

**Audit Committee – 25<sup>th</sup> June 2008**

**Report of the Director of Finance**

**Internal Audit Services Annual Report 2007/2008**

**Purpose of the Report**

1. To give Members an overview of the performance of Dudley Audit Services in the year to 31<sup>st</sup> March 2008, and also to inform members of the Head of Audit Services' opinion on the effectiveness of Dudley MBC's system of internal audit, internal control and risk management.

**Background**

2. **Performance Measured Against the Strategic Plan**

2007/08 was the final year of the four-year audit strategic plan. Due to a reduction in staffing, vacancies and long-term illness, the staffing resources of the Division were significantly reduced. I am pleased to report that, despite the shortfall in resources, 92% of the planned work had been completed by the end of the year (compared with 96% in 2006/07). The following statistics give a broad indication of the extent of the work undertaken in 2007/08 :-

- Audit reviewed 212 areas of activity. These are itemised in Appendix A.
- 1803 recommendations were made, the majority of which had been discussed and agreed with management by the year-end. 454 of these were classified as breach or high. A summary of the number of recommendations by Directorate is contained in Table 1 on page 5. This shows an increase in the total number of recommendations made compared to 2006/07 when 1381 recommendations were made but a decrease in breach and high compared to 529 in 2006/07.
- Included in audits completed were 81 establishment audits, including Schools, Social Services and Urban Environment establishments.
- 13 investigations into irregularities and allegations of irregularities were undertaken, of which four required further action.
- Eight honorary audits were carried out.

- Carried out a range of Financial Management self-assessments on the first phase of Primary / Special Schools.

Reports on individual audits are produced for relevant directorate managers. The reports are discussed and agreed with them. In addition, a management letter has been produced for each Director summarising audit findings during 2007/08 in their directorate. To give Members a more detailed insight into the issues raised by Internal Audit the rolling programme of reports on each directorate is being continued, and the first of these will be presented to this meeting of the Committee.

### 3. Performance Measured Against the Service Plan

The outturn for 2007/08 is summarised in Table 2 on page 6 and shows that we completed 212 audits against a target of 233. We also completed 92% of the plan.

### 4. Performance Measured Against Customer Expectation

- 4.1. To obtain feedback about the quality of work, post-audit questionnaires are issued to auditees after each audit. Auditees were asked to respond to fourteen questions relating to the pre-audit arrangements, the audit visit and the report / post audit arrangements. In addition to the detailed questions, auditees were offered the opportunity to respond to one question indicating whether they found the audit satisfactory overall. For all questionnaires returned the auditee had responded yes to this question, assessing the audit as satisfactory.
- 4.2. 80 questionnaires were returned in 2007/08. This represents a response rate of about 66%, as compared with 65% in 2006/07. To quantify the results numeric values were assigned to each question as follows:-

Excellent	4
Good	3
Satisfactory	2
Poor	1

- 4.3. Applying this scoring basis to each of the returns, the average score was computed for each of the questions. The results are shown in Table 3 on page 7.
- 4.4. For 89% of the questionnaires received the overall score was good to excellent. The remaining 11% were satisfactory to good with no questionnaires scoring poor to satisfactory. The results are summarised in Table 4 on page 8.
- 4.5. In last years review on the effectiveness of audit we stated that we would carry out a survey to establish users views on the question of whether Audit Services added value to the organisation. A survey of all Assistant Directors was carried

out and the results are discussed in a separate report to the Audit Committee at this meeting.

5. Annual assessment of Internal Audit

The Accounts and Audit Regulations 2006 have introduced the requirement for an annual review of the effectiveness of the system of internal audit. The review is detailed in a separate report to the Audit Committee. The conclusion reached is that Audit Services operates an effective, efficient and economic system of internal audit.

6. Annual Governance Statement

A separate report has been submitted to Audit Committee on the 2007/08 Annual Governance Statement. I am pleased to report that the Statement does not identify any significant weaknesses in internal control. In line with CIPFA recommended good practice, the opinion of the Head of Audit Services on the system of internal control and risk management is attached as Appendix B.

7. Fraud

We have carried out several Fraud Awareness Seminars during the year and these build on the Anti Fraud & Corruption Strategy. We have also introduced another seminar for managers entitled "An Introduction to Audit & Control".

**Finance**

8. There are no direct financial implications in this report.

**Law**

9. The Council is required under Section 151 of the Local Government Act 1972 to appoint an officer to be responsible for its financial affairs.
10. The Accounts and Audit Regulations 2006 require the Council to have an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

**Equality Impact**

11. This report does not raise any equal opportunities issues.
12. The work of Audit Services helps to protect the interests of children and young people, albeit they were not consulted on, or involved, with the development of the work carried out.

## **Recommendations**

13. That the Committee accept this report on the performance of Audit Services in 2007/08.

A handwritten signature in black ink, appearing to read 'M. Williams', with a long horizontal stroke extending to the right.

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Mike Williams  
Director of Finance

Contact Officer: Les Bradshaw (ext. 4853)

TABLE 1

**TOTAL SUMMARY OF PLANNED WORK COMPLETED FOR EACH DIRECTORATE  
2006/07**

<b>Department</b>	<b>No. of audits</b>	<b>Number of Recommendations</b>	<b>Number of Breach</b>	<b>Number of High Priority Findings</b>	<b>Number of unimplemented recommendations</b>
Adult, Community and Housing Services	26	225	43	23	18
Chief Executives	14	34	1	8	1
Children's Services	20	252	33	13	1
External Contracts	1	32	0	13	10
Finance	25	52	5	5	8
Law and Property	8	25	2	3	4
Schools	72	990	236	17	121
Urban Environment	23	193	20	32	30
<b>GRAND TOTALS</b>	<b>189</b>	<b>1803</b>	<b>340</b>	<b>114</b>	<b>193</b>
<b>2006/07</b>	<b>193</b>	<b>1381</b>	<b>322</b>	<b>207</b>	<b>224</b>
<b>2005/06</b>	<b>181</b>	<b>1793</b>	<b>484</b>	<b>323</b>	<b>327</b>
<b>2004/05</b>	<b>181</b>	<b>2565</b>	<b>606</b>	<b>417</b>	<b>247</b>

TABLE 2

**AUDIT SERVICES - SERVICE PLAN  
OUTTURN FOR 2007/08**

<b>DEPARTMENTAL PI</b>	<b>TARGET 2007/08</b>	<b>ACHIEVEMENT OF TARGET AND COMMENT ON PERFORMANCE</b>
<u>Frequency and level of audit</u> Percentage of audit plan completed Number of audits completed*	100% 233	92% (96%) 212 (194)
<u>Reporting of audit results</u> Issue draft reports within 8 weeks of the audit starting Issue of final reports within 6 weeks of issue of draft report	100% 100%	92% (54%) 68% (67%)
<u>Report to Audit Committee</u> No. of meetings of the Committee held	4 meetings	4 meetings held
<u>Customer Satisfaction</u> Post-audit customer survey respondents scoring Satisfactory or higher regarding overall level of service	100%	100%
<u>Cost of Service</u> Overall placing in CIPFA benchmarking	Achieve median placing	Cost per auditor – 20% below median Audit cost per £m turnover – 31% below median

TABLE 3

**SUMMARY OF AVERAGE SCORES FOR 2007/08 ON RETURNED POST-AUDIT  
QUESTIONNAIRES**

<b>1. Pre-Audit Arrangements</b>	<b>2007/08 Average Score</b>	<b>2006/07 Average Score</b>
Usefulness of audit brochure	3.1	3.0
Booking of audit	3.4	3.2
Aim of audit explained	3.5	3.4
Opportunity to influence scope of audit	3.3	3.0
Adequate notice given	3.5	3.2
<b>2. Audit visit</b>	<b>2007/08 Average Score</b>	<b>2006/07 Average Score</b>
Conduct of auditors	3.8	3.7
Communication skills	3.7	3.6
Helpfulness and approachability	3.7	3.7
Continuous feedback of findings	3.6	3.5
<b>3. Report post audit</b>	<b>2007/08 Average Score</b>	<b>2006/07 Average Score</b>
Draft report discussion	3.5	3.5
Usefulness of Recommendations	3.3	3.3
Advice on implementing recommendations	3.3	3.1
Style and clarity of report	3.3	3.4
Timeliness of report	3.4	3.1

**TABLE 4**

**2007/08 AUDITS**  
**SUMMARY OF SATISFACTION RATINGS**  
**FOR RETURNED POST-AUDIT QUESTIONNAIRES**

	<b>2007/2008 (%)</b>	<b>2006/2007 (%)</b>	<b>2005/2006 (%)</b>
Received	66	65	43
Good to excellent	89	82	71
Satisfactory to Good	11	18	29
Poor to Satisfactory	0	0	0



## **APPENDIX A**

### **PLANNED AUDITS CARRIED OUT DURING 2007/08**

#### **Adult, Community and Housing Services**

Handhelds	Housing Repairs [Halesowen/Stourbridge]
Tenants repairs	Housing Repairs [Managed Audit]
Call Centre	Call Centre Software
Homecall	Lettings policies/procedures
Safekeeping	Flats Expenses & Leaseholders Accounts
Rent Collection & Setting Review	Home Care - Stourbridge
Homelessness	Home Care – Sedgley
Glebelands	Home Care – Brierley Hill
Grange House	Home Care – Halesowen
Kings Road	Abacus [Managed Audit]
Dudley Library	Supporting People
Library Service – Central Services	Anti-Social Behaviour
PULSE Team	

#### **Chief Executive**

Community Safety	Corporate Governance
CAATS	Neighbourhood Management
Elections	Statement of Internal Control
Electoral Registration	Local Area Agreements
Use of Resources	Partnership Governance
Emergency Planning	Project Management
Value for money	

#### **Children's Services**

Welfare Team	Health Promoting Team
Exclusions	Youth & Community Administration
Child Protection	Schools Library Service
Community Support	School Contract [Non DPC Audits]
Risk Management	Saltwells EDC
Kitchens	Early Education Places
Himley Hall Catering	Childcare / early Years Co-ordination
LMS / Fair Funding	School Development Advisors
Standards Fund	Traded Services
Community Meals	Nursery providers

#### **External Contracts**

Black Country Connexions
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**Finance**

Mortgages  
Insurance  
Treasury Review  
Bank reconciliation  
Housing Benefits  
Car loans  
Debtors system  
Disaster Recovery  
Telecommunications  
Hexagon  
Payroll review  
Business rates review  
Council tax

Financial Management Regime  
Budget Preparation/Monitoring  
Control Accounts Review  
Business Support Administrative Systems  
Creditors System review  
ICT Regulatory Issues – Data Protection  
Service Level Management  
Network Perimeter Defence  
Business Continuity Planning  
Inventory and Configuration Management  
Operations & Facilities Management  
Cash Receipting Review

**Honorary**

Jigsaw Youth Theatre  
  
Stevens Trust  
  
Earls High Trust  
  
Astley Burf Trust

Dudley Council Voluntary Services  
Windsor School Sports Co-ordinator  
Programme  
Ellowes Hall School Sports Co-ordinator  
Programme  
Coseley School Sports Co-ordinator  
Programme

**Law & Property**

MACCS  
Rechargeable works  
Standing lists  
External consultants

Registrars – Dudley & Stourbridge  
Procurement of External Legal Services  
Electrical/Mechanical – Contract Control  
Structures – Pre Contract

**Schools**

Summerhill  
Crestwood  
Belle Vue  
Gig Mill  
Northfield Road  
Dormston Centre  
Castle High School  
Bromley Hills  
Netherton CE  
St James' C of E  
Wrens Nest  
Peter's Hill  
Priory  
Cotwall End  
Dudley Wood

Ellowes Hall Foundation  
High Arcal Foundation  
Holly Hall Foundation  
Windsor Foundation  
Schools Financial Regulations  
Alder Coppice Foundation  
The Brier Special  
Wollescote  
Brockmoor  
Glynne  
Hob Green  
Hurst Green  
Jessons  
Withymoor  
Huntingtree

Howley Grange  
Newfield Park  
Roberts  
Russells Hall  
Ashwood Park  
Netherbrook  
Blowers Green  
Greenfield  
Highgate  
Oldswinford  
Olive Hill  
The Wordsley School  
Thorns Sports Centre  
Coseley Sports Centre  
Hillcrest – Adult Education  
Summerhill Swimming Scheme  
Dormston – Adult education  
Pensnett – Adult Education  
FMS Pre Assessment Review  
FMS Training & Assistance

### **Urban Environment**

Dell Stadium  
Red House Cone  
Sports Development  
Dudley Museum  
Building Regulations  
Food Inspection  
Future Skills Dudley  
Norsys Computer Application Review  
Symology Computer Application Review  
Refuse collection  
Street Lighting  
Graphics & Marketing

Lutley  
Queen Victoria  
Sledmere  
Kates Hill  
Sutton Special School  
Pens Meadow Special  
Christchurch  
Ham Dingle  
Milking Bank  
Redhall  
Leasowes School  
Castle Hill – Adult Education  
Coseley Schools & Sports College  
Hillcrest Community Leisure Centre  
Leasowes – Adult Education  
Thorns – Adult Education  
Bishop Milner  
Wordsley – Adult & Community Education  
FMS External Assessment

Dudley Leisure centre  
Halesowen Leisure Centre  
Nature Reserves  
Museum Central Services  
Section 106 Administration  
Highways Major Schemes – Pre Contract  
Landscapes – Contract Control  
Street & Other Maintenance  
Procurement & Disposal of Vehicles  
Highway Maintenance Programming  
Mayrise Computer Application Review

## **APPENDIX B**

### **OPINION OF THE HEAD OF AUDIT SERVICES ON THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT AT DUDLEY MBC IN THE YEAR ENDED 31<sup>ST</sup> MARCH 2008**

In my opinion there are no deficiencies in the system of risk management and internal control at Dudley MBC of such fundamental significance that they should be reported in the statutory Annual Governance Statement required by the Accounts and Audit Regulations.

This opinion is based principally on the work carried out by the Audit Services Division during 2007/2008. It must be acknowledged, however, that it is not possible to review all aspects of risk management and internal control within a single year.

Accordingly, in forming this opinion, it has also been necessary to take into account the results of work by:

- Internal Audit in previous years
- External Audit
- External inspectorates
- The Audit Commission in their Comprehensive Performance Assessment (CPA)
- Standard and Select Committees

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Les Bradshaw  
Head of Audit Services

Date: 25<sup>th</sup> June 2008