

Annual Report of the Internal Audit Service for 2004/05

1. Introduction

- 1.1 Corporate Services Committee received and approved the Internal Audit Programme 2005/06 (Annual Plan) on 17 March 2005. It was designed to assist in ensuring that Islington conducts its business in accordance with proper standards of corporate governance and to give assurance as to the level that the internal control environment supports and promotes the achievement of Islington's objectives.
- 1.2 This has been the first full year of the joint working partnership between the in-house audit team and PricewaterhouseCoopers (PWC), who have successfully delivered a total of 875 and 675 audit days respectively, thus achieving the planned total of 1550 days.
- 1.3 This, in turn, has meant that we have been able to achieve 93% of the planned work within the year with the remainder of projects at finalisation stage.
- 1.4 The planning process for 2005/06 included a large number of thematic reviews which concentrated on potential risk areas across council services, as a whole, rather than individual issues specific to certain departments. As a result of this approach and the Audit Service's contribution to Islington's savings target, the number of actual projects compared to the previous year decreased but the reviews were wider and more comprehensive to assist in underpinning the council's control environment.

2. Delivery of the 2005/06 Audit Plan

- 2.1 The summary of time spent within each service area at the end of March 2006 is:

Service Area	No. of days	
	Planned	Actual
Adult Social Services	55	26
Childrens Services	160	207
Corporate Projects	405	370
Corporate Resources	15	19
Customer Focus	145	152
Environment and Regeneration	65	25
Finance/Fundamental Systems	220	257
Housing	170	179
Establishment visits, follow-up projects	315	315
Total	1550	1550

2.2 The reasons for the variance between planned days and actual, for each service area is:

Adult Social Services - one project was deferred to 2006/07

Childrens Services - the increased scope of the Childrens Case File Review and Recoupment projects

Corporate Projects - deferred projects as a result of system development changes

Environment and Regeneration - transfer of resources in final quarter to priority areas

Finance - increased testing to meet new audit standards

3. Risk Ratings

3.1 As part of the project, Internal Audit provides management with an overall assessment as to the general level of compliance with internal controls, best practice and council policy. There are four categories of rating "Substantial", "Reasonable", "Limited" and "No Assurance" (see Appendix C for definitions).

3.2 The overall position for the 2004/05 Annual Plan was:

Service Area	Substantial	Reasonable	Limited	No Assurance	Total
Adult Social Services	2	12	8		22
Childrens Services	6	36	13		55
Corporate Projects		3	1		4
Corporate Resources		4	1	1	6
Customer Focus	2	11	10		23
Environment & Regeneration	1	6	5		12
Finance/Financial Systems		11	3		14
Homes for Islington	4	10	5		19
Housing, Performance & Property		6	4	1	11
Total	15	99	50	2	166

3.3 In summary, 69% of audit reviews concluded with giving management substantial or reasonable assurance as to the efficacy of the control environment.

3.4 The overall position for the 2005/06 Annual Plan is:

Service Area	Substantial	Reasonable	Limited	No Assurance	Total
Adult Social Services	4	13	3		20
Childrens Services	4	24	5	1	34
Corporate Projects		6	3		9
Corporate Resources	2		2		4
Customer Focus	3	5			8
Environment & Regeneration			4	2	6
Finance/Fundamental Systems	1	7	2		10
Homes for Islington	2	7	2		11
Housing, Performance & Property		2	3		5
Total	16	64	24	3	107

3.5 In 2005/06, 75% of audit reviews were rated as providing a substantial or reasonable assurance as to the efficacy of the internal control environment, an improvement of 6%.

4. Main control issues per service area

Adult Social Services – 3 limited ratings

- Transport Business Unit - recommendations were made to include the Unit in the corporate Risk Register, improve supporting documentation for budget allocations and improve records in support of a key Performance Indicator.
- Client Bank Accounts - it was agreed to produce a definitive listing of "Dead or Discharged" Special Agency accounts and introduce monthly and independent quarterly reconciliation of Special Agency clients.
- Mental Health Team (South) - supporting documentation for overtime claims required improvement.

Childrens Services – 5 limited/1 no assurance

- Childrens Active Involvement Service follow-up - recommendations from the previous audit had not been implemented.
- Play and Youth Projects Expenditure - recommendations were made to improve the administration of petty cash, ordering/invoicing procedures and the security of portable assets. As this project was given a rating of no assurance, Audit made contact with departmental management to discuss the report and action to be taken to address the situation. A follow-up audit is programmed for 2006/07.
- 4 educational establishments - Audit advised improvements included maintaining better supporting documentation, ordering/invoicing and income procedures.

Corporate Projects – 3 limited ratings

- Money Laundering – the regulations are unclear as to whether the requirements of the Proceeds of Crime Act 2002 and Money Laundering Regulations 2003 are applicable to local authorities. Audit recommended that counsel's opinion be sought to clarify the position.
- Scheme of Delegation - management were advised to cascade knowledge of the scheme and guidance to relevant staff.
- Budget Monitoring - Audit concluded that the underlying monitoring processes still needed to be fully embedded in order to provide a robust reporting system.

Corporate Resources – 2 limited ratings

- Comensura follow-up - progress was noted, however, the level of auto-approval needs to be addressed further.
- Equalities Unit - procurement guidelines needed to be cascaded to the relevant managers.

Environment and Regeneration – 4 limited/2 no assurances

- Waste Management Business Unit - it was agreed that new contract arrangements needed to be cascaded to the relevant staff.
- Building Control - Audit advised that contract monitoring procedures should be improved and the Scheme of Delegation cascaded to relevant managers. The subject of the lack of a standby contractor was to be raised at the next Dangerous Structure Consortium meeting, to see if a joint way forward may be possible. As this project was given a rating of no assurance, Audit made contact with departmental management to discuss the report and action to be taken to address the situation. A follow-up audit is programmed for 2006/07.
- Parking Contract - it was recommended that contract monitoring procedures were to be improved and the Scheme of delegation cascaded to relevant managers.
- Somali Welfare Centre - financial records and monitoring arrangements required significant improvement. As this project was given a rating of no assurance, Audit made contact with departmental management to discuss the report and action to be taken to address the situation.
- Two establishments - recommendations were made to improve monitoring arrangements, and ordering/invoicing and income procedures.

Finance/Financial Systems – 2 limited ratings

- Payroll - Audit advised that Disaster Recovery procedures needed to be progressed.
- Creditors - improved procedures were agreed to support a Key Performance Indicator.

Homes for Islington – 2 limited ratings

- Tenant Management Organisations (TMOs) operational review (phase 1) – five TMOs were reviewed and the overall assessment of their financial procedures and controls indicated that improvement was needed in a

number of areas, predominantly budget and expenditure record maintenance. Management have completed an action plan and indicated that recommendations to address these issues will be in place by March 2006.

- TMOs operational review (phase 2) – visits to a further 4 TMOs indicated a similar pattern of findings to the first phase; improvement was needed in a number of areas, including fixed asset records and purchasing and payment documentation. Management has returned completed action plans for each TMO.

Housing, Performance and Property - 3 limited ratings

- HB Suppressions - recommendations were agreed that would accelerate the process and improve performance in a key Performance Indicator.
- Supporting People Payments - reconciliation procedures and the payment process needed to be improved.
- Asset Disposal - existing procedures to be further developed with reference to the Council's Constitution, Financial Regulations and Procurement code.

5. Implementing Audit Recommendations

- 5.1 It is a CIPFA recommended Performance Indicator (PI) for Internal Audit that 90% of agreed Internal Audit recommendations are implemented within 3 months/by the target date. This is also a Corporate Health Suite PI and is reported to Members' Performance Group (MPG) quarterly.
- 5.2 In the 2004/05 Annual Report, it was noted that there were delays in management providing confirmation that recommendations had been implemented by the due date.
- 5.3 In order to improve response levels from management, Internal Audit introduced a more robust request/reminder system and also enabled management to give comments/observations and revised target dates to provide a complete picture of the progress made in completing action plans.
- 5.4 As a result, there has been a significant improvement in the level of response from departments to Internal Audit requests for information on how recommendations are being progressed:

	2004/05			2005/06		
	No. of requests	No. of responses	%	No. of requests	No. of responses	%
Quarter 1	28	11	39%	57	57	100%
Quarter 2	34	27	79%	35	33	94%
Quarter 3	36	29	81%	21	21	100%
Quarter 4	26	23	88%	29	29	100%

- 5.5 There has also been an improvement in the per-centage of recommendations that have been implemented within 3 months/by the target date from 2004/05 to 2005/06. (The target is 90%):

	2004/05	2005/06
Quarter 1	31%	99%
Quarter 2	72%	95%
Quarter 3	73%	96%
Quarter 4	86%	93%

- 5.6 MPG is also made aware of the materiality of the situation, as responses concerning recommendations are now reported to include the level of risk involved.

6. Conclusions

- 6.1 All audit projects have been the subject of reports to management, where action plans have been agreed to meet the recommendations made.
- 6.2 As previously stated, 75% of the areas audited were rated as providing reasonable or substantial assurance on the internal control environment and management have agreed to complete action plans to address weaker control areas throughout the year. It is worth noting the 6% increase in this area since last year, but the position needs to be maintained and improved upon.
- 6.3 In last years report, it was mentioned that delays were being experienced in gaining responses from management to confirm that agreed recommendations were implemented within 3 months/by the target date. It is pleasing to report that this position has significantly improved with a response rate of 100% in all but one quarter in 2005/06.
- 6.4 On the basis of the 2005/06 Internal Audit work, Islington is continuing to make progress in sustaining and improving its control environment and which is indicative of its determination for further continuous improvement.

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