

DUDLEY METROPOLITAN BOROUGH COUNCIL

AUDIT COMMITTEE – 21st JULY 2005

REPORT OF THE DIRECTOR OF FINANCE

INTERNAL AUDIT SERVICES ANNUAL REPORT 2004/2005

1. PURPOSE OF THE REPORT

- 1.1** To give Members an overview of the performance of Dudley Audit Services in the year to 31st March 2005, and also to inform members of the Head of Audit Services' opinion on the effectiveness of Dudley MBC's system of internal control.

2. BACKGROUND

2.1 Performance Measured Against the Strategic Plan

2004/05 was the first year of the new four-year audit strategic plan. As a result of staff turnover and maternity leave, the staffing establishment of the Division (sixteen) was reduced by the equivalent of more than one full post for the year. I am pleased to report that, despite the shortfall in available resources, 94% of the planned work had been completed by the end of the year (compared with 93% in 2003/04). The following statistics give a broad indication of the extent of the work undertaken in 2004/05:

- Internal Audit reviewed 181 areas of activity. These are itemised in Appendix B on pages 10 to 15.
- 171 reports were issued.
- Over 2500 recommendations were made, the majority of which had been discussed and agreed with management by the year-end. 606 of these were classified as Breach and 417 as more significant. A summary of the number of recommendations by department is contained in Table 1 on page 5.
- Apart from central departmental and corporate systems, 64 establishments were audited, including Schools, Social Services and Urban Environment establishments.
- Eight special investigations into irregularities were undertaken.

- Nine honorary audits were carried out.

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 2004/05 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 two of these will be presented to this meeting of the Committee.

2.2 Performance Measured Against the Service Plan

The outturn for 2004/05 is summarised in Table 2 on page 6.

2.3 Performance Measured Against Customer Expectation

- To obtain feedback about the quality of work, post-audit questionnaires are issued to auditees after each audit. The questionnaire was revised at the beginning of 2004/05 and 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 49 questionnaires returned the auditee had responded yes to this question, assessing the audit as satisfactory.
- Despite the revision of the questionnaire, only forty-nine questionnaires were returned in 2004/05. This represents a response rate of about 27%, as compared with 34% in 2003/04. To quantify the results numeric values were assigned to response to each question as follows:-

Excellent	4
Good	3
Satisfactory	2
Poor	1

- Applying this scoring basis to each of the 49 returns, the average score was computed for each of the questions. The results are shown in Table 3 on page 7.
- The maximum score on any one audit is 56. The score on over two thirds of the questionnaires exceeded 70% of the maximum. The overall average score was 76.7%. The results are summarised in Table 4 on page 8.

2.4 Comprehensive Performance Assessment (CPA)

Each Local Authority is subject to periodic review of its performance by the Audit Commission. This is known as a Comprehensive Performance Assessment (CPA). The effectiveness of Internal Audit is one of the factors taken into account in this process and the rating awarded is an independent indicator of the performance of the Audit Services Division. At the last CPA, Dudley Audit Services was given the top rating (4*) by the Audit Commission.

2.5 Head of Internal Audit's Opinion

The Accounts and Audit Regulations 2003 require each local authority to undertake a review of its system of internal control at least annually and to publish the results in a Statement of Internal Control. In its guidance on the Accounts and Audit Regulations CIPFA (The Chartered Institute of Public Finance and Accountancy) identifies the work of internal audit as one of the key sources of assurance about the system of internal control. In fact in its 'Code of Practice for Internal Audit in Local Government in the UK', CIPFA recommends that the Head of Internal Audit's annual report should present an opinion on the overall adequacy and effectiveness of the organisation's internal control environment. Accordingly, in Appendix A on page 8, the Head of Audit Services gives his opinion on the effectiveness of the internal control system at Dudley MBC.

3. PROPOSALS

- 3.1. That Members accept this report on the performance of Internal Audit Services in 2004/05 and note the Head of Internal Audit's opinion on the effectiveness of the Council's system of internal control.

4. FINANCE

- 4.1 There are no direct financial implications in this report.

5. LAW

- 5.1. The Council is required under Section 151 of the Local Government Act 1972 to appoint an officer to be responsible for its financial affairs.
- 5.2. The Accounts and Audit Regulations 2003 require the Council to have an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices. It may delegate this responsibility to an officer.

6. EQUALITY IMPACT

6.1. This report has no equality implications.

7. RECOMMENDATIONS

7.1. That the proposal in paragraph 3.1. be accepted.

A handwritten signature in black ink, appearing to read 'M. Ainslie', with a horizontal line underneath.

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DIRECTOR OF FINANCE

Contact Officer: Richard Clarke (ext. 4839)

TABLE 1

**TOTAL SUMMARY OF PLANNED WORK COMPLETED FOR EACH DIRECTORATE
2004/05**

Department	No. of audits	Number of Recommendations	Number of Breach	Number of High Priority Findings	Number of unimplemented recommendations
Chief Executives	9	29	6	4	4
Education Central	24	582	146	100	33
Education Schools	40	1062	307	126	123
Finance	25	101	1	18	2
Honorary Audits	9	10	1	2	3
Housing	14	64	10	3	6
Legal and Property	4	6	0	0	1
Social Services	24	526	110	127	65
Urban Environment	32	185	25	37	10
GRAND TOTALS	181	2565	606	417	247

**AUDIT SERVICES - SERVICE PLAN
OUTTURN FOR 2004/05**

DEPARTMENTAL PI	TARGET 2004/05	ACHIEVEMENT OF TARGET AND COMMENT ON PERFORMANCE
<u>Frequency and level of audit</u> Percentage of audit plan completed Number of audits completed*	100% 200	94% 171*
<u>Reporting of audit results</u> Issue draft reports within 3 weeks of audit being completed Issue of final reports within 1 week of discussion of draft report with service manager	100% 100%	97% 98%
<u>Report to Audit Committee</u> No. of meetings of the Committee held	3 meetings	5 meetings held in 2004/05
<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 – 10.1% below median Audit cost per £m turnover – 9.6% below median

* Only audits where the final report is issued before the year-end are counted in this statistic. Whilst the majority of the audit work had been completed there were a greater number of audits than usual where draft reports had been issued but had not been finalised at 31st March 2005.

SUMMARY OF AVERAGE SCORES FOR 2004/05 ON RETURNED POST-AUDIT QUESTIONNAIRES

NB: Comparison with prior year is not available because of the re-design of the questionnaire with effect from 1st April 2004

1. Pre-Audit Arrangements	Average Score
Usefulness of audit brochure	2.8
Booking of audit	3.0
Aim of audit explained	3.0
Opportunity to influence scope of audit	2.8
Adequate notice given	3.0
2. Audit visit	Average Score
Conduct of auditors	3.6
Communication skills	3.5
Helpfulness and approachability	3.5
Continuous feedback of findings	3.0
3. Report post audit	Average Score
Draft report discussion	3.1
Usefulness of Recommendations	2.8
Advice on implementing recommendations	2.8
Style and clarity of report	3.2
Timeliness of report	2.8

2004/05 AUDITS

SUMMARY OF SATISFACTION RATINGS
FOR RETURNED POST-AUDIT QUESTIONNAIRES

(Previous year in brackets – but the re-design of the questionnaire at the start of the year makes direct comparison between years difficult because the previous questionnaire “measured” performance against a different set of criteria)

Percentage of Maximum Score	Number	Percentage
91 – 100	7	14.3 (28.2)
81 – 90	12	24.5 (8.5)
71 – 80	14	28.6 (39.4)
61 – 70	9	18.4 (18.3)
51 – 60	5	10.1 (2.8)
41 – 50	2	4.1 (2.8)
TOTAL	49	100.0

OVERALL AVERAGE = 76.6% (79.7%)

OPINION OF THE HEAD OF DUDLEY AUDIT SERVICES ON THE EFFECTIVENESS
OF THE SYSTEM OF INTERNAL CONTROL AT DUDLEY MBC IN THE YEAR ENDED
31ST MARCH 2005

In my opinion there are no deficiencies in the system of internal control at Dudley MBC of such fundamental significance that they should be reported in the statutory Statement of Internal Control required by the Accounts and Audit Regulations 2003, apart from the following:

- Although significant progress has been made in the implementation of formal risk management, further work is required to fully 'embed' the process throughout the Authority. In particular, steps are needed to more fully engage members in the process, to identify corporate and cross-cutting risks, and to develop procedures for management to periodically review and confirm the effectiveness of controls.
- Although some work to publicise the Anti-Fraud and Corruption Strategy and the issues it addresses has taken place, further work on this is still required.

This opinion is based principally on the work carried out by Audit Services Division during 2004/2005. It must be acknowledged, however, that it is not possible for Internal Audit to review all aspects of the internal control system within a single year. In addition, although the extent of Internal Audit's coverage has broadened considerably to embrace non-financial risks, the work of the Division is still focussed on financial controls. 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 such as Ofsted and the Social Service Inspectorate
- The Audit Commission in their Comprehensive Performance Assessment (CPA)
- Scrutiny Committees
- Internal management in various reviews.



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Richard Clarke
Head of Audit Services

Date: 30th June 2005

PLANNED AUDITS CARRIED OUT DURING 2004/05

Chief Executive's Department

Performance Management

CCTV

CCTV System

DDA Implementation *

Grants and Contributions to other bodies

Reports on Contracts to Audit Committee *

Monitoring of capital schemes *

Compliance with Standing Orders/Decision Sheet procedures by departments *

Manuals required under Standing Orders *

* = Corporate reviews

Directorate of Education & Lifelong Learning - Central

Admissions

Aspergers Unit

Counselling

Language Units

Key Stage 3 PRU Unit

SEN Team

Resources management

Administration

Equalities Team

Netherton Arts Centre

Central Area Youth

Student Support (Awards)

Dudley Wood NLC

North Area Youth

Car Allowances

Free School Meals (Benefits Section)

South Area Libraries

Halesowen Library

Kitchens

LMS Procedures

Development Office

Dudley Grid for Learning

Nursery providers

Neighbourhood Nursery Initiative

PLANNED AUDITS CARRIED OUT DURING 2004/05
Directorate of Education & Lifelong Learning – Schools

Dormston Theatre
Queen Victoria
Highfields
Kates Hill
Blanford Mere
Cradley C of E
St James' C of E
Cradley School
Cradley High School - Adult Ed
Beauty Bank
The Ridge
Alder Coppice Foundation School
Thorns
Howley Grange
Tenterfields
Ridgewood School
Ham Dingle
Coseley School - Adult Ed
Christchurch
Lapal
Coseley School and Sports College
Summerhill School
Summerhill Swimming Scheme
Bishop Milner R.C. School
Holly Hall Foundation School
Manor Way
Halesbury Special School
Crestwood School
Castle High School
Foxyards
Pens Meadow Special School
Pedmore C of E
St Marks' C of E
Sledmere
Netherbrook
Pensnett School of Technology
Pensnett School of Technology - Adult Ed
Kingswinford Foundation School
Hillcrest School
Hillcrest School - Adult Ed

PLANNED AUDITS CARRIED OUT DURING 2004/05

Directorate of Finance, ICT and Procurement

Control accounts
Treasury
Bank Reconciliation Review
Capital Accounting Review
Advice centre
Housing Benefits Review
Construction industry tax scheme
Creditors system
Debtors System Review
Print Services
Images @ Work
Information Systems Strategy
Performance and Capacity Management
Cash Receipting
Business to Business (B2B) and Business to Customer (B2C) Interfaces
Servers using the Unix operating system
Security Management
Internal Network Infrastructure
Performance management
Payroll system including car allowances and expenses
Procurement process/letting contracts/opening of tenders received departmentally
Business rates
Cash receipting system
Council Tax Review

Honorary Audits

Stevens Trust
Earls High Trust
Jigsaw Youth Theatre
Astley Burf Trust
Dudley Council Voluntary Services
Dudley Arts Council
Schools Sports Programme
Windsor School Sports Coordinator Programme
Wrens Nest Adventure Playground

PLANNED AUDITS CARRIED OUT DURING 2004/05

Housing Services Directorate

Pre -Contract review
Stores/materials purchase
DELPHI (Personnel System)
Business Support/Human resources Management
Decoration Allowances
Rent Collection & setting
Voids
First Housing Main database
Apportionment between HRA/General Fund
Housing Risk Management
Performance Management
Renovation Grants Review
Private Sector Housing General Expenditure
Houses in Multiple Occupation

Directorate of Law & Property

Performance Management
Conveyancing, lease renewals etc
Major works - Pre-Contract
Major works - Post-Contract
Electrical/mechanical - Post Contract

PLANNED AUDITS CARRIED OUT DURING 2004/05

Social Services Directorate

Race Equality & Community Services
Budget Setting & Monitoring
Income Collection
Purchasing
Legacies
Tipton Road
Family Assessment Centre (Shenstone)
Parkway Road
Adshead Road Residential Unit
Transport
Leaving Care Team
Children with Disabilities
Kings Road
Audnam SEC
New Swinford Hall
Bridge House
Brettell Lane Day Centre
Queens Cross Day Centre
Halesowen District Office
Grants to Voluntary Bodies
Transport - External
Home Care - Sedgley
Purchasing - Netherton
Amblecote House

PLANNED AUDITS CARRIED OUT DURING 2004/05

Directorate of Urban Environment

Catering Bars
QUOTA (Torex) Leisure Centres system
Floral Decorations
Parks Management
Central Arts & Activities Management
Box office Systems
Crystal Leisure Centre
Special Events inc. Borough Festival
Contaminated land strategy
Planning Enforcement & Tree Preservation Orders (TPOs)
Trading Standards
Environmental Services Contracts
Building Regulations
Planning/Building Regs system
Highways Partnering Contracts Administration
Driver Improvement Scheme
Other Regeneration/Development Management Contracts
Assessment of safety schemes (selection and review of effectiveness)
Highways Major Schemes - post contract (incl. evaluation of methods)
Structures (incl. bridge inspection) - Post Contract
Landscapes - Post Contract
Street Furniture (non-illuminated) provision - including signs etc
Driver permit scheme training & improvement
Arboriculture
Winter Maintenance
Operation of Stores/Purchase of supplies
Post contract/review of methods of repair - Highways
Windows
Sustainability & Agenda 21
Grants to Voluntary Bodies
Appointment of Consultants
Performance Management