

**Audit Committee – 28<sup>th</sup> June 2011**

**Report of the Treasurer**

**Internal Audit Services Annual Report 2010/2011**

**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 2011, and also to inform members of the Head of Audit Services' opinion on the effectiveness of Dudley MBC's system of internal control.

**Background**

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

2.1 2010/11 was the final year of the four-year audit strategic plan. We are able to report that 93% of the planned work had been completed by the end of the year (compared with 95% in 2009/10). The following statistics give a broad indication of the extent of the work undertaken in 2010/11 :-

- Internal Audit reviewed 178 areas of activity. These are itemised in Appendix A.
- 1839 recommendations were made, the majority of which had been discussed and agreed with management by the year-end. 737 of these were classified as breach or high. A summary of the number of recommendations by Directorate is contained in Appendix B. This shows an increase in the total number of recommendations made compared to 2009/10 when 1624 recommendations were made. However, there was a decrease in the number of high, breach and unimplemented recommendations.
- 33 special investigations into potential irregularities were undertaken. In just under half of these cases disciplinary and/or police action was necessary
- Ten honorary audits were carried out.
- Carried out the Financial Management Standard reassessments of Primary Schools.

- We have continued to develop our input to value for money audits and identified approximately £875,000 in efficiency savings during the year. Of this £56,000 was cashable. The savings were identified in a range of reports mostly dealing with procurement issues. The development of this additional service offering has demonstrated a new aspect to our service just at a time when service & funding pressures mount against a background of transformation taking more prominence. We have now started to present details on value for money audit work to Corporate Board
- 2.2 Reports on individual audits are produced for relevant directorate managers. The reports are discussed and agreed with them. In addition, a management letter will be produced and presented to each Director summarising audit findings during 2010/11 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.
- 2.3 The outturn for 2010/11 against service targets is summarised in Appendix C.
3. Performance Measured Against Customer Expectation
- 3.1 To obtain feedback about the quality of work, post-audit questionnaires are issued to auditees after each audit. Auditees were asked to respond to 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 or better.
- 3.2 61 questionnaires were returned in 2010/11. This represents a response rate of about 54%, the same as 2009/10.
- 3.3 For 92% of the questionnaires received the overall score was good to excellent. The remaining 8% were satisfactory to good with no questionnaires scoring poor to satisfactory. The results are shown in Appendices D and E and represent an improvement of previous years.
4. Annual assessment of Internal Audit
- 4.1 The Accounts and Audit Regulations 2011 have introduced a requirement for an annual review of the effectiveness of internal audit. This is a change to the Accounts and Audit Regulations which required an annual review of the effectiveness of the system of internal audit. The change appears to be cosmetic. The review is detailed in a separate report to the Audit Committee. The conclusion reached is that internal audit is effective.

## 5. Annual Governance Statement

- 5.1 A separate report has been submitted to Audit Committee on the 2010/11 Annual Governance Statement. I am pleased to report that the Statement does not identify any significant weaknesses in governance. 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 F.

## 6. Fraud

- 6.1 We have continued to deliver Fraud Awareness Seminars during the year and also reviewed the Anti Fraud & Corruption Strategy which led to the Standards Committee approving minor amendments in April. We also submitted the annual Fraud Report to the Audit Committee in April, which dealt with prevention and detection of fraud and proposed an amended Counter Fraud Strategy.

## 7. Training

- 7.1 We continue to run two seminars on "Fraud Awareness" and "An Introduction to Audit & Control". We have already developed online courses to raise awareness of Financial Regulations and Fraud. We had aimed to develop further governance courses during 2010/11 but our partner was unable to provide input, something which we anticipate will be rectified during 2011/12.
- 7.2 A number of workshops / briefings are provided to school staff and governors.

## Finance

8. There are no direct financial implications in this report. Audit Services budget out turn for 2010/11 was £500,000 net of income and the results of the CIPFA Benchmarking Club report indicate our costs are 20% less than the average for similar sized Authorities.

## 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 2011 require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. The Accounts and Audit Regulations 2011 have made a minor amendment to the Accounts and Audit regulations 2006 which required the Council "to maintain an adequate and effective system of internal audit..." rather than the new "undertake and adequate and effective internal audit...".

## **Equality Impact**

11. This report does not raise any equal opportunities issues.
12. The work of Internal Audit 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 Internal Audit Services in 2010/11.



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Iain Newman  
Treasurer

Contact Officer: Les Bradshaw (ext. 4853)

**PLANNED AUDITS CARRIED OUT DURING 2010/11**

**Adult Community & Housing Services**

Queens Cross Network	Brettell Lane Day Centre
Application Reviews	Pavillions Day Centre
Directorate Procurement	Rowan Lodge Day Unit
Follow up	Brett Young Day Centre
Consultancy	Community Equipment Service
Rent Collection & setting	Procurement of Aids/Adaptations
Cleaning Contract	Transforming Social Care
	Warden Schemes & Sheltered
Service Quality/Tenant Satisfaction	Housing
Rechargeable Works	Application Reviews
Mental Health Trust	Court of Protection
Admin - Mental Health	Personnel & Payroll Procedures
Adult Protection	Noise Pollution
Library Materials Fund	Stourbridge Locality
North Dudley Locality	Library Service - central services

**Chief Executive**

Administrative Support	Project Management
Directorate Procurement	Value for money
Equality & Diversity	Local Area Agreements
Partnership Governance	Corporate Governance
Value for money	Annual Governance Statement
Follow Up	External Funding

**Children's Services**

Adshead Road	Cherry Tree Learning Centre
14 St James Road	Mere Education Centre
	Sycamore Secondary Short Stay
Maitland Road	School (Abberley Street)
Parkes Street	Dormston Kitchen
Tipton Road	Netherbrook Kitchen
Family Assessment Centre	Earls High Kitchen
Looked after Children	Pedmore Technology Kitchen
Common Assessment Framework	High Arcal Kitchen
External Residential Placements	Ellowes Hall Kitchen
Contactpoint	Crestwood Kitchen
Directorate Procurement	Kitchens
Grants to voluntary bodies	Youth Offending Team
Partnerships	North Area Youth
First Steps	Summerhill & Colley Lane PFI
Follow up	Consultancy

## **Finance**

National Fraud Initiative  
DACHS Budgetary Control  
Incident and Problem Management  
Operations and Facilities  
Management  
Disposal Management  
Unix  
Windows  
Performance and Capacity  
Management  
Internet Site  
Control accounts  
Capital accounting  
Bank Reconciliation Review  
Treasury  
Housing Benefits Review

Consultancy  
Follow Up  
Creditors system  
Debtors System Review  
Teachers Pension Scheme  
Central Establishment Charges  
ICT Procurement  
Payroll System  
Procurement Team  
Revenues Exchequer Team  
Business rates  
Council Tax Review  
CAATS  
Application Review

## **Honorary**

Coseley Competitive Manager  
Dudley Council Voluntary Services  
Stevens Trust  
Earls High Trust  
Astley Burf Trust

Windsor School Sports Coordinator  
Programme  
Ellowes Hall School Sports  
Coordinator Programme  
Jigsaw Youth Theatre  
Dudley Arts Council  
Coseley School Sports Coordinator  
Programme

## **Law & Property**

Leases  
Licensing  
RIPA  
Mayoral/Members Allowances

Health & Safety  
Training  
Post Contract (all contract areas)  
Crown centre

## **Schools**

School Cruise  
The Brier Special School  
Sutton Special School  
Ashwood Park  
Hurst Green  
Sledmere  
Withymoore  
Old Park Special School  
Netherton CE  
Olive Hill  
Brockmoor

Huntingtree  
Peter's Hill  
Queen Victoria  
St James' C of E  
Russells Hall  
Howley Grange  
Roberts  
Thorns School & Community College  
Woodside  
Northfield Road  
Redhall

Cotwall End  
Dudley Wood  
Netherbrook  
Wollescote

Glynne  
Milking Bank  
Priory  
Alder Coppice Foundation School  
Newfield Park  
Pens Meadow Special School  
Blowers Green

Wrens Nest  
Kates Hill  
Hob Green  
Bromley Hills  
Annual Assessment - Primary Phase  
2  
Recruitment  
External Assessment - Primary Phase  
Ham Dingle  
Jessons  
Christchurch  
Greenfield

### **Urban Environment**

Business Support  
Himley Hall  
Contaminated Land Strategy  
Health and Safety Enforcement  
Development Control  
Environmental Protection  
Gladstone  
Follow Up  
Consultancy  
Car Parks  
DUE Health & Safety

Pest Control  
Highways Partnering  
Lye Business Centre  
Prince's Trust  
Geotechnical (all contract areas)  
Traffic Management  
Gully/Cesspool emptying  
Maintenance of vehicles  
Driver Permit Scheme  
Waste Disposal  
Trade Waste Collection & Charges

**APPENDIX B****TOTAL SUMMARY OF PLANNED WORK COMPLETED FOR EACH DIRECTORATE**  
**2010/11**

<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	30	223	83	13	18
Chief Executives	5	23	13	0	3
Children's Services	30	473	148	15	27
Corporate Resources	34	99	14	8	5
Honorary Audits	10	0	0	0	0
Schools	44	898	383	4	91
Urban Environment	25	123	49	7	7
<b>TOTAL</b>	<b>178</b>	<b>1838</b>	<b>690</b>	<b>47</b>	<b>151</b>
<b>2009/10</b>	<b>195</b>	<b>1624</b>	<b>723</b>	<b>70</b>	<b>169</b>
<b>2008/09</b>	<b>199</b>	<b>1657</b>	<b>696</b>	<b>114</b>	<b>226</b>
<b>2007/08</b>	<b>189</b>	<b>1803</b>	<b>340</b>	<b>114</b>	<b>193</b>
<b>2006/07</b>	<b>193</b>	<b>1366</b>	<b>319</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>

**AUDIT SERVICES - SERVICE PLAN**  
**OUTTURN FOR 2010/11**

<b>DEPARTMENTAL PI</b>	<b>TARGET 2010/11</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% 196	93% [95%] 185 [195]
<u>Reporting of audit results</u> Issue draft reports within 7 weeks of the audit starting Issue of final reports within 1 week of draft report being agreed	100% 100%	90% [96%] 99% [98%]
<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% [21%] below median Audit cost per £m turnover – 20% [24%] below median

**Figures in brackets are for 2009/10**

**APPENDIX D****SUMMARY OF AVERAGE SCORES FOR 2009/10 ON RETURNED POST-AUDIT QUESTIONNAIRES**

<b>1. Pre-Audit Arrangements</b>	<b>2010/11 Average Score</b>	<b>2009/10 Average Score</b>
Usefulness of audit brochure	3.1	3.3
Booking of audit	3.6	3.5
Aim of audit explained	3.5	3.5
Opportunity to influence scope of audit	3.2	3.2
Adequate notice given	3.5	3.5

  

<b>2. Audit visit</b>	<b>2010/11 Average Score</b>	<b>2009/10 Average Score</b>
Conduct of auditors	3.9	3.8
Communication skills	3.9	3.7
Helpfulness and approachability	3.9	3.8
Continuous feedback of findings	3.8	3.7

  

<b>3. Report post audit</b>	<b>2010/11 Average Score</b>	<b>2009/10 Average Score</b>
Draft report discussion	3.6	3.7
Usefulness of Recommendations	3.4	3.2
Advice on implementing recommendations	3.4	3.3
Style and clarity of report	3.5	3.5
Timeliness of report	3.4	3.4

**2010/11 AUDITS**  
**SUMMARY OF SATISFACTION RATINGS**  
**FOR RETURNED POST-AUDIT QUESTIONNAIRES**

	<b>2010/11 (%)</b>	<b>2009/10 (%)</b>	<b>2008/09 (%)</b>
Received	54	54	62
Good to excellent	92	90	89
Satisfactory to Good	8	10	11
Poor to Satisfactory	0	0	0

## **APPENDIX F**

### **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 2011**

In my opinion there are no significant 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 2010/2011. 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
- Audit, Standards and Select Committees

Les Bradshaw  
Head of Audit Services

Date: 28<sup>th</sup> June 2011