

THIRD INTERIM AUDIT ASSURANCE REPORT 2008/09

Report By: Chief Internal Auditor

Wards affected

1. County-wide.

Purpose

2. This report provides the Committee with an update on progress in making the planned improvements to the internal control environment. It also reports progress with the Annual Audit Plan for 2008/09.

Financial Implications

3. None.

Recommendation

THAT (a) Subject to any comments by the Audit & Corporate Governance Committee, the report is noted.

Reasons

4. The council needs to demonstrate it complies with good practice as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom. Compliance with the Code of Practice is an important element of the overall assurance process.

Considerations

Key Issues Identified in 2007/08

5. On 20th June 2008, the Audit & Corporate Governance Committee reviewed (and approved) the Annual Governance Statement for 2007/08 (AGS). The AGS identified the key governance and internal control issues to be addressed in 2008/09. These issues are set out in the following table, along with commentary provided by the responsible officer on progress to date. Text in italics in the 'reported progress' column of the table is new information supplied for this report.

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress
Complete the review of the Constitution and implement the remaining actions from the Director of Resources' special report and the Crookall review.	Deputy Chief Executive Assistant Chief Executive (Legal & Democratic) Assistant Chief Executive (HR)	This review is being jointly co-ordinated by the Democratic Services Manager and the Head of the Chief Executive's Office. <i>External, expert constitutional governance support is being secured to enable the review to be completed during Spring 2009 in order to propose the adoption of a revised constitution at Annual Council in May 2009.</i> Progress implementing the remaining

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress
		actions from the Director of Resources' special report and the Crookall review are now reported to Cabinet as part of the bi-monthly Integrated Corporate Performance Report.
Produce the Corporate Plan for 2010 – 2013 in accordance with the agreed timetable.	Deputy Chief Executive	Being actioned by the Head of Policy & Performance through the Performance Improvement Framework and in accordance with the Comprehensive Area Assessment action plan, both agreed by Cabinet. See box below.
Review and update the Medium Term Financial Strategy regularly in line with the agreed approach to integrating corporate, service and financial planning.	Acting Director of Resources	The Joint Management Team agreed the process by which The Corporate Plan 2008-2011 and the Medium Term Financial Management Strategy 2008-2011 was updated in an integrated way on 8 September 2008. <i>Update to be completed mid-January 2009.</i>
Review the Code of Governance in line with the approved governance framework.	Assistant Chief Executive (Legal & Democratic)	Council approved a Code of Governance on 31 October 2008.
Continue to promote improvement of the Council's financial management arrangements in line with the Use of Resources assessment criteria, audit reviews and the newly updated Constitution.	Acting Director of Resources	Training sessions for both councillors and employees have been taking place and are scheduled into the future. Over 200 employees with financial management responsibilities have now attended the in-house financial management training course appropriate to their specific responsibilities in order to obtain their 'licence to practice'.
Implement the remaining elements of the improvement plan for the Council's performance management arrangements and report progress to Cabinet in September 2008.	Deputy Chief Executive	Being actioned by the Joint Management Team through the Performance Improvement Framework agreed by Cabinet. <i>The next regular report is scheduled for Cabinet and Strategic Monitoring Committee to consider in February 2009.</i>
Implement the new assurance framework and risk management arrangements for 2008/09 and improve linkages between corporate, directorate and service risk registers.	Assistant Chief Executive (Legal & Democratic)	Joint Management Team considered the draft Integrated Corporate Performance Report presented to Cabinet and Strategic Monitoring Committee in November 2008. This report incorporated the risk assurance framework and it was recognised that further work was needed to ensure it reflected key council risks accurately. This will be carried out for the next quarterly reporting cycle.
Continue to promote the Council's anti fraud, anti corruption and whistle-blowing policies, keeping them under regular review	Assistant Chief Executive (Legal & Democratic) Director of Resources	The Council's whistle-blowing policy has been reviewed and an associated 'Do the right thing' leaflet has been distributed to staff. The anti fraud policy is due for review in March 2009. It is intended that a joint policy is developed with the PCT. These policies are also brought to the attention of staff through notices on pay slips and notice boards. In addition, creditor remittance slips inform all recipients of the Council's whistleblowing policy.

Key Issue Identified for Improvement	Responsible Officer(s)	Reported Progress
Continue to promote the Council's adopted approach to managing major programmes and projects.	Deputy Chief Executive	Approval by Cabinet of the Herefordshire Connects procurement policy has been supported by the extension of Prince 2 project management good practice, resources and training for projects managed or supported by the Corporate Programmes and Herefordshire Connects teams.
Continue to develop the Council's community engagement arrangements including strategic consultation on corporate objectives, priorities and budget allocations.	Deputy Chief Executive Acting Director of Resources	The Joint Management Team agreed proposals for public consultation on strategic budget options on 8 September 2008. These proposals were agreed with the Executive. Feedback from the consultation exercise and will be used to inform decisions on budget setting for 2009/10 and following years. <i>A Member seminar will be held in early 2009.</i>

6. The Audit Commission made two recommendations in their Annual Governance Report for 2007/08 that the Committee considered on 25 September 2008.
- (i) The first recommendation related to the system used during the 2007/08 financial year for paying nursing homes. The Audit & Corporate Governance Committee was advised on 25 September 2008 that the issues identified by the Audit Commission in respect of this system had already been addressed and resolved.
 - (ii) The second recommendation related to the pooled budget arrangements between the Council and PCT for certain health and social care services. The Committee received a report at its meeting of 21st November 2008 expanding on the management response and proposed action plan to address the issues raised by the Audit Commission. The Audit Commission has invited the council and PCT to take part in a national study of joint financing arrangements. This invitation has been accepted by the Director of Integrated Commissioning.

Audit & Corporate Governance Resolutions & Recommendations

7. The first interim assurance report for 2008/09 presented to the Committee on 25 September 2008 listed the 65 separate resolutions and recommendations made by the Committee from May 2007 to June 2008 and, where available from the relevant officer, provided a comment against each resolution and recommendation. The Chair and Vice Chair met with the Director of Resources and the Chief Internal Auditor to identify those items that the Committee no longer needed to monitor because the matter had been satisfactorily dealt with. Those items that were open and ongoing or had not been satisfactorily dealt with by the relevant officer were also identified.
8. As a result of that meeting, 46 items were closed, 10 items were identified as open and ongoing and 9 items needed further explanation from the relevant officer. Following the last Audit and Corporate Governance Committee meeting 10 were closed. Progress with the remaining 9 open and ongoing items since the last meeting is set out in Appendix 1 to this report. .

9. The resolutions and recommendations made by the Committee at its last two meetings (3 July 2008 and 21st November 2008) is at Appendix 2. It includes the progress made by the relevant officer and the current status – i.e. closed or open and ongoing. A total of 16 new resolutions and recommendations were made at these meetings, 10 of which have been closed, with 6 remaining as open and ongoing items. Progress on the remaining items will be reported to the Committee in the next audit assurance report so that the Committee can continue to track progress effectively.

Progress with the Internal Audit Plan 2008/09

10. On 4th April 2008 the annual Internal Audit Plan for 2008/09 was approved by the Audit & Corporate Governance Committee. The current status of work is set out in Appendix 3.
11. Following the restructure of the Audit Services team, appointments have now been made to all vacant posts with all appointed staff now in post. Agency staff are being used to ensure that previous vacancies that affect capacity do not impact adversely on the delivery of the annual Internal Audit Plan for 2008/09.

Fundamental systems

12. The Council's target is for all fundamental systems to achieve at least a satisfactory audit opinion. Work in this area is in progress with two reviews complete and the remainder at different stages on the audit cycle (Appendix 3 refers). It is pleasing to note that of the two reviews completed one was given a **good** audit opinion and one was given a **satisfactory** audit opinion.
13. The Audit and Corporate Governance Committee will be kept informed of future progress.

ICT Protocols and Controls

14. Work reviewing the council's ISO27001 arrangements is ongoing and the current findings can be summarised as follows:
 - **Risk Treatment:** Actions arising from documented risks were continuing to be progressed since the last audit. However, improvement in the processes to manage the open risks and to identify new risks is required;
 - **Physical Security:** It was noted that controls were in place and that security is considered on an ongoing basis. Areas were raised that would further improve physical security arrangements.
 - **Team Compliance:** Controls are in place and security is formally considered during all system upgrades and replacements. There is a good level of monitoring, with monthly checks being carried out and formal investigation into any incidents. However, improvements were needed in the review and update to existing Business Impact Assessment, Business Continuity Plans and Change Control.

The Committee will be kept informed on progress.

15. The governance arrangements for the Integrated Social Care System (ISCS) – the Corelogic Framework application - have been reviewed with no significant issues to report. Appropriate user training, system testing and data cleansing has been completed and the system went live on 10 November 2008.
16. The review covering Computer systems, data, applications and skills in Children Services and ICT Services is complete; audit recommendations have been made to help facilitate discussions between both parties.

Performance Management

17. The audit review of ten performance indicators has been completed and it is pleasing to report that there has been an improvement in the approach taken by service managers. Six were given a **good** audit opinion and four a **satisfactory** audit opinion.

Establishment Audits

18. Work to assess the financial management arrangements within primary schools in line with the Department for Children, Schools and Families (DCSF) standard is in progress. At the present time twelve primary schools have met the standard. The Audit Services team continues to work with schools to ensure that they meet their target of achieving the DCSF standard.

Audit Opinions

19. The Payment to Independent Providers Audit review was given an **unsatisfactory** audit opinion. In line with paragraph 4.18 of the Council's Financial Regulation Rules the Chief Internal Auditor provided the Leader, the Chair of the Audit & Corporate Governance Committee and the Cabinet Member Social Care Adults with a copy of the report. There is an agreed action plan and Audit Services will carry out a follow up review and report progress to the Leader, the Audit and Corporate Governance Committee and the Cabinet Member Social Care Adults.
20. As required by paragraph 4.19 of the Council's Financial Procedure Rules the Chief Internal Auditor provided the Leader, the Chair of the Audit & Corporate Governance Committee and the relevant Cabinet Member(s) with written confirmation of audit review reports with a satisfactory or good audit opinion.
21. Appendix 3 shows the current status of work carried out by the Audit Services team, with final audits showing an audit opinion. In line with the council's Financial Procedure Rules, relevant members have been informed regarding the audit opinions.

Management Acceptance of Internal Audit Recommendations 2007/08

22. The Audit & Corporate Governance Committee received a report at its last meeting that analysed the internal audit recommendations made in 2007/08. The Committee noted that all but 7 of the 648 recommendations made by the Audit Services team in the year had been accepted. The Vice Chair of the Committee took the view that 4 of the 7 recommendations not accepted should stand. The

Committee asked the Chair and Vice Chair of the Committee to meet with the Director of Resources and the Chief Internal Auditor and report on their findings with respect to those 4 recommendations.

23. The first of the 4 recommendations examined by the Chair and Vice Chair of the Committee with the Director of Resources and Chief Internal Auditor related to an audit review of the asset register created for final accounts purposes. A query arose about the arrangements for maintaining inventories of plant and equipment that are regarded as 'de minimus' for asset accounting purposes. It was agreed that a separate audit review of directorate arrangements for complying with the council's Financial Procedure Rules for maintaining inventories will be carried out. This approach closes this particular item.
24. The remaining 3 recommendations were all level 2 recommendations (medium risk) and related to an audit review of contract letting and monitoring arrangements before the council's Contract Procedure Rules were revised. The audit review identified that a tender invitation panel did not consist of the minimum recommended number of officers (three) in one of the contract letting exercises examined. The Audit Services team found difficulty in obtaining the documentary evidence in respect of another contract letting exercise. In addition, the documentation available for this contract letting exercise did not contain a statement indicating management acceptance or rejection of specialist advice.
25. The Chief Internal Auditor has discussed these points with the relevant officers since the meeting held with the Chair and Vice Chair of the Committee and the Director of Resources. The relevant officers' attention has been drawn to the need to comply with all internal audit recommendations or agree an alternative way of managing the identified risk with the Chief Internal Auditor and that the Audit & Corporate Governance Committee is monitoring the situation closely. The Chief Internal Auditor has also reminded the officers concerned of the need to comply in full with the council's new Contract Procedure Rules and Financial Procedure Rules. The relevant officers have taken these matters on board. In addition, the Chief Internal Auditor has liaised with the Communications Team and an appropriate message has been sent to all employees through established employee communication channels (First Press) about the importance of complying with the council's agreed policies and procedures.

Management Acceptance of Internal Audit Recommendations 2008/09

26. The following table summarises the number of recommendations made by Audit Services to date in 2008/09 and those accepted by management.

Management Acceptance of Internal Audit Recommendations 2008/09						
Audit Area	Level 1		Level 2		Total	
	Made	Accepted	Made	Accepted	Made	Accepted
Fundamentals	0	0	9	9	9	9
Governance and anti fraud	3	3	1	1	4	4

Management Acceptance of Internal Audit Recommendations 2008/09						
Audit Area	Level 1		Level 2		Total	
	Made	Accepted	Made	Accepted	Made	Accepted
Other key systems	2	2	11	11	13	13
ICT protocols and Controls	24	24	2	2	26	26
Establishment Audits	10	10	63	61	73	71
Recommendation Follow up	0	0	4	4	4	4
Performance Management	0	0	8	8	8	8
TOTAL	39	39	98	96	137	135

27. Management has accepted 98% of recommendations which compares favourably with the target of 95%.
28. The two unaccepted recommendations relate to an establishment audit of a primary school. These were level 2 recommendations (medium risk) and the Chief Internal Auditor has agreed an alternative way of managing the risk identified with the client.
29. Under current reporting protocols the Chief Internal Auditor must bring to the attention of the Audit & Corporate Governance Committee 'Critical 1' recommendations where non-compliance will be a high risk to the council and where action is required urgently or within an agreed timescale.
30. At the present time one 'Critical 1' recommendation has been made, relating to the Payment to Independent Providers Review in relation to assurances regarding receipt of income from client contributions. The recommendation states:

'A comprehensive reconciliation should be undertaken between the values of client contribution assessments recorded on the ISIS system to the corresponding value of invoices raised in CEDAR.'

31. The reconciliation is in progress and Audit Services will follow up this recommendation as part of their work programme.

Recommendation Follow-Up Work

32. The Audit Services team continues to monitor implementation of internal audit recommendations made in 2007/08.
33. Two audit reviews from 2007/08 relating to ICT have recommendations that have not yet been fully implemented. A total of 40 separate action points were agreed

with the client in respect of these two audits. Sixteen actions remain open and ongoing. The Chief Internal Auditor is very pleased with overall progress and is confident that this will be maintained. The Committee will continue to receive regular updates on progress with the remaining 16 actions.

34. In addition a level 1 and a level 2 recommendation remains open and ongoing regarding the Asset Register Fundamental review. This is because the actions required are linked to the Herefordshire Connects Programme.

Areas of concern

35. There are no areas of concern.

Risk Management

36. There is a risk that the level of work required to give an opinion on the council's systems of Internal Control is not achieved. The Director of Resources and the Chief Internal Auditor keep delivery of the annual Internal Audit Plan under continual review in order to mitigate this risk.

BACKGROUND PAPERS

- Code of Practice for Internal Audit 2006