of Contract Management</u></p> <p>Need to follow approved procurement processes.</p> <p>Adequacy of procedures for renewing contracts.</p> <p>Accurate recording of contract details in the contracts register and administration of contract documents.</p> <p>'Block' contracting to be used where possible.</p>	<p>Systems and processes reviewed.</p> <p>Senior contracts staff to be involved in all contracts / tenders.</p> <p>Corporate Procurement Unit to be advised of degree of delegation.</p> <p>Staff training programme in procurement to be instigated.</p> <p>Specific renewal options to be included in contracts.</p> <p>Administrative support strengthened.</p> <p>Spot checks to be instigated.</p> <p>To be applied to Domciliary care and Residential care.</p>
<p><u>Audit of Mental Health 'Pooled Budget' - Contracts</u></p> <p>Examples of payments requested before contract documentation finalised.</p> <p>Terms of one contract did not agree to the payments made.</p> <p>Some files / records incomplete.</p> <p>Local budgetary control records not reconciled regularly to the accounting system to ensure accuracy.</p>	<p>Contracts / SLA's to be agreed by all parties before payment commences.</p> <p>Variations to contract to be formally agreed by all parties.</p> <p>Maintenance of a central contracts register by WCC and central storage at County Hall of all contracts relating to the mental health pooled budget.</p> <p>Local budgetary control records to be reconciled monthly.</p>

Main concerns	Action taken / Proposals to remedy
<p><u>Audit of Mental Health 'Pooled Budget' – Contracts (continued)</u></p> <p>Delays in receipt of budget allocation information may delay the budget setting process.</p> <p>Note: at the request of the Department, an audit was carried out specifically on the processes around two mental health contracts and, as result, a series of improvements was agreed.</p>	<p>The budget process to be subject to the timetable stipulated.</p>
<p><u>Audit of Direct Payments</u></p> <p>Weaknesses in the assessment process for a client's (or their appointee's) financial suitability to receive direct payments.</p> <p>Not keeping payments under regular review.</p> <p>Increasing pressures on staff time / training needs for staff involved.</p> <p>Procedures needed for recovery of funding if used for the wrong purpose.</p>	<p>Changes (and enhancements) to policy and practice guidelines and the Letter of Agreement signed by service users to be implemented.</p> <p>Introduction of compulsory accounting support services or the setting up of a legal trust for service users who are deemed a high financial risk or who are unable to sign a letter of agreement.</p> <p>Prioritisation of payment reviews and the flagging of service users on the Care First system to prevent delays.</p> <p>Introduction of risk based management in the monitoring process.</p> <p>Improved support and training for staff involved in the process.</p> <p>Introduction of effective and prompt debt recovery procedures for overpayments and any misappropriated funding.</p>
<p><u>Issues Arising from Other Audits:</u></p> <p>At certain outside establishments, controls over claims for extra hours worked by staff and the maintenance of inventories could be improved.</p>	<p>Need for independent check on claims at the unit.</p> <p>Up to date and accurate inventories need to be kept.</p>

Main concerns	Action taken / Proposals to remedy
<p><u>Issues Arising from Other Audits (continued):</u></p> <p>With the setting up of the Supporting People scheme, there was some dependence on outdated information. It was also felt that 'over reliance' was placed on the officer setting up financial arrangements and systems.</p> <p>Instructions to provide a community meals service need to be authorised by the appropriate officer. The most accurate information that meals have actually been delivered on a particular day is held by the contractor.</p>	<p>Data sharing protocols introduced with district councils and automated transfers of data. Introduction of a new system to lead to greater separation of duties.</p> <p>Instruction to provide meals service to come from Home Care Manager / Organiser.</p> <p>Periodic checks of contractor's records are required or copies of relevant documentation received regularly from the contractor.</p>

Department for Children and Education

Main concerns	Action taken / Proposals to remedy
<p><u>Audit of Looked After Children</u></p> <p>Issues related to the budget overspend, including:</p> <p style="padding-left: 40px;">budgeting and budgetary control methods;</p> <p style="padding-left: 40px;">shortfall in target provision of in house placements;</p> <p style="padding-left: 40px;">placement authorisation procedures.</p>	<p>Preparation of budgets on realistic basis ie to take account of previous expenditure trends and expected future needs.</p> <p>Review budget monitoring procedures.</p> <p>More accurate forecasting of end dates for external placements will also aid budget predictions.</p> <p>Close monitoring of in house placements to ensure maximum take up.</p> <p>Laid down procedures to be followed with involvement of appropriate senior officers.</p>
<p><u>Audit of Early Years Provision</u></p> <p>The potential funding 'gap' for the statutory provision of free places for three year olds.</p> <p>Management arrangements for the service.</p> <p>Contract monitoring processes.</p>	<p>Subsequently addressed.</p> <p>To be reviewed and responsible officers identified for each cost centre.</p> <p>Contracts 're-procured' in line with WCC procedures. Monitoring procedures defined in contracts.</p>
<p><u>Audit of Payroll/Personnel</u></p> <p>Files for new employees' at outside establishments did not always contain all of the documentation expected.</p> <p>Certain data input relating to leavers and variations to pay not always checked independently, increasing the risk of errors.</p>	<p>Reminders issued. Documentation 'chased up'.</p> <p>Checking procedure introduced, with additional spot checks in the future.</p>

Main concerns	Action taken / Proposals to remedy
<u>School-related Audits:</u>	
<p><u>School Meals</u></p> <p>Variations in the content of financial performance information produced.</p> <p>Various methods used to determine what prices to charge and not all costs recharged.</p>	<p>School governors need to be informed about financial performance of the service. Financial information to be prepared on consistent basis.</p> <p>Consistent pricing policy reflecting appropriate costs.</p>
<p><u>School Inventories</u></p> <p>Inventory records not always readily available.</p> <p>Security marking of equipment.</p> <p>Inventory checking procedures and records to be kept.</p> <p>Controls over any items taken off site.</p>	<p>All records to be available for inspection at all times.</p> <p>Relevant inventory items to be security marked.</p> <p>Responsibilities to be defined. Necessary records and certification procedures have been advised (including for ICT equipment).</p> <p>Again, the necessary controls have been notified to schools.</p>
<p><u>Issues Arising from Other Audits:</u></p> <p>The audits of creditors and budgetary control procedures showed that close attention needs to be paid to certain controls in the areas most affected by previous departmental changes. There was also a need to adopt common procedures.</p> <p>Following a previous audit of Education Other Than at School, there were certain outstanding issues, such as budgeting methods for a service where demand is difficult to determine, the adequacy of premises for service needs and the possibility of identifying additional sources of funding.</p>	<p>Uniform approach to be adopted and procedures documented.</p> <p>Issues identified to be monitored closely.</p>

Main concerns	Action taken / Proposals to remedy
<p><u>Issues Arising from Other Audits (continued):</u></p> <p>Some concerns with the operation of routine financial control procedures at certain youth centres visited eg raising invoices, imprests, bank reconciliations, inventories.</p>	<p>Individual recommendations made to each centre visited, highlighting areas where action to be taken. Overall audit summary report passed to the Department to monitor implementation.</p>